



Ayala Corporation
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Philippines

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NOTICE OF ANNUAL STOCKHOLDERS' MEETING

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of **AYALA CORPORATION** will be held at the Ballroom 2 of the Fairmont Makati, 1 Raffles Drive, Makati Ave., Makati City, on **Friday, April 20, 2018** at **9:00 o'clock in the morning** with the following

A G E N D A¹

1. Proof of Notice and Determination of Quorum
2. Approval of Minutes of Previous Meeting
3. Annual Report
4. Election of Directors (including the Independent Directors)
5. Election of External Auditor and Fixing of its Remuneration
6. Consideration of Such Other Business as May Properly Come Before the Meeting
7. Adjournment

Only stockholders of record at the close of business on **March 6, 2018** are entitled to notice of, and to vote at, this meeting.

Makati City, February 20, 2018.

A handwritten signature in blue ink, appearing to read 'Solomon M. Hermosura'.

SOLOMON M. HERMOSURA
Corporate Secretary and
Chief Legal Officer

We are not soliciting your proxy. However, if you would be unable to attend the meeting but would like to be represented thereat, you may accomplish the herein proxy form and submit the same on or before **April 11, 2018** to the Office of the Corporate Secretary at 3/F Tower One & Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City. Validation of proxies shall be held on **April 13, 2018** at 9:00 a.m. at the Office of the Corporate Secretary. Thank you.

¹ See next page for the explanation for each agenda item.

EXPLANATION OF AGENDA ITEMS

Proof of notice and determination of quorum

The Corporate Secretary will certify the date the notice of the meeting was sent to all stockholders and the date of publication of the notice in newspapers of general circulation.

The Corporate Secretary will further certify the existence of a quorum. The stockholders present, in person or by proxy, representing a majority of the outstanding capital stock shall constitute a quorum for the transaction of business.

Approval of minutes of previous meeting

The minutes of the meeting held on April 21, 2017 are posted at the company website, www.ayala.com.ph. Copies of the minutes will also be distributed to the stockholders before the meeting.

A resolution approving the minutes will be presented to the stockholders for approval by the vote of the stockholders representing at least a majority of the outstanding voting stock present at the meeting.

Annual report

The Chairman, Mr. Jaime Augusto Zobel de Ayala, and the President and Chief Operating Officer, Mr. Fernando Zobel de Ayala, will deliver a report to the stockholders on the performance of the company in 2017 and the outlook for 2018. The financial statements as of December 31, 2017 (FS) will be embodied in the Information Statement to be sent to the stockholders at least 15 business days prior to the meeting.

A resolution noting the report and approving the audited financial statements will be presented to the stockholders for approval by the affirmative vote of the stockholders representing at least a majority of the outstanding voting stock present at the meeting.

Election of directors (including the independent directors)

Any stockholder may submit to the Nomination Committee nominations to the Board not later than March 6, 2018. The Nomination Committee will determine whether the nominees for directors, including the nominees for independent directors, have all the qualifications and none of the disqualifications to serve as members of the Board before submitting the nominees for election by the stockholders. The profiles of the nominees to the Board will be provided in the Information Statement and in the company website for examination by the stockholders.

Each stockholder entitled to vote may cast the votes to which the number of shares he owns entitles him, for as many persons as there are to be elected as directors, or he may give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he may see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of Directors to be elected. The seven nominees receiving the highest number of votes will be declared elected as directors of the company.

Election of external auditor and fixing of its remuneration

The Audit Committee will endorse to the stockholders the election of an external auditor for the current fiscal year. The profile of the external auditor will be provided in the Information Statement and in the company website for examination by the stockholders.

A resolution for the election of the external auditor and its remuneration will be presented to the stockholders for adoption by the affirmative vote of stockholders representing a majority of the voting stock present at the meeting.

Consideration of such other business as may properly come before the meeting

The Chairman will open the floor for comments and questions by the stockholders. Stockholders may raise other matters or issues that may be properly taken up at the meeting.

PROXY

The undersigned stockholder of **AYALA CORPORATION** (the "Company") hereby appoints _____ or in his absence, the Chairman of the meeting, as *attorney-in-fact* and *proxy*, to represent and vote all shares registered in his/her/its name at the annual meeting of stockholders of the Company on April 20, 2018 and at any of the adjournments thereof for the purpose of acting on the following matters:

- | | |
|--|--|
| 1. Approval of minutes of previous meeting.
☐ Yes ☐ No ☐ Abstain | 4. Election of SyCip Gorres Velayo & Co. as the external auditor and fixing of its remuneration.
☐ Yes ☐ No ☐ Abstain |
| 2. Annual Report.
☐ Yes ☐ No ☐ Abstain | 5. At his/her discretion, the proxy named above is authorized to vote upon such other matters as may properly come before the meeting.
☐ Yes ☐ No |

3. Election of Directors

	No. of Votes	
Jaime Augusto Zobel de Ayala	_____	_____ PRINTED NAME OF STOCKHOLDER
Fernando Zobel de Ayala	_____	
Delfin L. Lazaro	_____	
Keiichi Matsunaga	_____	
<u><i>Independent Directors:</i></u>		_____ SIGNATURE OF STOCKHOLDER / AUTHORIZED SIGNATORY
Ramon R. del Rosario, Jr.	_____	
Xavier P. Loinaz	_____	_____ DATE
Antonio Jose U. Periquet	_____	

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **APRIL 11, 2018**, THE DEADLINE FOR SUBMISSION OF PROXIES. FOR CORPORATE STOCKHOLDERS, PLEASE ATTACH TO THIS PROXY FORM THE SECRETARY'S CERTIFICATE ON THE AUTHORITY OF THE SIGNATORY TO APPOINT THE PROXY AND SIGN THIS FORM.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSES HIS INTENTION TO VOTE IN PERSON.

NOTARIZATION OF THIS PROXY IS NOT REQUIRED.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

Information Statement
of
AYALA CORPORATION
Pursuant to Section 20 of the Securities Regulation Code (the "Code" or "SRC")

1. Check the appropriate box:

☐ Preliminary Information Sheet
☒ Definitive Information Sheet

2. Name of registrant as specified in its charter: AYALA CORPORATION (the "Company" or "Ayala")
3. Province, country or other jurisdiction of incorporation or organization: REPUBLIC OF THE PHILIPPINES
4. SEC Identification Number: 34218
5. BIR Tax Identification Code: 000-153-610-000
6. Address of principal office: 32F to 35F, Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City
1226
7. Registrant's telephone number: (632) 908-3000 / 908-3357
8. Date, time and place of the meeting of stockholders:

Date	-	April 20, 2018
Time	-	9:00 A.M.
Place	-	Ballroom 2, Fairmont Makati 1 Raffles Drive Makati Ave., Makati City

9. Approximate date on which the Information Statement is first to be sent or given to stockholders:

March 27, 2018

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

a. Shares of stock as of February 28, 2018

<u>Title of each class</u>	<u>Par value</u>	<u>No. of shares</u>	<u>Amount</u>
Common	₱ 50.00	621,298,801	₱31,064,940,050.00
Preferred B Series 1	100.00	20,000,000	2,000,000,000.00
Preferred B Series 2	100.00	27,000,000	2,700,000,000.00
Voting Preferred	1.00	<u>200,000,000</u>	<u>200,000,000.00</u>
Total		<u>868,298,801</u>	<u>₱35,964,940,050.00</u>

b. Debt securities as of February 28, 2018 - ₱40 Billion Bonds

11. Are any or all of registrant's securities listed in a stock exchange?

☒ Yes

☐ No

A total of 616,784,515 common shares, 12,000,000 preferred A ("ACPA") shares, 28,000,000 preferred B series 1 ("ACPB1") shares, and 30,000,000 preferred B series 2 ("ACPB2") shares and are listed in the Philippine Stock Exchange ("PSE"). A total of 12,000,000 ACPA shares, 8,000,000 ACPB1 shares, and 3,000,000 ACPB2 shares are held in Treasury by the Company.

* * *

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. Date, time and place of meeting of stockholders (hereafter, the “annual stockholders’ meeting” or “meeting”)

- a. Date - April 20, 2018
- Time - 9:00 A.M.
- Place - Ballroom 2, Fairmont Makati
1 Raffles Drive
Makati Ave., Makati City

- b. Approximate date when the Information Statement is first to be sent to stockholders: March 27, 2018

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

Item 2. Dissenter’s right of appraisal

Under Sections 42 and 81, Title X of the Corporation Code of the Philippines (“Corporation Code”), a stockholder shall have the right to dissent and demand payment of the fair value of his shares in the following instances:

- (a) In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
- (b) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code;
- (c) In case of merger or consolidation; and
- (d) Investment of funds in any other corporation or business or for any purpose other than the primary purpose for which the Corporation was organized.

There are no matters or actions to be taken up at the meeting which may give rise to a possible exercise by stockholders of their appraisal rights.

Item 3. Interest of certain persons in or opposition to matters to be acted upon

There is no matter to be acted upon in which any director or officer is involved or had a direct, indirect or substantial interest.

No director has informed the Company of his opposition to any matter to be acted upon at the annual stockholders meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting securities and principal holders thereof

- a. **Number of shares outstanding as of February 28, 2018:**
 - 621,298,801 common shares
 - 20,000,000 preferred B series 1 shares
 - 27,000,000 preferred B series 2 shares
 - 200,000,000 voting preferred shares

Number of votes per share:

One (1) vote per share for common and voting preferred shares

One (1) vote per share for preferred B shares on matters where holders of non-voting shares are entitled to vote under Section 6 of the Corporation Code

- b. All **stockholders of record** as of March 6, 2018 (the “Record Date”) are entitled to notice and to vote at the annual stockholders’ meeting.

c. **Manner of voting**

Sections 7 and 8 of Article III of the By-laws of the Company (the “By-laws”) provide:

Section 7 - Each share of stock entitles the person in whose name it is registered in the books of the Corporation to one vote, provided the share has not been declared delinquent. (As amended on December 4, 2014).

Section 8 - The election of Directors shall be by ballot and each stockholder entitled to vote may cast the vote to which the number of shares he owns entitles him, for as many persons as are Directors to be elected, or he may give to one candidate as many votes as the number of Directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates he may see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of Directors to be elected. x x x

d. **Security ownership of certain record and beneficial owners and management**

- i. **Security ownership of certain record and beneficial owners (of more than 5%) as of February 28, 2018**

Title of class of voting shares	Name and address of record owner and relationship with Issuer	Name of beneficial owner and relationship with record owner	Citizenship	No. of shares held	Percent of outstanding voting shares
Common	Mermac, Inc. ¹	Mermac, Inc. ²	Filipino	296,625,706	36.1167%
Voting Preferred	3/F Makati Stock Exchange Building, Ayala Triangle, Ayala Avenue, Makati City			159,683,946	19.4429%
Common	PCD Nominee Corporation (Non-Filipino) ³ G/F MSE Bldg. Ayala Ave., Makati City	PCD participants acting for themselves or for their customers ⁴	Various Non-Filipino	166,229,892	20.2399%

¹ The Co-Vice Chairmen of Mermac, Inc. (“Mermac”), Jaime Augusto Zobel de Ayala and Fernando Zobel de Ayala, are the Chairman and Chief Executive Officer and President and Chief Operating Officer of the Company, respectively. Mr. Jaime Augusto Zobel de Ayala has been named and appointed to exercise the voting power of Mermac.

² The Board of Directors of Mermac has the power to decide how Ayala shares held by Mermac are to be voted.

³ PCD is not related to the Company.

⁴ Each beneficial owner of shares through a PCD participant is the beneficial owner to the extent of the number of shares in his account with the PCD participant. Out of the 239,612,795 common shares registered in the name of PCD Nominee Corporation, 64,835,357 (7.8942% of the voting stock) and 62,712,820 (7.6358% of the voting stock) are for the accounts of Deutsche Bank Manila (DB) and The Hongkong and Shanghai Banking Corporation (HSBC), respectively. The Company has no record relating to the power to decide how the shares held by PCD are to be voted. As advised to the Company, none of DB and HSBC or any of their customers beneficially owns more than 5% of the Company’s common shares.

Common	Mitsubishi Corporation ⁵	Mitsubishi Corporation ⁶	Japanese	63,077,540	7.6802%
Voting Preferred	3-1, Marunouchi 2- Chome, Chiyoda-ku, Tokyo 100-8086			32,640,492	3.9743%
Common	PCD Nominee Corporation (Filipino) ³ G/F MSE Bldg. Ayala Ave., Makati City	PCD participants acting for themselves or for their customers ⁴	Filipino	73,382,903	8.9350%

ii. **Security ownership of directors and management as of February 28, 2018**

Title of class of outstanding shares	Name of beneficial owner	Amount and nature of beneficial ownership		Citizenship	Percent of total outstanding shares
Directors					
Common	Jaime Augusto Zobel de Ayala	222,006	(direct & indirect)	Filipino	0.0256%
Preferred B Series 1		20,000	(indirect)		0.0023%
Voting Preferred		543,802	(direct)		0.0626%
Common	Fernando Zobel de Ayala	228,136	(direct & indirect)	Filipino	0.0263%
Voting Preferred		554,983	(direct)		0.0639%
Common	Delfin L. Lazaro	27,836	(indirect)	Filipino	0.0032%
Voting Preferred		258,297	(direct)		0.0297%
Common	Keiichi Matsunaga	1	(direct)	Japanese	0.0000%
Common	Xavier P. Loinaz	126,614	(direct)	Filipino	0.0146%
Voting Preferred		65,517	(direct)		0.0075%
Common	Antonio Jose U. Periquet	1,200	(direct)	Filipino	0.0001%
Preferred B Series 2		400,000	(direct)		0.0461%
Common	Ramon R. Del Rosario, Jr.	1	(direct)	Filipino	0.0000%
CEO and most highly compensated officers					
Common	Jaime Augusto Zobel de Ayala	222,006	(direct & indirect)	Filipino	0.0256%
Preferred B Series 1		20,000	(indirect)		0.0023%
Voting Preferred		543,802	(direct)		0.0626%
Common	Fernando Zobel de Ayala	228,136	(direct & indirect)	Filipino	0.0263%
Voting Preferred		554,983	(direct)		0.0639%
Common	Solomon M. Hermosura	122,341	(indirect)	Filipino	0.0141%
Voting Preferred		53,583	(direct)		0.0062%
Common	Jose Teodoro K. Limcaoco	226,677	(indirect)	Filipino	0.0261%
Common	John Philip S. Orbeta	532,837	(indirect)	Filipino	0.0614%
Other executive officers (Ayala group ManCom members/Senior Leadership Team)					
Common	Cezar P. Consing	77,044	(indirect)	Filipino	0.0089%
Common	Bernard Vincent O. Dy	9,567		Filipino	0.0011%
Common	Arthur R. Tan	288,291	(direct & indirect)	Filipino	0.0332%

⁵ Mitsubishi Corporation (“Mitsubishi”) is not related to the Company.

⁶ The Board of Directors of Mitsubishi has the power to decide how Mitsubishi’s shares in Ayala are to be voted. Mr. Yoshio Amano has been named and appointed to exercise the voting power.

Common	Jose Rene Gregory D. Almendras	39,345	(direct & indirect)	Filipino	0.0045%
Common	Alfredo I. Ayala	172,546	(direct & indirect)	Filipino	0.0199%
Common	Paolo Maximo F. Borromeo	38,974	(indirect)	Filipino	0.0045%
Common	Ferdinand M. Dela Cruz	39,755	(indirect)	Filipino	0.0046%
Common	John Eric T. Francia	133,767	(direct & indirect)	Filipino	0.0154%
Common	Ernest Lawrence L. Cu	107,774	(indirect)	Filipino	0.0124%
Common	Ruel T. Maranan	13,039	(indirect)	Filipino	0.0015%
Common	Ma. Cecilia T. Cruzabra	17,454	(direct & indirect)	Filipino	0.0020%
Common	Josephine G. De Asis	16,530	(indirect)	Filipino	0.0019%
Common	Catherine H. Ang	16,196	(indirect)	Filipino	0.0019%
Voting Preferred		5,290	(direct)		0.0006%
Common	Dodjie D. Lagazo	0		Filipino	0.0000%
Common	Joanne M. Lim	0		Filipino	0.0000%
All Directors and Officers as a group		4,359,403			0.5021%

None of the Company's directors and officers owns 2.0% or more of the outstanding capital stock of the Company.

iii. **Voting trust holders of 5% or more**

The Company knows of no person holding more than 5% of common shares under a voting trust or similar agreement.

iv. **Changes in control**

No change of control in the Company has occurred since the beginning of its last fiscal year.

Item 5. Directors and executive officers

Article III, Section 9, of the By-laws provides:

Section 9 - At the regular meetings, the Board of seven (7) Directors shall be elected who shall hold office for a term of one (1) year or until their successors shall have been elected and qualified.

The attendance of the directors at the meetings of the Board of Directors ("Board") and of stockholders held in 2017 is as follows:

Directors	No. of Meetings Attended/Held⁷	Percent Present
Jaime Augusto Zobel de Ayala	7/7	100%
Fernando Zobel de Ayala	7/7	100%
Delfin L. Lazaro	7/7	100%
Xavier P. Loinaz	7/7	100%
Ramon R. Del Rosario, Jr.	7/7	100%
Antonio Jose U. Periquet	7/7	100%
Yoshio Amano ⁸	3/3	100%
Keiichi Matsunaga ⁸	4/4	100%

⁷ In 2017 and during the incumbency of the director.

⁸ Mr. Amano was replaced by Mr. Matsunaga on April 21, 2017.

The Board has established committees to assist in exercising its authority in monitoring the performance of the business of the Company. The committees, as mentioned below, provide organized and focused means for the Board to achieve specific goals and address issues, including those related to corporate governance.

	Executive Committee	Personnel and Compensation Committee	Corporate Governance and Nomination Committee	Audit Committee	Finance Committee	Risk Management and Related Party Transactions Committee	Committee of Inspectors of Proxies and Ballots***
Jaime Augusto Zobel de Ayala	C				M		
Fernando Zobel de Ayala	M				M		
Keiichi Matsunaga*	M	M		M		M	
Ramon R. del Rosario, Jr.**		C	C	M		M	
Delfin L. Lazaro*		M			C		
Xavier P. Loinaz**			M	C			
Antonio Jose U. Periquet**			M		M	C	
Solomon M. Hermosura							C
Catherine H. Ang							M
Josephine G. De Asis							M

C - Chairman

M - Member

**Non-executive Director*

***Independent Director*

****May not be members of the Board of Directors*

Information required of directors and executive officers

i. Directors and executive officers

The following persons have been nominated to the Board for election at the annual stockholders' meeting and have accepted their respective nominations:

JAIME AUGUSTO ZOBEL DE AYALA
KEIICHI MATSUNAGA
RAMON R. DEL ROSARIO, JR.
DELFIN L. LAZARO

FERNANDO ZOBEL DE AYALA
XAVIER P. LOINAZ
ANTONIO JOSE U. PERIQUET

The nominees were formally nominated to the Corporate Governance and Nomination Committee of the Board by a minority shareholder of the Company, Ms. Maria Angelica B. Rapadas, who holds 15,818 voting preferred shares, or 0.0019% of the total outstanding voting shares of the Company, and who is not related to any of the nominees. Messrs. Ramon R. del Rosario, Jr., Xavier P. Loinaz and Antonio Jose U. Periquet, all incumbent directors, are being nominated as independent directors in accordance with SRC Rule 38 (Requirements on Nomination and Election of Independent Directors). The Corporate Governance and Nomination Committee evaluated the qualifications of all the nominees and prepared the final list of nominees in accordance with the By-Laws and the Charter of the Board of Directors of the Company.

Only nominees whose names appear on the final list of candidates are eligible for election as directors. No nominations will be entertained or allowed on the floor during the annual stockholders' meeting.

All nominees, except for Mr. Matsunaga, have served as directors of the Company for more than five years. Mr. Matsunaga has served for one year.

A summary of the qualifications of the incumbent directors, who are all nominees for directors for election at the stockholders' meeting, and incumbent officers is set forth in Annex A.

The officers of the Company are elected annually by the Board during its organizational meeting.

ii. **Significant employees**

The Company considers its human resources working as a team as a key element for its continued success. The Company has no employee and non-executive officer who is expected to make individually on his own a significant contribution to the business.

iii. **Family relationships**

Jaime Augusto Zobel de Ayala, Chairman and Chief Executive Officer, and Fernando Zobel de Ayala, President and Chief Operating Officer, are brothers.

There are no known family relationships between the current members of the Board and key officers other than the above.

iv. **Involvement in certain legal proceedings**

Except as disclosed herein or in the Information Statements of the Company's subsidiaries or affiliates which are themselves public companies or as has been otherwise publicly disclosed, there are no material legal proceedings, bankruptcy petition, conviction by final judgment, order, judgment or decree or any violation of a securities or commodities law for the past five years to which the Company or any of its subsidiaries or affiliates or its directors or executive officers is a party or of which any of its material properties is subject in any court or administrative government agency.

b. **Certain relationships and related transactions**

The Company, in the regular conduct of business, has entered into transactions consisting of advances, loans and reimbursements of expenses, purchase and sale of real estate properties, various guarantees, construction contracts, and development, management, underwriting, marketing and administrative agreements, with associates, joint ventures and other related parties. Sales and purchases of goods and services to and from related parties are made at arms-length, fair, and inure to the best benefit of both parties. Material significant related party transactions are reviewed by the Risk Management and Related Party Transactions Committee of the Board and properly disclosed in the accompanying audited financial statements.

There has not been any material transaction during the last two years, or proposed transaction, to which the Company was or is to be a party, in which any of its directors or executive officers, any nominee for election as a director or any security holder had or is to have a direct or indirect material interest.

To date, there are no complaints received by the Company regarding related-party transactions.

c. **Ownership structure and parent company**

As of February 28, 2018, Mermac, Inc. owns 55.56% of the outstanding voting shares of the Company.

d. **Resignation of directors**

To date, no director has resigned from, or declined to stand for re-election to the Board since the date of the 2017 annual meeting of stockholders due to any disagreement with the Company relative to its operations, policies and practices.

Item 6. Compensation of Directors and executive officers

a. **Executive compensation**

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
Jaime Augusto Zobel de Ayala Chairman and CEO				

Fernando Zobel de Ayala President and Chief Operating Officer Solomon M. Hermosura Managing Director, Chief Legal Counsel, Corporate Secretary, Compliance Officer, Data Protection Officer, and Corporate Governance Group Head Jose Teodoro K. Limcaoco Managing Director, Chief Finance Officer, Chief Risk Officer, Chief Sustainability Officer, and Finance Group Head John Philip S. Orbeta Managing Director, Chief Human Resources Officer, and Corporate Resources Group Head				
CEO Most Highly Compensated Executive Officers	Actual 2016 (restated)	P258.70M	P180.89M	P 0
	Actual 2017	P279.04M	P210.51M	P 0
	Projected 2018	P301.36M	P228.73M	P 0
All other officers** as a group unnamed	Actual 2016 (restated)	P669.85M	P340.71M	P 0
	Actual 2017	P704.72M	P442.48M	P 0
	Projected 2018	P759.60M	P459.47M	P 0

**** Managers and up (including all above-named officers).**

The total annual compensation consists of basic pay and other taxable income (guaranteed bonus and performance-based bonus).

The Company has no other arrangement with regard to the remuneration of its existing officers aside from the compensation received as herein stated.

b. Compensation of Directors

Article IV, Section 20, of the By-laws provides:

Section 20 - Each Director shall be entitled to receive from the Corporation, pursuant to a resolution of the Board of Directors, fees and other compensation for his services as

Director. The Board of Directors shall have the sole authority to determine the amount, form and structure of the fees and other compensation of the Directors. In no case shall the total yearly compensation of Directors exceed one percent (1%) of the net income before income tax of the Corporation during the preceding year.

The compensation and remuneration committee of the Board of Directors shall have the responsibility of recommending to the Board of Directors the fees and other compensation for directors. In discharging this duty, the committee shall be guided by the objective of ensuring that the level of compensation should fairly pay Directors for work required in a company of the Corporation's size and scope. (As amended on 18 April 2011.)

i. Standard arrangement

On April 21, 2017, the Board, upon the recommendation of its Personnel and Compensation Committee to make the level of remuneration more commensurate with their responsibilities, approved a resolution fixing the current remuneration of non-executive directors as follows:

Retainer Fee:	₱ 3,000,000.00
Board Meeting Fee per meeting attended:	₱ 200,000.00
Committee Meeting Fee per meeting attended:	₱ 100,000.00

Directors who hold executive or management positions do not receive directors' fees. The compensation of executive directors is included in the compensation table in Item 6(a) above.

ii. Other arrangements

None of the non-executive and independent directors who are paid fees as set forth above (Standard arrangement) is contracted and compensated by the Company for services other than those provided as a director.

The Company has no other arrangement with regard to the remuneration of its existing non-executive directors aside from the compensation received as herein stated.

The Company's Personnel and Compensation Committee is chaired by Mr. Del Rosario, Jr., an independent director, with Messrs. Lazaro and Matsunaga as members.

c. Employment contracts and termination of employment and change-in-control arrangements

The above named executive officers are covered by letters of appointment stating their respective job functionalities, among others.

d. Warrants and options outstanding; repricing

- i. Since 1995, the Company has offered its officers options to acquire common shares under its executive stock option plan (ESOP). Of the above-named officers, there were options covering 67,397 shares exercised in 2017 by the following officers, to wit:

Name	No. of Availed Shares	Date of Grant	Exercise Price	Market Price at Date of Grant
Fernando Zobel de Ayala		Various	Various	Various
Solomon M. Hermosura		Various	Various	Various
All above-named officers as a Group	67,397	Various	311.25*	442.72*
All officers ** as a Group	169,035	Various	345.72*	476.94*

* Average prices.

** Managers and up including the above-named officers.

- ii. The Company has adjusted the exercise price and market price of the options awarded to the above named officers due to the stock dividend declared by the Company in May 2004, June 2007, May 2008 and July 2011 and to the reverse stock split in May 2005.

Item 7. Independent public accountants

- a. The external auditor of the Company is the accounting firm of SyCip, Gorres, Velayo & Company (SGV & Co.). The Board, upon the recommendation of the Company's Audit Committee (with Mr. Loinaz as Chairman and Messrs. Del Rosario, Jr. and Matsunaga as members), approved the re-appointment of SGV & Co. as the Company's independent auditor for 2018 based on its performance and qualifications, and fixed its remuneration amounting to ₱5.35 million, exclusive of value-added tax and out-of-pocket expenses in 2018.

The re-appointment of SGV & Co., and the fixing of its remuneration will be presented to the stockholders for their approval at the annual stockholders' meeting.

- b. Representatives of SGV & Co. for the current year and for the most recently completed fiscal year are expected to be present at the annual stockholders' meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

Pursuant to the General Requirements of SRC Rule 68 (2011 Amended), Par. 3 (Qualifications and Reports of Independent Auditors), the Company has engaged SGV & Co. as external auditor, and Ms. Lucy L. Chan is the Partner In-Charge starting audit year 2016 given the required audit partner rotation every five years.

- c. **Changes in and disagreements with accountants on accounting and financial disclosure**

The Company has engaged the services of SGV & Co. during the two most recent fiscal years. There were no disagreements with SGV & Co. on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedure.

- d. **Audit and Audit-Related Fees**

The Company paid or accrued the following fees, including VAT, to its external auditor in the past two years:

	<u>Audit Fees</u>	<u>Audit-related Fees</u>	<u>Tax Fees</u>	<u>Non-Audit Fees</u>
2017	₱5.43M	₱5.54 M	-	₱0.12M
2016	₱5.21M	₱10.64 M	-	₱1.19 M

SGV & Co. was engaged by the Company to audit its annual financial statements and midyear review of financial statements in connection with the statutory and regulatory filings or engagements for the years ended 2017 and 2016. The audit-related fees include assurance and services that are reasonably related to the performance of the audit or review of the Company's financial statements pursuant to the regulatory requirements.

- e. **Tax fees**

No tax consultancy services were secured from SGV & Co. for the past two years.

- f. **All other fees (Non-Audit Fees)**

In 2017, SGV & Co. billed the Company a fee of ₱.12M for the validation of stockholders' votes during the 2017 annual stockholders' meeting.

In 2016, SGV & Co. billed the Company for an aggregate fee of ₱1.19M for the following services:

- i. Validation of stockholders' votes during the 2016 annual stockholders' meeting
- ii. Philippine Financial Reporting Standards Seminar

iii. Internal Audit Maturity Framework Development

The Audit Committee reviewed the nature of non-audit services rendered by SGV & Co. and the corresponding fees and concluded that these are not in conflict with the audit functions of the independent auditor.

The Audit Committee has an existing policy to review and to pre-approve the audit and non-audit services rendered by the Company's independent auditor. It does not allow the Company to engage the independent auditor for certain non-audit services expressly prohibited by regulations of the SEC to be performed by an independent auditor for its audit clients. This is to ensure that the independent auditor maintains the highest level of independence from the Company, both in fact and appearance.

Item 8. Compensation Plans

There are no matters or actions to be taken up in the meeting with respect to any compensation plan pursuant to which cash or non-cash compensation may be paid or distributed.

C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 9. Authorization or issuance of securities other than for exchange

There are no matters or actions to be taken up with respect to authorization or issuance of securities.

Item 10. Modification or Exchange of Securities

There are no matters or actions to be taken up for the modification of any class of the Company's securities or the issuance or authorization for issuance of one class of the Company's securities in exchange for outstanding securities of another class.

Item 11. Financial and other information

The audited financial statements as of December 31, 2017, Management's Discussion and Analysis, market price of shares and dividends and other data related to the Company's financial information are attached hereto as Annex "B". The schedules required under Part IV(c) of Rule 68 will be included in the Annual Report (Form 17-A).

Item 12. Mergers, consolidations, acquisitions and similar matters

There are no matters or actions to be taken up in the meeting with respect to merger, consolidation, sale or liquidation of the Company.

Item 13. Acquisition or disposition of property

There are no matters or actions to be taken up in the meeting with respect to acquisition or disposition of any property by the Company requiring stockholders' approval under the Corporation Code.

Item 14. Restatement of accounts

As used herein and in other sections of this Information Statement, unless the context otherwise requires, Ayala Group or the Group refers to the Company and its subsidiaries where the Company has control pursuant to SRC Rule 68, Par. 6 (Consolidated Financial Statements).

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the new and amended Philippine Financial Reporting Standards (PFRS) and the Philippine Accounting Standards (PAS) and Interpretations issued by the Philippine Interpretations Committee (PIC) - which became effective beginning January 1, 2017. The Group will also adopt several amended and revised standards and interpretations in 2018, 2019 and 2020.

Please refer to Note 3 of the attached Company's audited financial statements on the Summary of Significant Accounting Policies for the accounting of the new PFRS, PAS and PIC which became effective in 2017 and new PFRS and PIC that will be effective in 2018, 2019 and 2020.

D. OTHER MATTERS

Item 15. Action with respect to reports

- a. Approval of the minutes of the 2017 annual stockholders' meeting held on April 21, 2017 covering the following matters:
 - i) Annual report of officers;
 - ii) Election of the members of the Board of Directors, including the independent directors, and
 - iii) Election of the external auditor and fixing of its remuneration.
- b. Approval of the annual report of management for the year ending December 31, 2017. The report will cover the performance of the Company in 2017 and the outlook for 2018, as set forth in Annex **B**, Management Report.

Item 16. Matters Not Required to be Submitted

There are no matters or actions to be taken up in the meeting that will not require the vote of the stockholders as of the record date.

Item 17. Amendment of Charter, By-laws or Other Documents

There are no matters or actions to be taken up in the meeting with respect to any amendment of the Company's Articles of Incorporation or By-laws.

Item 18. Other proposed actions

- a. Election of the members of the Board of Directors, including the independent directors, for the ensuing year.
- b. Election of external auditor and fixing of its remuneration.

Item 19. Voting procedures

a. Vote required

The affirmative vote of at least a majority of the issued and outstanding capital stock entitled to vote and represented at the annual stockholders' meeting is required for the approval of the matters presented to the stockholders for decision. The election of directors is by plurality of votes.

b. Method of Voting

In all items for approval, each voting share of stock entitles its registered owner as of the Record Date to one vote.

In the case of the election of directors, each stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate the aforesaid shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares, or he may distribute them on the same principle among as many nominees as he shall see fit; provided that, the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the total number of directors to be elected.

Voting will be by poll. Upon registration at the annual stockholders' meeting, each stockholder will be given a ballot to enable him to vote in writing on each item or proposal in the Agenda. A stockholder may also vote

electronically using any of the computers at the station for electronic voting. Nonetheless, each stockholder may vote *viva voce* or by other means of communicating his approval or objection.

All votes will be counted and tabulated by the Office of the Corporate Secretary and the results will be validated by the external auditor of the Company, SGV & Co.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on the March 15, 2018.

AYALA CORPORATION

A handwritten signature in blue ink, appearing to read 'Solomon M. Hermosura', is written over a light blue horizontal line.

by: **SOLOMON M. HERMOSURA**
Chief Legal Officer and Corporate Secretary

ANNEX “A”
DIRECTORS AND KEY OFFICERS

The write-ups below include positions held as of December 31, 2017 and in the past five years and personal data as of December 31, 2017, of directors and executive officers.

Board of Directors

Jaime Augusto Zobel de Ayala	Chairman and Chief Executive Officer
Fernando Zobel de Ayala	President and Chief Operating Officer
Delfin L. Lazaro	Non-Executive Director
Keiichi Matsunaga	Non-Executive Director
Xavier P. Loinaz	Lead Independent Director
Ramon R. del Rosario, Jr.	Independent Director
Antonio Jose U. Periquet	Independent Director

Jaime Augusto Zobel de Ayala, Filipino, 59, Director of Ayala Corporation since May 1987. He is the Chairman and CEO of Ayala Corporation since April 2006. He holds the following positions in publicly listed companies: Chairman of Globe Telecom, Inc., Integrated Micro-Electronics, Inc. and Bank of the Philippine Islands; and Vice Chairman of Ayala Land, Inc. and Manila Water Company, Inc. He is also the Chairman of AC Education, Inc., Ayala Retirement Fund Holdings, Inc., AC Industrial Technology Holdings, Inc., AC Ventures Holding Corp., AC Infrastructure Holdings Corporation and Asiacom Philippines, Inc.; Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc.; Director of Alabang Commercial Corporation, Ayala International Pte. Ltd., AC Energy, Inc., Ayala Healthcare Holdings, Inc., Light Rail Manila Holdings, Inc. and AG Holdings Limited; Chairman of Harvard Business School Asia-Pacific Advisory Board and Endeavor Philippines; and member of the Harvard Global Advisory Council, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, Global Board of Advisors of the Council on Foreign Relations, Asia Society International Council, University of Tokyo Global Advisory Board, Singapore Management University Board of Trustees, and Eisenhower Fellowships Board of Trustees. He was the Philippine Representative to the Asia Pacific Economic Cooperation (APEC) Business Advisory Council from 2010 to December 2015. In 2007, he received the Harvard Business School Alumni Achievement Award, the school’s highest recognition. He was a recipient of the Presidential Medal of Merit in 2009 for enhancing the prestige and honor of the Philippines both at home and abroad. In 2010, he was bestowed the Philippine Legion of Honor, with rank of Grand Commander, by the President of the Philippines in recognition of his outstanding public service. In 2015, he received the Order of Mabini, with rank of Commander, for his vital contributions during the Philippines’ hosting of the Asia Pacific Economic Cooperation (APEC) Summit. In 2017, he was recognized as a United Nations SDG Pioneer for his work in sustainable business strategy and operations. He graduated with B.A. in Economics (Cum Laude) at Harvard College in 1981 and obtained an MBA at the Harvard Graduate School of Business Administration in 1987.

Fernando Zobel de Ayala, Filipino, 57, Director of Ayala Corporation since May 1994. He is the President and Chief Operating Officer of Ayala Corporation since April 2006. He holds the following positions in publicly listed companies: Chairman of Ayala Land, Inc. and Manila Water Company, Inc.; and Director of Bank of The Philippine Islands, Globe Telecom, Inc. and Integrated Micro-Electronics, Inc.; and Independent Director of Pilipinas Shell Petroleum Corporation. He is the Chairman of AC International Finance Ltd., Liontide Holdings, Inc., AC Energy, Inc., Ayala Healthcare Holdings, Inc., Automobile Central Enterprise, Inc., Alabang Commercial Corporation, Accendo Commercial Corp. and Hero Foundation, Inc.; Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc.; Vice-Chairman of ALI Eton Property Development Corporation, Aurora Properties Incorporated, Vesta Property Holdings, Inc., Ceci Realty Inc., Fort Bonifacio Development Corporation, Bonifacio Land Corporation, Emerging City Holdings, Inc., Columbus Holdings, Inc., Berkshires Holdings, Inc. and Bonifacio Art Foundation, Inc.; Director of LiveIt Investments, Ltd., AG Holdings Ltd., AC Infrastructure Holdings Corporation, Asiacom Philippines, Inc., Ayala Retirement Fund Holdings, Inc., AC Education, Inc. and AC Ventures Holding Corp., Honda Cars Philippines, Inc., Isuzu Philippines Corporation, and Manila Peninsula; Member of the Philippine-Singapore Business Council, INSEAD East Asia Council, World Presidents’ Organization; and Chief Executives Organization; Chairman of Habitat for Humanity’s Asia-Pacific Capital Campaign Steering Committee; and Member of the Board of Trustees of Caritas Manila, Pilipinas Shell Foundation, and the National Museum. He graduated with B.A. Liberal Arts at Harvard College in 1982 and holds a CIM from INSEAD, France.

Delfin L. Lazaro, Filipino, 71, Non-Executive Director of Ayala Corporation since January 2007. He holds the following positions in publicly listed companies: Director of Ayala Land, Inc., Integrated Micro-Electronics, Inc., Manila Water Company, Inc., and Globe Telecom, Inc. His other significant positions include: Chairman of Atlas Fertilizer & Chemicals Inc., Chairman and President of A.C.S.T. Business Holdings, Inc.; Vice Chairman and President of Asiacom Philippines, Inc.; Director of AC Industrial Technology Holdings, Inc., AYC Holdings, Ltd., Purefoods International Limited and Probe Productions, Inc. He graduated with BS Metallurgical Engineering at the University of the Philippines in 1967 and took his MBA (with Distinction) at Harvard Graduate School of Business in 1971.

Keiichi Matsunaga, Japanese, 53, has been a Director of Ayala Corporation since April 2017. He is the General Manager of Mitsubishi Corporation Manila Branch. Currently, he is also the Chairman of International Elevator & Equipment Inc.; President of MC Diamond Realty Investment Phils., MC Oranbo Investment, MC Cavite Holdings, Inc., FMT Kalayaan, Inc.; and Director of Century City Development II Corporation (CCDC II), Isuzu Philippines Corporation, Kepco Ilijan Corporation, Trans World Agro-Products Corp., Japanese Chamber of Commerce & Industry of the Philippines (JCCIP) and The Japanese Association Manila, Inc. (JAMI). He is not a director of any publicly listed company in the Philippines other than Ayala Corporation. He entered Mitsubishi Corporation after graduating from the Faculty of Law at Waseda University in 1988 and has since held various leadership positions.

Xavier P. Loinaz, Filipino, 74, Independent Director since April 2009. He is also an Independent Director of the Bank of the Philippine Islands, a publicly listed company. He also holds the following positions: Independent Director of BPI Family Savings Bank, Inc., and BPI/MS Insurance Corporation; Trustee of E. Zobel Foundation; Chairman of Alay Kapwa Kilusan Pangkalusugan and XPL Manitou Properties, Inc.; and Vice Chairman of XPL MTJL Properties, Inc. He was formerly the President of the Bank of the Philippine Islands (BPI) from 1982 to 2004. He was also the President of Bankers Association of the Philippines from 1989 to 1991. He graduated with an AB Economics degree at Ateneo de Manila University in 1963 and took his MBA-Finance at Wharton School, University of Pennsylvania in 1965.

Ramon R. del Rosario, Jr., Filipino, 73, Independent Director of Ayala since April 2010. He holds the following positions in publicly listed companies: President and Chief Executive Officer of Phinma Corporation; Chairman of PHINMA Energy Corp. and PHINMA Petroleum and Geothermal, Inc. He is the President and Chief Executive Officer of Philippine Investment Management, Inc.; Chairman of Araullo University, University of Iloilo, University of Pangasinan, Cagayan de Oro College, Southwestern University, United Pulp and Paper Co., Inc., PHINMA Power Generation Corporation, PHINMA Renewable Energy Corp., One Subic Power Generation Corp., PHINMA Microtel Hotels, Inc. and PHINMA Hospitality, Inc. He is Vice-Chairman of Phinma Foundation, Inc. and Phinma Property Holdings Corp., Director of Union Galvasteel Corp. and other PHINMA managed companies; Chairman of The National Museum of the Philippines and Philippine Business for Education; and Vice-Chairman of Caritas Manila and Philippine Business for Social Progress (PBSP). He is a former chairman of the Ramon Magsaysay Award Foundation and Makati Business Club, where he remains a Trustee. Mr. del Rosario graduated from De La Salle College in 1967 with degrees in BSC-Accounting and AB Social Sciences *Magna cum Laude* and from Harvard Business School in 1969 for a Master in Business Administration degree. He has managed Phinma since 2002 and brings with him a wealth of experience in leading a diversified conglomerate.

Antonio Jose U. Periquet, Filipino, 56, Independent Director of Ayala Corporation since September 2010. He is the chairman of BPI Asset Management and Trust Corporation, the Campden Hill Group and Campden Hill Advisors, Inc. He also sits as an independent director of the Bank of the Philippine Islands, ABS-CBN Corporation, DMCI Holdings, The Max's Group of Companies, The Philippine Seven Corporation and the Albizia ASEAN Tenggara Fund. Mr. Periquet is a trustee of Lyceum of the Philippines University and a member of the Dean's Global Advisory Council at the University of Virginia's Darden School of Business. He graduated with an AB Economics degree at Ateneo de Manila University in 1982 and took his Masters of Science in Economics at the Oxford University, UK in 1988 and Masters in Business Administration at University of Virginia, USA in 1990.

Nominees to the Board of Directors for election at the stockholders' meeting

All the above incumbent directors.

The certifications on the qualifications of the nominees for independent directors are attached.

Ayala Group Management Committee Members / Senior Leadership Team

*/***	Jaime Augusto Zobel de Ayala	Chairman and Chief Executive Officer
*/***	Fernando Zobel de Ayala	Vice Chairman, President and Chief Operating Officer
**	Cezar P. Consing	Senior Managing Director, President and CEO of Bank of the Philippine Islands
**	Bernard Vincent O. Dy	Senior Managing Director, President and CEO of Ayala Land, Inc.
**	Arthur R. Tan	Senior Managing Director, CEO of Integrated Micro-Electronics, Inc., and President and CEO of AC Industrial Technology Holdings, Inc.
**	Ernest Lawrence L. Cu	President and CEO of Globe Telecom, Inc.
**	Ferdinand M. dela Cruz	Managing Director, President and CEO of Manila Water
***	Jose Rene Gregory D. Almendras	Managing Director, Public Affairs Group Head, President and CEO of AC Infrastructure Holdings Corporation
**	Alfredo I. Ayala	Managing Director, President and CEO of AC Education, Inc.
***	Paolo Maximo F. Borromeo	Managing Director, Corporate Strategy and Development Group Head, President and CEO of Ayala Healthcare Holdings, Inc.
***	John Eric T. Francia	Managing Director, President and CEO of AC Energy, Inc.
***	Solomon M. Hermosura	Managing Director, Chief Legal Counsel, Corporate Secretary, Compliance Officer, Data Protection Officer, and Corporate Governance Group Head
***	Jose Teodoro K. Limcaoco	Managing Director, Chief Finance Officer, Chief Risk Officer, Chief Sustainability Officer, and Finance Group Head
**	Ruel T. Maranan	Managing Director, President of Ayala Foundation, Inc.
***	John Philip S. Orbeta	Managing Director, Chief Human Resource Officer, and Corporate Resources Group Head
	Catherine H. Ang	Executive Director and Chief Audit Executive
	Ma. Cecilia T. Cruzabra	Executive Director and Treasurer
	Josephine G. De Asis	Executive Director and Controller
	Dodjie D. Lagazo	Assistant Corporate Secretary
	Joanne M. Lim	Assistant Corporate Secretary

* *Members of the Board of Directors.*

** *Ayala Group Management Committee members.*

*** *Ayala Corporation Management Committee and Ayala Group Management Committee members*

Cezar P. Consing, Filipino, 58, is a Senior Managing Director of Ayala Corporation and has been a member of the Ayala Group Management Committee since April 2013. He has been the President and CEO of Bank of the Philippine Islands since April 2013, one of the Ayala Group's publicly listed companies. He also holds the following positions in other publicly listed companies: Independent Director of Jollibee Foods Corporation and Chairman of National Reinsurance Corporation of the Philippines. His other significant positions are: President of Bancnet, Inc., Director of LGU Guarantee Corporation, Filgifts.com., The Rohatyn Group, Sqreem Technologies and Endeavor Philippines. He is also a board director of the US-Philippines Society, trustee of the Manila Golf Club Foundation, and a member of the Trilateral Commission. He served as an independent director of CIMB Group Holdings from 2006 to 2013 and First Gen Corporation from 2005 to 2013. Prior to being President of BPI, he first worked for BPI's corporate planning and corporate banking from 1980 - 1985. He worked for J.P. Morgan & Co. in Hong Kong and Singapore from 1985 - 2004 and became the co-head of the firm's investment banking business in Asia Pacific from 1997 - 2004 and President of J.P. Morgan Securities (Asia Pacific) Ltd. As a senior Managing Director of J.P. Morgan, he served as a member of the firm's global investment banking management committee and its Asia Pacific management committee. He was a partner at The Rohatyn Group from 2004 - 2013, ran its Hong Kong office and its private investing business in Asia, and was a board director of its real estate, and energy and infrastructure private equity investing subsidiaries. He graduated with a degree of A.B (Accelerated Program) Economics (Magna Cum Laude) from De La Salle University in 1979 and M.A. Applied Economics from the University of Michigan, Ann Arbor, in 1980.

Bernard Vincent O. Dy, Filipino, 54, is a Senior Managing Director of Ayala Corporation and has been a member of the Ayala Group Management Committee since April 2014. He is the President and Chief Executive Officer of Ayala Land, Inc. (ALI). Prior to this post, he was the Head of the Residential Business, Commercial Business and Corporate Marketing and Sales of ALI. He also holds the following positions in other publicly listed Companies: Chairman of Prime Orion Philippines, Inc. and Director of Cebu Holdings, Inc., Cebu Property Ventures and Development

Corporation and MCT Bhd of Malaysia. His other significant positions include: Chairman of Ayala Property Management Corporation, Makati Development Corporation, Amaia Land Corporation, AyalaLand Commercial Reit, Inc., Bellavita Land Corporation, Ayagold Retailers, Inc., Station Square East Commercial Corporation, Aviana Development Corp., Cagayan De Oro Gateway Corp., BGSouth Properties, Inc., BGNorth Properties, Inc., BGWest Properties, Inc., Portico Land Corp. and Philippine Integrated Energy Solutions, Inc.; Vice Chairman of AyalaLand Estates, Inc., Ayala Greenfield Development Corporation, Alviera Country Club, Inc. and the Junior Golf Association of the Philippines; Director and President of Bonifacio Land Corporation, Emerging City Holdings, Inc., Columbus Holdings, Inc., Berkshires Holdings, Inc., Fort Bonifacio Development Corporation, Aurora Properties Incorporated, Vesta Property Holdings, Inc., Ceci Realty Inc., Alabang Commercial Corporation and Accendo Commercial Corp.; President of the Hero Foundation Incorporated and Bonifacio Art Foundation, Inc.; Director of Alveo Land Corp., Amicass Process Solutions, Inc., Whiteknight Holdings, Inc., AyalaLand Medical Facilities Leasing, Inc., Serendra, Inc., Alveo-Federal Land Communities, Inc., ALI Eton Property Development Corporation and Nuevocentro, Inc.; Trustee of Ayala Foundation, Inc. and Ayala Group Club, Inc. In 2015, he was inducted as member of the Advisory Council of the National Advisory Group for the Police Transformation Development of the Philippine National Police. He earned a degree of B.B.A Accountancy from the University of Notre Dame in 1985 and took his Master's Degree in Business Administration in 1997 and in International Relations in 1989, both at the University of Chicago.

Arthur R. Tan, Filipino, 58, has been a Senior Managing Director of Ayala Corporation since January 2007 and has been a member of the Ayala Group Management Committee since 2002. He has been the Chief Executive Officer of Integrated Micro-Electronics, Inc. (IMI), a publicly listed company, since April 2002. He was the President of IMI from April 2002 to June 23, 2016. Concurrently, he is also the Chairman of the Board and Chief Executive Officer of PSI Technologies Inc., President and Chief Executive Officer of Speedy-Tech Electronics Ltd.; and President and Chief Executive Officer of AC Industrial Technology Holdings, Inc. Prior to IMI, he was the Northeast Area Sales Manager and Acting Design Center Manager of American Microsystems Inc. (Massachusetts, USA), from 1994 to 1998, of which he became the Managing Director for Asia Pacific Region/Japan from 1998 to 2001. He graduated with B.S. in Electronics Communications Engineering degree from Mapua Institute of Technology in 1982 and attended post-graduate programs at the University of Idaho, Singapore Institute of Management, IMD and Harvard Business School.

Ernest Lawrence L. Cu, Filipino, 57, has been a member of the Ayala Group Management Committee since January 2009. He is the President and Chief Executive Officer of Globe Telecom, Inc., a publicly listed company. He is a trustee of Ayala Foundation, Inc. and Hero Foundation, Inc. Prior to joining Globe, he was the President and CEO of SPI Technologies, Inc. In 2017, he was adjudged Best CEO by Finance Asia. A second for Cu, he first received the award in 2010. Also in 2017, for the fifth straight year, Cu was recognized as one of the 100 most influential telecom leaders worldwide by London-based Global-Telecoms Business Magazine Power 100. Frost & Sullivan Asia Pacific has also named him CEO of the Year twice, first in 2012, and again in 2017. He earned a degree in BS Industrial Management Engineering from De La Salle University in 1982 and took his Master's Degree in Business Administration at the J.L. Kellogg Graduate School of Management in 1984.

Ferdinand M. dela Cruz, Filipino, 50, has been a Managing Director since 2011 and a member of the Ayala Group Management Committee since April 2017. He is the President and CEO of Manila Water Company, Inc. (MWC). Prior to his election as President of MWC, he was the Chief Operating Officer for Manila Water Operations; and President of Manila Water Total Solutions Corporation and Manila Water Foundation. He joined MWC in July 2011 as the East Zone Business Operations Group Director and was concurrently Group Director for Corporate Strategic Affairs. Before joining MWC, he was the head of Consumer Sales Group and the Consumer Sales and Consumer Sales Group of Globe Telecom for two years, and was head of its Wireless Business Group from October 2002 to June 2009. Prior to that, he was the President and General Manager of Kraft Foods (Philippines) Inc. for more than a year and the same company's Country General Manager for its various operating companies in Indonesia. He also held senior leadership roles in ALI, San Miguel Brewing Philippines, Inbisco Philippines, Unilever Philippines. He graduated cum laude with a degree in BS Mechanical Engineer from the University of the Philippines. He is a board top-notch and a licensed Mechanical Engineer.

Jose Rene Gregory D. Almendras, Filipino, 57, has been a Managing Director and member of the Ayala Corporation Management Committee and the Ayala Group Management Committee since August 2016. He is currently the President of AC Infrastructure Holdings Corporation (AC Infra); Chairman of Light Rail Manila Holdings 6, Inc. and MCX Tollway, Inc.; and Executive Vice President of Asiacom Philippines, Inc. He also serves as a member of the Board of Directors of the following companies within the Ayala Group: Light Rail Manila Holdings, Inc., Light Rail Manila Holdings 2, Inc., AC Energy, Inc. and A2 Airport Partners, Inc. On a concurrent basis, he heads the Public

Affairs Group of Ayala Corporation. He served as Secretary of Foreign Affairs for the Republic of the Philippines from March to June 2016. He also served as the Cabinet Secretary under the Office of the President from November 2012 to March 2016. Prior to his appointment as Cabinet Secretary, he served as the Secretary of the Department of Energy from July 2010 to October 2012. Under his leadership, the Department of Energy ranked as one of the Top 10 Performers, in a survey among government agencies on government performance specifically in ensuring integrity in public service. In 2011, he became the co-chair of the high-level discussion on the Long Term Strategy for the International Renewable Energy Agency (IRENA) held in Abu Dhabi. In the same year, the Philippines became a rotating member of the Executive Board of the International Energy Forum (IEF). Last September 2013, after stepping down as Energy Secretary, Rene was awarded ASEAN Individual Excellence in Energy Management by his fellow Energy Ministers during the 31st ASEAN Ministers on Energy Meeting (AMEM) and ASEAN Energy Awards, which was another 1st for the Philippines. In June 2013, he was given the rare privilege of addressing the United Nations Economic and Social Council (ECOSOC) at the Palais des Nations, Geneva and then again in December 2013 for the United Nations' Special Meeting of the ECOSOC in New York. He was the President and CEO of Manila Water Company, Inc. before he decided to serve the government in 2010. During his term, the company was awarded as one of the Best Managed Companies in Asia, the Best in Corporate Governance, one of the Greenest Companies in the Philippines and hailed as the world's Most Efficient Water Company. In June 2016, a Presidential Award, Order of Lakandula, Rank of Gold Cross Bayani, highest honor given to a civilian by the Republic of the Philippines, was awarded to him by President Benigno S. Aquino III, for his remarkable performance during the Aquino administration. He obtained his Bachelors of Science in Business Management degree from the Ateneo de Manila University in 1981. He attended the Strategic Business Economics Program from University of Asia & the Pacific in 1999.

Alfredo I. Ayala, Filipino, 56, has been a Managing Director of Ayala Corporation and a member of the Ayala Group Management Committee since June 2006. He is the President and Chief Executive Officer of LiveIt Investments Ltd. and of AC Education, Inc. which are Ayala Corporation's holding companies for its business processing outsourcing and educations investments, respectively. Currently, he also holds the following positions: Director of Affinity Express Holdings, Ltd., Affinity Express Philippines, Inc., and Azalea International Venture Partners Limited.; Chairman and President of AC College of Enterprise and Technology, Inc. and LINC Institute; Chairman of Affordable Private Education Center, Inc. and Newbridge International Investments Limited; Vice Chairman, President & CEO of University of Nueva Caceres; and Trustee of Ayala Foundation, Inc. He is also a Trustee of Philippine Business for Education (PBEd). He has an MBA from the Harvard Graduate School of Business Administration and B.A. in Development Studies (Honors) and Economics from Brown University.

Paolo Maximo F. Borromeo, Filipino, 40, has been a Managing Director since January 2016 and a member of the Ayala Corporation Management Committee and the Ayala Group Management Committee since September 2014. He has served as Group Head of Corporate Strategy and Development of the Company since September 2014. In his role, he oversees the overall corporate planning process, portfolio strategy, group-wide innovation projects and new business development initiatives. In addition, he leads Ayala Corporation's healthcare businesses. He sits on the board of Ayala Healthcare Holdings, Inc. and the Generika Group of Companies. He also sits on the board of AC Education, Inc., Affordable Private Education Center, Inc., AC College of Enterprise and Technology Holdings, Inc., LINC Institute, Inc., AC Ventures Holding Corp., AC Industrial Technology Holdings Inc., HCX Technology Partners, Inc., Ayala International Holdings Limited, AG Holdings Limited and LiveIt Investments, Ltd. Prior to joining Ayala, he was a Principal at Booz & Company, a global strategy consulting firm, based in San Francisco, California, USA. He obtained his Bachelors of Science degree in Management Engineering from the Ateneo de Manila University and his Master's in Business Administration with honors from the Wharton School at the University of Pennsylvania.

John Eric T. Francia, Filipino, 46, has been a Managing Director and a member of the Ayala Corporation Management Committee and the Ayala Group Management Committee since January 2009. He is the President and Chief Executive Officer of AC Energy, Inc. In his previous role as Head of Ayala's Corporate Strategy and Development group, he led Ayala's entry into the energy and transport infrastructure sectors in 2011. Under his leadership, Ayala invested in over 1,000MW of attributable capacity in the energy sector, and secured over \$1bn worth of PPP projects in the transport infrastructure space. He is a Director of Manila Water Company, Inc., a publicly listed company. He is also a member of the Board of Directors of the following companies within the Ayala Group: Purefoods International Limited, Ayala Healthcare Holding, Inc., AC Education, Inc., AC College of Enterprise and Technology, Inc., AC Ventures Holding Corp., Ayala Aviation Corporation, Zapfam, Inc., Northwind Power Development Corporation, North Luzon Renewable Energy Corporation, Light Rail Manila Corporation, AC Infrastructure Holdings Corporation, MCX Tollway, Inc., and other various companies. Prior to joining Ayala, he

was a senior consultant and member of the management team of Monitor Group, a strategy consulting firm based in Cambridge, Massachusetts, USA. Prior to consulting, he spent a few years in the field of academe and media. He received his undergraduate degree in Humanities and Political Economy from the University of Asia & the Pacific, graduating magna cum laude. He then completed his Masters Degree in Management Studies at the University of Cambridge in the United Kingdom, graduating with First Class Honors.

Solomon M. Hermosura, Filipino, 55, has served as Managing Director of Ayala Corporation since 1999 and a member of the Ayala Corporation Management Committee since 2009 and the Ayala Group Management Committee since 2010. He is also the Group Head of Corporate Governance, and the Chief Legal Counsel, Chief Compliance Officer, Corporate Secretary and Data Protection Officer of Ayala Corporation. He is the CEO of Ayala Group Legal. He serves as the Corporate Secretary and Group General Counsel of Ayala Land, Inc., and Corporate Secretary of Globe Telecom, Inc., Manila Water Company, Inc., Integrated Micro-Electronics, Inc. and Ayala Foundation, Inc. He also serves as a Corporate Secretary and a member of the Board of Directors of a number of companies in the Ayala group. He served as a Director of the Bank of the Philippine Islands from April 18, 2013 to April 9, 2014. He graduated valedictorian with Bachelor of Laws degree from San Beda College in 1986 and placed third in the 1986 Bar Examinations.

Jose Teodoro K. Limcaoco, Filipino, 54, has been the Chief Finance Officer and Finance Group Head of Ayala Corporation since April 2015. He is also the Chief Risk Officer and Sustainability Officer of Ayala Corporation. He is a director of Globe Telecom, Inc. and Integrated Micro-Electronics, Inc., two of the publicly listed companies of the Ayala Group; and an independent director of SSI Group, Inc, also a publicly listed company. He is the Chairman of Darong Agricultural and Development Corporation, Zapfam Inc., and Arlington Mariveles Philippine GP Corporation. He is the President and CEO of AC Ventures Holding Corp. He is the Vice Chairman of Lagdigan Land Corporation. He is the President of Liontide Holdings, Inc. and of Philwater Holdings Company, Inc. He is a Director of Ayala Hotels, Inc., AC Energy, Inc., Ayala Aviation Corporation, AC Education, Inc., Asiacom Philippines, Inc., Ayala Group Legal, Michigan Holdings, Inc., AC Industrial Technology Holdings, Inc., Kauswagan Power GP Corp., A.C.S.T Business Holdings, Inc., LICA Management Inc., and Just For Kids, Inc. He is the Treasurer of Ayala Retirement Fund Holdings, Inc. He joined Ayala Corporation as a Managing Director in 1998. Prior to his appointment as CFO in April 2015, he held various responsibilities including President of BPI Family Savings Bank, President of BPI Capital Corporation, Officer-in-Charge for Ayala Life Assurance, Inc. and Ayala Plans, Inc., Trustee and Treasurer of Ayala Foundation, Inc., President of myAyala.com, and CFO of Azalea Technology Investments, Inc. He has held prior positions with JP Morgan & Co. and with BZW Asia. He graduated from Stanford University with a BS Mathematical Sciences (Honors Program) in 1984 and from the Wharton School of the University of Pennsylvania with an MBA (Finance and Investment Management) in 1988.

Ruel T. Maranan, Filipino, 55, has been a Managing Director of Ayala Corporation since January 2015. He also serves as President of Ayala Foundation, Inc. since March 1, 2015. He is also a member of the board of directors of Asticom Technology, Inc. and a member of the board of representatives of CIFAL Philippines. He was the Group Director of Manila Water Company, Inc. (MWC)'s Corporate Human Resources Group from 2004 to 2014. Before joining MWC, he was part of various organizations such as Globe Telecom, Inc., Vitarich Corporation, and Integrated Farm Management, among others. In MWC, he introduced numerous innovations in human resources management, rallying behind the company's being the first Filipino company to win the prestigious Asian Human Capital Award in 2011, an award sponsored by the Singapore Ministry of Manpower, CNBC Asia-Pacific, and INSEAD. Through his leadership in human resources, MWC was vested the 2006 Outstanding Employer of the Year by the People Management Association of the Philippines. Mr. Maranan earned his AB Social Sciences degree from the Ateneo de Manila University and his law degree from the University of Santo Tomas. The latter institution has recently granted him the UST 2016 Outstanding Alumni Award under Private Sector. He has also completed the Leadership Management Program under Harvard.

John Philip S. Orbeta, Filipino, 56, has served as a member of the Ayala Corporation Management Committee since May 2005 and the Ayala Group Management Committee since April 2009. He is currently the Managing Director, Chief Human Resources Officer and Group Head for Corporate Resources, covering Strategic Human Resources, Knowledge Management, Information & Communications Technology, AC Synergy and Corporate Support Services at Ayala Corporation. He is currently the Chairman of Ayala Aviation Corporation; Chairman and President of HCX Technology Partners, Inc.; and Vice Chairman of Ayala Group Club, Inc. Mr. Orbeta also serves as a Board Director of Ayala Group Legal, AC Industrial Technology Holdings, Inc., Ayala Healthcare Holdings, Inc., Ayala Retirement Fund Holdings, Inc., BPI Family Bank, Inc., ALFM Growth Fund, Inc., ALFM Money Market Fund, Inc., ALFM Peso Bond Fund, Inc., ALFM Dollar Bond Fund, Inc., ALFM Euro Bond Fund, Inc. and the Philippine Stock Index Fund

Corp. Mr. Orbeta previously served as the President and CEO of AC Industrial Technology Holdings, Inc. (formerly Ayala Automotive Holdings Corporation) and Automobile Central Enterprise, Inc. (Philippine importer of Volkswagen), and the Chairman and CEO of Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc. and Iconic Dealership, Inc. Prior to joining Ayala Corporation, he was the Vice President and Global Practice Director of the Human Capital Consulting Group at Watson Wyatt Worldwide (now Willis Towers Watson), overseeing the firm's practices in executive compensation, strategic rewards, data services and organization effectiveness around the world. He was also a member of Watson Wyatt's Board of Directors. He graduated with a degree in A.B. Economics from the Ateneo de Manila University in 1982.

Catherine H. Ang, Filipino, 47, has served as Executive Director and Chief Audit Executive of Ayala Corporation since July 2013. She joined the Company in February 2012 as Head for Risk Management and Sustainability. Currently, she also holds the following positions: Director of Technopark Land, Inc.; Audit and Risk Committee Member of Ayala Healthcare Holdings, Inc., AC Energy, Inc., AC Infrastructure Holdings Corporation, AC Industrial Technology Holdings, Inc., Affinity Express Holdings, Ltd., and Ayala Multi-Purpose Cooperative; Audit Committee Member of Light Rail Manila Corporation and AF Payments, Inc.; Audit Committee Chair and Good Governance Committee Vice Chairperson of FINEX; and a member of the Governance Committee of The Institute of Internal Auditors – Philippines (IIAP). She was also the 2016 Finance Committee Chair of FINEX Foundation, the 2015-2016 Institute of Corporate Directors' Scorecard Circle Chair, and the 2014 Chair of the Board of Trustees and a member of the Board of Directors from 2009 to 2013 of IIAP. Prior to joining Ayala Corporation, she was the Chief Audit Executive of Globe Telecom, Inc. where she started as an Internal Audit Manager in 1996 and rejoined the company in 2000. In 1998, she joined PricewaterhouseCoopers - Singapore as Manager for Operational and Systems Risk Management. She started her career at SGV & Co in 1991 as a financial and IT auditor. She is a Certified Public Accountant, a Fellow of the Institute of Corporate Directors, a qualified Crisis Communication Planner, and holds an Associate (Level 1) Certification from Global Innovation Management Institute (GIMI). She graduated magna cum laude from Saint Louis College in 1991 with a degree in Bachelor of Science in Commerce major in Accounting.

Ma. Cecilia T. Cruzabra, Filipino, 52, has served as Executive Director and Treasurer of Ayala Corporation since January 1, 2014. Currently, she also holds the following positions: Treasurer of ACST Business Holdings, Inc., AC Infrastructure Holdings Corporation, AC Ventures Holding Corporation, Ayala Foundation, Inc., Azalea International Venture Partners, Ltd., Lagdigan Land Corporation, Liontide Holdings, Inc. and Asiacom Philippines, Inc.; Chief Finance Officer of Ayala Group Club, Inc.; Chief Finance Officer, Treasurer and Director of Philwater Holdings Company, Inc.; Director and Treasurer of Michigan Holdings, Inc., Pameka Holdings, Inc. and Technopark Land, Inc.; Director of AYC Finance, Ltd., AYC Holdings Limited, MCX Tollway, Inc. and Zapfam, Inc. She is also an Adjunct Faculty at the Asian Institute of Management. Prior to joining Ayala, she was the Director and Treasurer of Halo Holdings and the Subsidiaries and the Corporate Finance Head of ALC Explo and General Services, Inc. and the Chairman of the Board and President of Altimax Broadcasting Co., a subsidiary of Halo Holdings. She also served as the Treasury and Enterprise-Wide Risk Management Head of Globe Telecom, Inc. from 1997 to 2006. She earned a degree in Bachelor of Arts in Economics (Honors Program) from Ateneo de Manila University in 1986 and took her Master's in Business Management at the Asian Institute of Management in 1990.

Josephine G. De Asis, Filipino, 46, has been the Controller of Ayala Corporation since August 2012. Currently, she also holds the following positions: Chairwoman of PPI Prime Venture, Inc.; Director and Chief Finance Officer of Pameka Holdings, Inc.; Director of Azalea International Venture Partner Ltd., Darong Agricultural & Development Corporation, Technopark Land, Inc., and Zapfam, Inc.; Chief Finance Officer of Azalea International Venture Partner Ltd. and Michigan Holdings, Inc.; Treasurer and Chief Finance Officer of AG Counselors Corporation; and Audit and Risk Committee Member of AC Energy, Inc. and AC Infrastructure Holdings Corporation. Prior to joining Ayala Corporation, she served as the Head of Financial Control Division of Globe Telecom, Inc. from 2010 to 2012 and Controller of the Wireless Business of Globe Telecom, Inc. from 2005-2010. She is a Certified Public Accountant. She graduated with a degree in BS Accountancy (summa cum laude) from Polytechnic University of the Philippines in 1991 and attended an Executive Management Program from the University of California Los Angeles in 2004-2005.

Dodjie D. Lagazo, Filipino, 38, Filipino, has served as Assistant Corporate Secretary of Ayala Corporation since April 2015. He is the Group Head for Legal and Regulatory, as well as the Assistant Corporate Secretary, of AC Energy, Inc. (formerly AC Energy Holdings, Inc.). He also serves as the Corporate Secretary of the various AC Energy subsidiaries and affiliates. He was a Director of Ayala Group Legal's management committee from January 2014 to July 2017. Prior to joining the Ayala Group, he was an associate at SyCip Salazar Hernandez & Gatmaitan. He received his undergraduate degree in Political Science from the University of the Philippines, Diliman, graduating

magna cum laude. He then completed his Bachelor of Laws Degree in the College of Law of the University of the Philippines, Diliman, ranked sixth in the graduating class of 2003. He is a member in good standing of the Integrated Bar of the Philippines.

Joanne M. Lim, Filipino, 35, has served as Assistant Corporate Secretary of Ayala Corporation since June 2016. She is also the Assistant Corporate Secretary of Integrated Micro-Electronics, Inc, AC Industrial Technology Holdings, Inc., Ayala Healthcare Holdings, Inc., AC Education, Inc., AC Ventures Holdings Corp., LiveIt Investments Limited, and other companies within the Ayala Group to which she also provides other legal services. She is a Senior Counsel at Ayala Group Legal. Prior to joining Ayala Group Legal in 2015, she was a Project Legal Advisor for CFT Transaction Advisors. She served as Director of the Legal Affairs Office of the Department of Finance from 2011 to 2013 and was an Associate at SyCip, Salazar, Hernandez & Gatmaitan Law Offices from 2007 to 2010. She obtained her Bachelor of Laws degree in 2007 and her Bachelor of Arts degree in Broadcast Communication (*magna cum laude*) in 2003, both from the University of the Philippines, Diliman. She has a Master of Laws degree in Global Business Law from New York University and a Master of Laws degree in Corporate and Financial Services Law from National University of Singapore. She was admitted to the Philippine Bar in 2008 and to the New York State Bar in 2015.

ANNEX “B”

MANAGEMENT REPORT

I. MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) OF FINANCIAL CONDITION AND RESULTS OF OPERATION

2017

Ayala Corporation recorded a net income of ₱30.3 billion in 2017, climbing 16 percent from the previous year on the back of robust double-digit growth of its real estate and power businesses.

Consolidated Sales of Goods and Services

Sales of goods and services climbed 22 percent to ₱242.2 billion, on the back of higher sales in all housing, residential, and condominium units of Ayala Land; strong vehicle sales across AC Industrials’ automotive brands; and the improved output of Integrated Micro-Electronics’ automotive electronics and industrial segments, as well as the consolidation of its new subsidiary. In addition, higher service revenues from AC Energy, primarily from the consolidation of its new subsidiary and Retail Electricity Supply (RES) unit, as well as from IMI and Manila Water, contributed to this. The account stands at 91 percent of Ayala’s total revenues for 2017.

Real Estate

The resurgence of property sales combined with a solid leasing business drove Ayala Land’s net earnings during the year, jumping 21 percent to ₱25.3 billion.

Revenues from property development, which includes residential and office-for-sale developments, as well as commercial lot sales, rose 23 percent to ₱101.5 billion on new bookings and project completion. Growth in reservation sales bounced back to double-digit levels during the year at 13 percent, reaching ₱122 billion.

Commercial leasing revenues, meanwhile, grew 10 percent to ₱31 billion driven by new mall openings, stabilized occupancy of office spaces, and the improved performance of its hotels and resorts portfolio.

Ayala Land’s strategy to rebalance its net income mix is increasingly taking shape. In terms of location, established estates (Makati, Nuvali, Bonifacio Global City, Alabang and Cebu) accounted for 54 percent, while new estates and growth centers made up for 46 percent of Ayala Land’s net earnings in 2017. In terms of business line, Ayala Land’s recurring income (mall and office leasing, hotels and resorts, and property management segments) accounted for 35 percent, while development income (property sales and construction) contributed 65 percent of Ayala Land’s net income during the year.

Ayala Land spent ₱91.4 billion in capital expenditure during the year. It launched 28 residential projects amounting to ₱88.8 billion. In leasing, it opened five new malls with 189,000 in gross leasable area, and six new offices with 185,000 in gross leasable area. In addition, it opened six new hotel and resort facilities, adding 556 rooms to its portfolio in 2017.

Water

Manila Water posted a muted net income growth of one percent to ₱6.2 billion as higher operating expenses and business development costs tempered topline growth during the year.

Revenues rose five percent to ₱18.5 billion, bolstered by strong revenue contributions from Laguna Water and Boracay Water, as well as higher supervision fees recognized by Estate Water balancing out flat revenue growth in the Manila Concession.

Operating expenses expanded 19 percent to ₱7.4 billion on higher overhead costs owing to Estate Water’s expansion, business development costs, and a one-time write-off of uncollectible accounts in Laguna Water.

Manila Water posted higher billed volume across all its business lines, with the non-Manila Concession posting strong double-digit billed volume growth. This brought total billed volume to 738.7 million cubic meters, three percent higher

year-on-year. In the Manila Concession, the two percent-increase in billed volume helped offset the impact of tariff reduction.

Manila Water continues to intensify its infrastructure build-up with a 48 percent expansion in capital expenditures. Last year, the Manila Concession completed the Marikina North Sewerage Treatment Plant, while the Pasig North and South System Project is scheduled for completion in November 2019. Both projects have a capacity of 100 million liters per day.

Further, Manila Water received a notice of award from the City of Ilagan Water District to establish a joint venture for a bulk water supply and septage management company. Manila Water also received a notice of award from the Leyte Metropolitan Water District to establish a joint venture for a concession company. As part of its ongoing expansion in Southeast Asia, Manila Water is establishing a footprint in Thailand with the signing of a share purchase agreement in February to acquire an 18.72 percent stake in Eastern Water Resources Development and Management Public Company Limited, a publicly-listed water supply and distribution company in Thailand.

Industrial Technologies

AC Industrials registered a net income of ₱1.2 billion, up four percent from its year-ago level, on the better performance of both its electronics manufacturing and vehicle retail units.

IMI's net earnings expanded 21 percent to US\$34 million on the back of solid revenue growth, which exceeded the US\$1 billion mark during the year. This topline growth was driven by contribution from recent acquisitions and sustained growth in the automotive and industrial markets.

Last February, IMI successfully completed its ₱4.998 billion rights offer with the issue of 350 million common shares to existing shareholders. AC Industrials, which previously held 50.6 percent of IMI's outstanding shares, subscribed to its proportionate share, as well as any unsubscribed rights shares. This raised its stake in IMI to 52 percent. Proceeds of the rights offer will be used to fund IMI's capital expenditure program and for debt refinancing.

Meanwhile, revenues from AC Automotive expanded 37 percent to ₱31.2 billion, boosted by strong sales across all brands—Honda, Isuzu, Volkswagen, and KTM.

AC Industrials continues to ramp up its portfolio in global and domestic industrial technologies by capitalizing on opportunities arising from disruptive technological shifts, changing industry landscapes, and increasing demand from end-users. Last month, AC Industrials acquired a controlling stake in Merlin Solar Technologies Inc., with an ownership interest of 78.2 percent after the close of the transaction and completion of other related activities. Merlin is an emerging company that is developing differentiated solar solutions resulting in products with high durability, flexibility, and increased solar power output, allowing for potentially innovative applications in areas with demanding environments, such as transportation and infrastructure. Headquartered in San Jose, California, Merlin currently has additional manufacturing facilities in Thailand.

Power Generation

AC Energy's net earnings jumped 31 percent to ₱3.5 billion in 2017, primarily driven by fresh equity earnings contribution from its geothermal platform, and boosted by solid contributions from its wind energy assets.

A strong wind regime bolstered the better performance of NorthWind and North Luzon Renewables during the year. Services income derived from the financial close of a new power plant likewise contributed to AC Energy's net earnings.

AC Energy continues to execute on its diversification strategy. Following the acquisition of Salak and Darajat Geothermal in Indonesia in early 2017, AC Energy is assembling a portfolio of renewable energy assets in Southeast Asia. It is developing a 75 megawatt wind project in Sidrap, Indonesia, which is expected to come online in the first quarter of 2018.

Last January, AC Energy, in partnership with BIM Group of Vietnam, agreed to jointly develop over 300 megawatts of solar power projects in Ninh Thuan province, Vietnam. The initial 30 megawatts of the solar project broke ground,

with investment for this phase expected to reach 800 billion VND and to be completed within the year. The solar project is envisioned to be expanded by an additional 300 megawatts.

Similarly, AC Energy is boosting its conventional energy portfolio. Last December, the project financing for the second unit of its 2 x 668 MW super-critical coal fired power plant in Bataan, GNPowder Dinginin, achieved financial close. AC Energy has approximately 50 percent economic stake in the project, which has an estimated cost of US\$1.7 billion. The project will support the increasing electricity demand of Luzon and Visayas. Construction of the first unit is well underway, and is targeted for commercial operations by 2019, with the second unit scheduled for completion by 2020.

Share of Profit of Associates and Joint Ventures

Share of profits of associates and joint ventures reached ₱18.5 billion, up two percent, primarily on the steady increase of equity earnings from investees of Ayala Land and AC Energy, and the better performance of BPI. This was partially offset by a slight decline in share in earnings from Globe.

Banking

Bank of the Philippine Islands recorded a net income of ₱22.4 billion, up 1.7 percent from its year-ago level, as the absence of one-off gains tempered strong growth in its core banking business during the year. Excluding one-off gains from the sale of securities in 2016, net income grew 31 percent in 2017.

Total revenues rose seven percent to ₱71 billion as net interest income expanded 13 percent to ₱48 billion driven by asset growth and improvement in net interest margin. Non-interest income, meanwhile, dropped five percent to ₱22.9 billion on the absence of significant trading gains registered in 2016. This was partially offset by the bank's higher fee-based income, which grew 16 percent to ₱19.9 billion, lifted by higher credit card fees, trust and investment management fees, insurance fees, bank commissions, and service charges.

BPI continues to be a leader in profitability metrics, with cost-to-income ratio at 54.3 percent, slightly higher from the 52.5 percent posted a year ago, mainly driven by its digitalization initiatives.

Total loans jumped 16 percent to ₱1.2 trillion, boosted by corporate loans. Asset quality improved with the gross 90-day non-performing loans ratio declining from 1.46 percent to 1.29 percent and reserve cover ratio increasing from 119 percent to 129 percent.

Last year, BPI announced the creation of a business banking segment, a new client group focused on the banking needs of the country's small and medium scale enterprises. It also raised a record ₱12.2 billion from its offering of long-term negotiable certificates of time deposit, the largest issuance by far in the industry.

Last January, the bank announced a stock rights offering of up to ₱50 billion to support its strategic initiatives, including the strengthening of its market-leading businesses and core franchises through the expansion of lending activities across consumer, SME, and microfinance segments to capture positive momentum in the domestic economy. In addition, the stock rights offer will strengthen BPI's capital base as it pursues its growth strategy in the medium term. Ayala has signified its participation in the rights offering.

Telecom

Globe Telecom's net earnings dropped five percent to ₱15.1 billion in 2017 due to higher operating expenses and depreciation charges as a result of increased investments in its data network.

Topline growth, however, remains strong, with service revenues reaching ₱127.9 billion during the year, up six percent year-on-year. This was fueled by sustained demand for data-related products. Mobile revenues grew seven percent to ₱98.5 billion. Globe's mobile subscriber base reached 60.7 million at the end of 2017, three percent lower from a year ago. The decline in the cumulative mobile subscriber base was a result of the change in reporting Globe's prepaid subscribers in 2017, which excluded prepaid subscribers who do not reload within 90 days of the second expiry period. Mobile data continues to drive Globe's total mobile revenues, accounting for 44 percent from 38 percent a year ago.

Globe's home broadband segment posted a seven percent increase in revenues to ₱15.6 billion in 2017. Total home broadband subscribers climbed 15 percent to 1.3 million year-on-year, putting Globe on track with its target to provide internet service to two million homes by 2020. Corporate data business increased four percent from a year ago to ₱10.3 billion owing to strong demand for data-driven solutions by corporates.

Globe's consolidated EBITDA improved seven percent to ₱53.3 billion, while EBITDA margin stood at 42 percent from 41 percent in the previous year.

Globe spent around ₱42.5 billion in capital expenditure in 2017 to support its continuous network infrastructure enhancement. It launched new products to enable the Filipino digital lifestyle, including Mynt's rollout of the GCash scan-to-pay system in malls, fast food chains, major retailers, and convenience stores.

Other Income (Charges)

Other income surged 66 percent to ₱20.9 billion in 2017, as compared to ₱12.6 billion in the previous year. This was largely attributed to income from higher rehabilitation works of Manila Water; the reversal of impairment provision for a real estate property and higher management and marketing fees of Ayala Land; commission fees of AC Energy; and gains on disposal of certain investments of AG Holdings. Other charges which pertain to rehabilitation works consequently increased in 2017.

Costs and Expenses

Consolidated cost of sales for the year stood at ₱175.7 billion, a 24 percent increase, brought about by higher sales from the real estate segment, particularly in lots and residential units, AC Industrials' electronic manufacturing and automotive retail businesses, and stronger service revenues of the energy group.

Consolidated general and administrative expenses rose 20 percent to ₱25.2 billion. This was a result of combined increments in the groups expenses, particularly from Ayala Land's contracted services, professional fees, taxes, retirement, and trainings; the parent's, AC Energy's, and Manila Water's manpower, insurance costs, depreciation expenses, as well as Manila Water's AR provisions; AC Industrials' automotive business' marketing and promotional expenses, and IMI's manpower costs and professional and management fees. This also includes the impact of consolidation of IMI and AC Energy's new subsidiaries.

Balance Sheet Highlights

Ayala's balance sheet remains at a healthy level, allowing it to continue supporting its investments and meet its debt and dividend obligations.

Investments in associates and joint ventures rose to ₱202.6 billion, as a result of new investments made by AC Energy, AC Ventures, and Ayala Land. The parent's share in net earnings from BPI and Globe, as well as existing investees of Ayala Land, Manila Water, AC Energy, and AC Infrastructure, also contributed to growth, tempered in part by Bestfull's disposal of certain investments.

Investments in property jumped 24 percent to ₱137.7 billion through the real estate unit's expansion projects in malls, office properties, and select land development. Meanwhile, investments in property and equipment recorded a 33 percent increase to ₱85.4 billion. This was lifted by AC Energy's construction of power plants for GNP Kauswagan, Ayala Land's capex for hotels and resorts, IMI's new capital spending for its Europe and Mexico sites, and Manila Water's expansion projects. The impact from the consolidation of AC Energy's and IMI's new subsidiaries also factored in this account's growth.

At the end of 2017, total debt at the consolidated level stood at ₱350.6 billion, a 19 percent increase from the December 2016 level of ₱295.9 billion. This was due to capital-raising exercises by the parent, AYC, and Ayala Land, as well as borrowings for expansion projects of the real estate, energy, and water segments. Total assets crossed the ₱1 trillion mark in 2017.

Cash at the parent level reached ₱18.6 billion, while net debt stood at ₱64.7 billion. Net debt-to-equity ratio was 0.68 at the consolidated level, and 0.59 at the parent level. Ayala's loan-to-value ratio, or the ratio of the parent net debt to the total value of its investments, was 6.4 percent as of end-December 2017.

Outlook for 2018

2017 marked a year of stronger-than-expected, broad-based economic growth for the world, with a recovery in global trade, investment, and manufacturing. This is expected to continue in the short-term, though medium-term prospects are somewhat more muted. Asia continues to remain a bright spot in the global economy.

The Philippines continues to grow at a healthy pace. Already-robust domestic consumption is expected to increase further, supported by the passage of the first package of the government's tax reform program. Some pockets of uncertainty remain, particularly in external and internal policy that may affect trade, and the local business and investment climate. As such, the group will continue to monitor relevant global and domestic macroeconomic indicators that may have an effect on its businesses.

Ayala remains overall positive about the macroeconomic environment and its prospects for growth as it continues to execute on its five-year growth strategy through 2020.

Ayala maintains a healthy balance sheet with access to various funding options to meet requirements. A robust risk management system allows the company to maximize opportunities for reinvention, and navigate the challenges faced by its business units.

Key performance indicators of the Company and its significant subsidiaries

The table sets forth the comparative key performance indicators of the Company and its significant subsidiaries.

Ayala Corporation (Consolidated)

(In million pesos, except ratios)	2017	2016	2015
Income	266,786	222,944	193,173
Net Income Attributable to Equity Holders	30,264	26,011	22,279
Total Assets	1,021,546	911,705	794,075
Total Debt	350,612	295,854	263,341
Stockholders' Equity ¹	256,348	230,923	208,657
Current Ratio ²	1.31	1.22	1.28
Debt to Equity Ratio ³	1.37	1.28	1.26

Ayala Land, Inc.

(In million pesos, except ratios)	2017	2016	2015
Revenue	139,373	123,266	105,693
Net Income Attributable to Equity Holders	25,305	20,908	17,630
Total Assets	573,992	536,433	442,342
Total Debt	174,386	159,801	130,996
Stockholders' Equity ¹	166,755	147,705	133,731
Current Ratio ²	1.18	1.12	1.14
Debt to Equity Ratio ³	1.05	1.08	0.98

Integrated Micro-Electronics, Inc.

(In thousand US dollars, except ratios)	2017	2016	2015
Revenue	1,090,588	842,966	814,364
Net Income Attributable to Equity Holders	34,002	28,116	28,790
Total Assets	921,351	639,128	516,535
Total Debt	300,154	180,774	119,899
Stockholders' Equity ¹	273,739	236,606	232,243
Current Ratio ²	1.28	1.51	1.54
Debt to Equity Ratio ³	1.10	0.76	0.52

Manila Water Company, Inc.

(In million pesos, except ratios)

	2017	2016	2015
Revenue	18,516	17,712	16,936
Net Income Attributable to Equity Holders	6,147	6,065	5,958
Total Assets	102,482	85,479	80,608
Total Debt	39,724	27,619	26,220
Stockholders' Equity ¹	47,555	43,384	38,825
Current Ratio ²	1.19	1.10	0.80
Debt to Equity Ratio ³	0.84	0.64	0.68

¹ Stockholders' Equity attributable to owners of the Parent.² Current Assets/ Current Liabilities.³ Total Debt/ Stockholders' Equity¹ (Total Debt includes short-term debt, long-term debt and current portion of long-term debt).**Causes for any material changes****(Increase or decrease of 5% or more in the financial statements)**

The audited consolidated financial statements show several significant increases in Balance Sheet and Income Statement accounts (vs. December 31, 2016 balances) relating to the following acquisitions of certain subsidiaries:

1. AC Energy Inc.'s (ACEI's) acquisition of 100% ownership of Visayas Renewable Corp. (VRC) (formerly Bronzeoak Clean Energy), AC Energy DevCo Inc. (AEDCI) (formerly San Carlos Clean Energy), SCC Bulk Water Supply, Inc. (SCC) and Solienda, Inc. (Solienda) and 66% in Manapla Sun Power Development Corp. (MSPDC);
2. IMI's acquisition of 80% stake in Surface Technology International Enterprises Limited (STI); and
3. AC Industrial's acquisition of 94.9% ownership of MT Misslbeck Technologies GmbH.

Balance Sheet Items**As of December 31, 2017 (Audited) vs. December 31, 2016 (Audited)****Cash and cash equivalents – 7% increase from ₱60,223 million to ₱64,259 million**

Increase arising from: issuance of bonds by AC's P10.0B and AYC's USD 400M fixed for life (FFL) – both used for pre-termination of more expensive loans, infusion into Energy projects and new investment initiatives (Zalora & Mynt); ALI's P7.0B Homestarter bonds and LT debt drawdowns to fund expansion projects/ property acquisition and ST loan payments; MWC's new loans to fund maturing loans, CAPEX and expansion projects; ACI/Automotive's higher sales; and IMI's consolidation of a subsidiary. This account is at 6% and 7% of the total assets as of December 31, 2017 and 2016, respectively.

Short-term investments – 435% increase from ₱1,009 million to ₱5,400 million

Increase due to increase in ALI's investments partially offset by AYC's maturity of short-term investments. This account is at less than 1% of the total assets as of December 31, 2017 and 2016.

Accounts and notes receivable (current) – 6% increase from ₱116,842 million to ₱124,109 million

Increase resulting from surge in sales and impact of consolidation of new subsidiary of IMI; higher sales of ACI/Automotive; ACEHI's impact of consolidation of new subsidiary and RES business; and higher sales in ALI less sale of receivables to banks and reclassification of receivables to noncurrent; partially offset by MWC's decline due to provisions. This account is at 12% and 13% of the total assets as of December 31, 2017 and 2016, respectively.

Other Current Assets – 35% increase from ₱33,638 million to ₱45,325 million

Increase pertains to ALI group's higher input tax, prepayments and project costs; ACEHI's and IMI's higher prepayments and input taxes; BHL's additional infusion in certain FVPL investments; and reclassification of AC Education's total assets into other current assets held for sale following the announcement of a potential merger transaction. This account is at 4% of the total assets as of December 31, 2017 and 2016.

Accounts and notes receivable (non-current) – 25% increase from ₱36,484 million to ₱45,774 million

Increase attributable to ALI's growth in real estate sales, following the introduction of new longer payment terms resulting to the reclassification of trade receivables from current accounts. This account is at 4% of the total assets as of December 31, 2017 and 2016.

Investments in associates & joint ventures – 12% increase from ₱180,314 million to ₱202,649 million

Growth was attributable to new and additional investments of ACEHI (Chevron and UPC Sidrap units), AC Ventures (Zalora and Mynt accounts) and ALI (Eton); plus share in net earnings from BPI, Globe, and from existing investees of ALI, MWC, ACEHI, Infra groups; partially offset by BHL's partial disposal of investments (Vinaphil/ CII). This account is at 20% of the total assets as of December 31, 2017 and 2016.

Investment Properties – 24% increase from ₱110,917 million to ₱137,658 million

Increase related to ALI group's expansion projects mainly on malls, office properties and certain land development. This account is at 13% and 12% of the total assets as of December 31, 2017 and 2016, respectively.

Property, plant and equipment – 33% increase from ₱64,074 million to ₱85,431 million

Increase coming from ACEHI's construction of power plants for GNP Kauswagan's coal investment; ALI's capital expenditures for its hotels and resorts operations; IMI's new capex for Europe and Mexico sites; and MWC's expansion project; plus impact of consolidation of new subsidiaries of ACEHI, IMI and ACI/Automotive. This account is at 8% and 7% of the total assets as of December 31, 2017 and 2016, respectively.

Service concession assets – 10% increase from ₱82,422 million to ₱91,050 million

Increase attributable to MWC's additional service concession assets. This account is at 9% of the total assets as of December 31, 2017 and 2016.

Intangible assets – 72% increase from ₱9,716 million to ₱16,705 million

Higher balance pertains to goodwill arising from new investments: IMI's Via and STI acquisitions (net of ₱2.9B), ACEHI's acquisitions in VRC, AEDCI, SCC, Solienda and MSPDC (₱2.2B), and BHL's intangibles (₱0.6B); plus ALI's incremental leasehold rights (₱0.9B). This account is at 2% and 1% of the total assets as of December 31, 2017 and 2016, respectively.

Pension and other noncurrent assets - 22% decrease from ₱25,847 million to ₱20,054 million

Decrease due to ALI's decline in advances/project development costs; ACEHI's use of cash deposit to fund investment in an associate; BHL's net disposal of investment; partially offset by MWC's increase in relation to deposit for land acquisition. The account also includes the Group's pension asset amounting to ₱98 million.⁹ This account is at 2% and 3% of the total assets as of December 31, 2017 and 2016, respectively.

Income tax payable – 25% decrease from ₱2,270 million to ₱1,710 million

Decline mainly arising from lower tax payable of ALI group. This account is less than 1% of the total liabilities as of December 31, 2017 and 2016.

Long-term debt (current) – 31% decrease from ₱19,793 million to ₱13,732 million

Decrease on account of AC's settlement of bonds due 2017; partially offset by increase in loans due to additional borrowings of ALI, MWC and ACEHI including impact of revaluation of certain foreign currency denominated loans and reclassification from noncurrent account. This account is at 2% and 4% of the total liabilities as of December 31, 2017 and 2016, respectively.

Service concession obligation (current) – 7% increase from ₱754 million to ₱804 million

Increase was due to MWCI's higher computed and actual obligation due within one year. This account is at less than 1% of the total liabilities as of December 31, 2017 and 2016.

⁹ The Company's pension fund is known as the AC Employees Welfare and Retirement Fund (ACEWRF). ACEWRF is a legal entity separate and distinct from the Company, governed by a board of trustees appointed under a Trust Agreement between the Company and the initial trustees. It holds common and preferred shares of the Company in its portfolio. All such shares have voting rights under certain conditions, pursuant to law. ACEWRF's portfolio is managed by a committee appointed by the fund's trustees for that purpose. The members of the committee, all of whom are Managing Directors of the Company, are Jose Teodoro K. Limcaoco. (the Company's Chief Finance Officer, Chief Risk Officer & Finance Group Head), Solomon M. Hermosura (the Company's Group Head of Corporate Governance, General Counsel, Corporate Secretary & Compliance Officer), John Philip S. Orbeta (the Company's Head for Strategic Human Resources), Ma. Cecilia T. Cruzabara (the Company's Treasurer), and Josephine G. de Asis (the Company's Comptroller). ACEWRF has not exercised voting rights over any shares of the Company that it owns.

Other current liabilities – 48% increase from ₱17,523 million to ₱25,984 million

Increase due to ALI's and ACI/ Automotive's higher customer deposits; impact of consolidation of new subsidiaries of IMI; and AC Ventures' subscription payable for new investments. This account is at 4% and 3% of the total liabilities as of December 31, 2017 and 2016, respectively.

Long-term debt (noncurrent) – 25% increase from ₱245,203 million to ₱306,975 million

Increase contributed by bond issuance of AC, AYC and ALI including the latter's long-term notes; plus long-term borrowings for expansion projects of ALI, ACEHI and MWC. This account is at 50% and 45% of the total liabilities as of December 31, 2017 and 2016, respectively.

Service concession obligation (non-current) – 14% increase from ₱6,823 million to ₱7,748 million

Increase was due to MWCI's higher computed actual obligation. This account is at 1% of the total liabilities as of December 31, 2017 and 2016.

Deferred tax liabilities – 15% decrease from ₱9,544 million to ₱8,108 million

Decrease attributable to ALI's and MWC's groups decrease in DTL. This account is at 1% and 2% of the total liabilities as of December 31, 2017 and 2016, respectively.

Pension liabilities¹ – 5% increase from ₱2,469 million to ₱2,601 million

Increase due to net adjustment in deferred tax of ACI/Automotive and AC. This account is at less than 1% of the total liabilities as of December 31, 2017 and 2016.

Other noncurrent liabilities – 6% increase from ₱40,870 million to ₱43,234 million

Increase primarily due to ALI's higher real estate deposits; and IMI's higher balances arising from consolidation of new subsidiaries; partially offset by MWC's reclassification of deposit to accounts payable account. This account is at 7% and 8% of the total liabilities as of December 31, 2017 and 2016, respectively.

Cost of share based payments – 50% decrease from ₱496 million to ₱248 million

Additions from exercise of stock ownership plans granted during the period was reduced by the adjustment on cost of share based recognized in 2017 following the change on certain valuation assumptions to align with same changes in the stock ownership plan of AC. This account is at less than 1% of the total equity as of December 31, 2017 and 2016.

Remeasurement gains (losses) on defined benefit plan – 16% increase from negative ₱1,548 million to negative ₱1,303 million

Increase attributable to the effect of PAS 19- immediate recognition of service cost and re-measurement of unrealized actuarial gains/losses.

Net unrealized gains (losses) on available-for-sale financial assets – 137% decline from negative ₱467 million to negative ₱1,108 million

Decline pertains mainly to realized gain recognized in P&L by BHL and AC upon disposal of certain AFS investments; partially offset by increase in the market value of securities held by BPI group as AFS financial assets. This account is at less than 1% of the total equity as of December 31, 2017 and 2016.

Cumulative translation adjustments - 98% increase from ₱1,415 million to ₱2,794 million

Increase due to upward impact of net foreign assets, significantly coming from ALI, IMI, ACI/Automotive groups and ACIFL and BHL. Forex of PhP vs US\$ increased causing higher CTA figure (₱49.93 in December 2017 vs. ₱49.72 in December 2016). This account is at less than 1% of the total equity as of December 31, 2017 and 2016.

Equity Reserve - 5% decrease from ₱12,211 million to ₱11,600 million

Decrease related to equity transactions for investments of ALI (POPI and CHI) and IMI (STI). This account is at 3% of the total equity as of December 31, 2017 and 2016.

Retained earnings – 17% increase from ₱145,622 million to ₱170,302 million

Increase represents share in full year 2017 group net income net of dividends declared. This account is at 41% and 39% of the total equity as of December 31, 2017 and 2016, respectively.

Non-controlling interests – 10% increase from ₱140,073 million to ₱154,745 million

Higher amount represents share in full year 2017 group net income and OCI net of dividends declared by subsidiaries to its non-controlling interests. This account is at 38% of the total equity as of December 31, 2017 and 2016.

Income Statement items

For the Period Ended December 31, 2017 (Audited) vs. December 31, 2016 (Audited)

Sale of goods and rendering services – 22% increase from a total of ₱199,209 million to ₱242,228 million

Growth in sale of goods came primarily from higher sales of: ALI group (higher lot sales, all segment of housing, residential and condo units); IMI group (consolidation of its new subsidiary and better output of its automotive electronics and industrial segments); and ACI/ Automotive group (vehicle sales across brands plus notable sales for motorcycles). Higher revenues from rendering of services of ACEHI group primarily coming from consolidation of new subsidiary and its RES unit; and higher revenues of IMI and MWCI. As a percentage to total income, this account is at 84% in December 31, 2017 and 2016.

Dividend and other income – 64% increase from ₱13,146 million to ₱21,592 million

Increase due to MWC's higher rehabilitation works (₱5.0B increase); ALI's reversal of impairment provision for a real estate property based on latest appraisal report, higher management, marketing fees and investment related gain (₱1.7B increase); IMI's forex gain and MTM valuation of certain investment account (₱652M increase); BHL's divestments gain (₱544M increase); ACEHI's fee from services rendered that marked the financial closing and construction of power project and higher dividend income (₱266M increase). This account is at 7% and 6% of the total income in December 31, 2017 and 2016, respectively.

Cost of sales and rendering services – 24% increase from ₱141,350 million to ₱175,674 million

Increase resulting from higher sales of ALI arising from lot sales and residential units, and higher sales of IMI and ACI/Automotive group and higher service revenues of ACEHI. As a percentage to total costs and expenses, this account is at 77% in December 31, 2017 and 2016.

General and administrative expenses – 20% increase from ₱20,933 million to ₱25,213 million

Increase mainly on combined increments in the group's expenses specifically from: ALI (contracted services, professional fees, taxes, retirement and trainings), AC, ACEHI and MWC (manpower, insurance costs, depreciation expenses plus AR provisions for MWCI), ACI/ Automotive (marketing and promo expenses) and IMI (manpower costs, professional/ management fees) including impact of consolidation of new subsidiaries of IMI and ACEHI. As a percentage to total costs and expenses, this account is at 11% in both December 31, 2017 and 2016.

Other charges – 72% increase from ₱6,805 million to ₱11,672 million

Increase due to higher rehabilitation works costs of MWC. As a percentage to total costs and expenses, this account is at 5% and 4% both in December 31, 2017 and 2016, respectively.

Provision for income tax (current and deferred) – 17% increase from ₱10,507 million to ₱12,260 million

Increase primarily due to higher taxable income of several subsidiaries significant portion is attributable to ALI group on account of better sales and other operating results.

Income attributable to Owners of the parent – 16% increase from ₱26,011 million to ₱30,264 million

Increase resulting from better performance of most subsidiaries of the Group.

Income attributable to Non-controlling interests – 12% increase from ₱17,421 million to ₱19,603 million

Increase resulting from better operating results of most of the subsidiaries of the Group.

2016

Ayala Corporation's net income expanded 17 percent to ₱26 billion in 2016, driven by the robust contributions of its real estate and financial services units, as well as the solid performance of its power generation and industrial technologies businesses.

In 2016, the company capped its five-year target, with net income expanding nearly threefold and a 23 percent annual compounded growth rate since its five-year plan was put in place in 2011. This was achieved through Ayala's disciplined execution of its strategy, amid a strong domestic environment.

Consolidated Sale of Goods and Services

Sales of goods and rendering services climbed 14 percent to ₱199.2 billion in 2016, largely due to the sustained growth of its real estate business and higher sales across Ayala Automotive's brands. This was further boosted by strong revenues particularly from IMI's European operations, and the contributions of its new subsidiary. This accounted for 84 percent of total income in 2016.

Real Estate

Ayala Land recorded a net income of ₱20.9 billion, growing 19 percent from a year ago, boosted by strong improvements in its property development and commercial leasing businesses.

The steady traction of Ayala Land's residential and office sale segments, combined with commercial and industrial lot sales, lifted property development revenues to ₱79.2 billion, 17 percent higher year-on-year.

Residential revenues rose 12 percent to ₱65.1 billion on higher bookings and newly completed projects. Office for sale revenues surged 27 percent to ₱8.8 billion, mainly supported by Alveo Park Triangle Towers. Meanwhile, commercial and industrial lot revenues doubled to ₱5.9 billion owing to strong lot sales in Arca South, Altaraza, and Naic, Cavite.

Ayala Land continues to build up its recurring income portfolio. Revenues from mall leasing grew 12 percent to ₱15 billion on the improved performance of established malls and contributions from newly opened malls. Office leasing revenues, meanwhile, increased 7 percent to ₱5.5 billion as new office developments came on stream. Revenues from hotels and resorts were steady at ₱6 billion. On a consolidated basis, Ayala Land's recurring income business accounted for 31 percent of its net income during the year.

Ayala Land launched 43 projects valued at ₱88 billion during the year, ₱62 billion of which accounted for residential and office for sale projects. It spent ₱85.4 billion in capital expenditures and introduced two key mixed-use developments—One Ayala in Makati Central Business District and the 17.5-hectare Gatewalk Central in Mandaue, Cebu. Ayala Land currently has 20 estates in key growth centers in the country.

Ayala Land plans to complete seven shopping centers this year with a total gross leasable space of 224,000 square meters. These include the recently opened Ayala Malls The 30th in Pasig, as well as Ayala Malls Vertis North in the Quezon City central business district, Ayala Malls Feliz in Cainta, and Ayala Malls One Bonifacio High Street in Bonifacio Global City, among others. In addition, it expects to complete a total of 185,000 square meters of gross leasable office space in locations like Vertis North, Circuit Makati, and The 30th in Pasig this year and 837 hotel and resort rooms in various locations such as Vertis North in Quezon City, Bacolod, El Nido, Palawan, and Sicogon Island in Iloilo.

Water

Manila Water's net income reached ₱6.1 billion, up 2 percent from the previous year on the improved performance of the Manila Concession combined with higher contributions from its businesses outside Metro Manila.

The Manila Concession registered a 4 percent growth in billed volume to 478.9 million cubic meters, attributed to increased consumption, combined with higher connections from the expansion areas of Marikina, Pasig and Taguig. The Manila Concession continued to improve its operation efficiencies, with non-revenue water dropping to 10.8 percent from 11.2 percent in the previous year as a result of continuous repair works at distribution lines. Collection efficiency remained robust at 100.2 percent

Outside the Manila Concession, Manila Water Philippine Ventures, Manila Water's holding company for all its domestic operating subsidiaries outside the Manila Concession, recorded a 96 percent surge in consolidated net income to ₱570 million, largely driven by Boracay Water, Laguna Water, and the first year of Estate Water's operations.

Boracay Water's net income soared 74 percent to ₱122 million on revenues and managed operating expenses. Laguna Water's net income jumped 22 percent to ₱248 million bolstered by new service connections. Meanwhile, Manila Water's private full-service water and used water operator, Estate Water, booked a net income of ₱217 million in its first year of operations and billed volume of 2.1 million cubic meters from Ayala Land's 47 brownfield developments.

Altogether, net income from non-Manila Concession businesses reached ₱1 billion, accounting for 17 percent of Manila Water's consolidated net income.

Last December, Manila Water won a 25-year concession to develop and operate the water supply system in Calasiao, Pangasinan. Further, it won another 25-year concession to rehabilitate, operate, and manage the water supply system, and provide water sanitation services in Obando, Bulacan. Manila Water also signed a memorandum of agreement with the SM group to provide water and used water services, initially covering its horizontal real estate projects.

Industrial Technologies

In electronics manufacturing, IMI posted a net income of US\$28.1 million (₱1.3 billion), 2 percent lower than its year-ago level owing to transaction and financing costs related to strategic acquisitions and foreign exchange headwinds from the Chinese Renminbi.

Notwithstanding a challenging global environment, IMI's revenues improved 4 percent to US\$843 million (₱40 billion). This was lifted by VIA Optronics and its Europe and Mexico operations, which contributed a combined US\$308 million, a 15 percent growth year-on-year. Operating income expanded 13 percent from a year ago to US\$42.9 million.

IMI continues to expand its footprint in higher complex box build offerings, while making disciplined investments to fund its growth initiatives. Last year, IMI spent US\$52.3 million in capital expenditures to build more complex and higher value-add manufacturing capabilities and growth platforms.

In automotive, AC Automotive registered a nearly fivefold expansion in net profits to ₱493 million, bolstered by robust vehicle sales across all brands as well as higher contributions from its distribution businesses.

Power Generation

AC Energy recorded a 25 percent expansion in net earnings during the year to ₱2.7 billion. This sustained earnings trajectory was fueled by strong equity earnings contribution from its operating assets on improved operating efficiencies, boosted by gains from value realization from its partial sale of shares in South Luzon Thermal Energy Corporation.

Equity earnings from AC Energy's investee companies climbed 67 percent to ₱1.8 billion on higher operating efficiencies of GNPow Mariveles and the successful start of operations of South Luzon Thermal Energy Corporation's second unit.

AC Energy continues to scale up as it executes on its new strategic aspirations of doubling its equity commitment to US\$1.6 billion and its attributable power generating capacity to 2,000 megawatts by 2020. Last December, AC Energy, as part of a consortium, signed an agreement with the Chevron Global Energy and the Union Oil Company of California groups for the acquisition of Chevron's geothermal operations in Indonesia and the Philippines. Moreover, in January 2017, AC Energy signed investment agreements with UPC Renewables Indonesia for the development, construction, and operation of a 75 megawatt-wind farm project in Sidrap, South Sulawesi, Indonesia.

Share of Profit of Associates and Joint Ventures

Share of profit of associates and joint ventures expanded 21 percent to ₱18.1 billion, driven by a significant contribution from BPI's sale of securities, and higher equity in net earnings of AC Energy.

Banking

Bank of the Philippine Islands sustained its earnings trajectory throughout the year, with net profits soaring 21 percent from the previous year to ₱22.1 billion. This was largely driven by solid gains from the bank's core banking, transactional, and bancassurance businesses, boosted by significant securities trading gains.

The bank's comprehensive income expanded 30 percent to ₱21.7 billion. Total revenues grew 12 percent to ₱66.6 billion as net interest income rose 10 percent to ₱42.4 billion, while non-interest income climbed 17 percent to ₱24.2 billion.

BPI's operating expenses reached ₱34.9 billion, up 10 percent from its year-ago level, owing to spending on general infrastructure combined with collective bargaining costs. Revenue growth cushioned the higher operating expenses with the bank's cost-to-income ratio improving to 52.5 percent from 53.7 percent in 2015.

BPI's loan portfolio breached the ₱1 trillion-mark during the year. It jumped 19 percent to ₱1.04 trillion, with 79 percent and 21 percent accounting for the corporate and retail segments, respectively. The bank maintains a healthy asset base with 90-day gross non-performing loans lower at 1.5 percent, from 1.6 percent a year ago. Reserve cover rose 118.7 percent from 110.2 percent in the previous year. Total deposits climbed 12 percent to ₱1.43 trillion, with current and savings account ratio at 73.5 percent.

BPI continues to expand both its corporate and retail segments. Last year, BPI arranged a ₱12.5 billion-Climate Bond for AboitizPower's Tiwi-Makban geothermal. It also arranged a ₱15 billion-bond issuance for Ayala Land and the ₱19.2 billion-initial public offering of Pilipinas Shell, both highly successful offerings. In retail, BPI secured approval from the Bangko Sentral ng Pilipinas to open 44 new branches for both BPI and BPI Family Savings Bank.

Telecom

Despite sustained topline growth, the impact of non-operating and depreciation expenses from its recent strategic acquisitions weighed down on Globe's net profits in 2016, which declined 4 percent to ₱15.9 billion.

The depreciation charges arose from incremental asset build-up from the fourth quarter of the previous year and the full consolidation of Bayantel. The non-operating charges included costs related to the San Miguel transaction, consisting of interest expenses for the additional debt incurred for the acquisition, and Globe's share in the net losses of Vega Telecom and amortization of the intangible assets acquired.

Globe posted a 6 percent growth in consolidated service revenues, reaching a new record of ₱120 billion. This was primarily driven by robust broad-based demand across data-related products, complemented by healthy subscriber growth.

Mobile revenues were steady at ₱92 billion, as usage continued to shift from core voice and SMS to mobile data. Despite the intense competitive environment, mobile data is now the biggest contributor to Globe's mobile revenues, accounting for 38 percent of the segment. Mobile data revenues grew 25 percent from a year ago to ₱35 billion. Mobile data usage continued to pick up with traffic soaring 44 percent to 361 petabytes from its year-ago level, as smartphone penetration reached 61 percent during the year.

Globe's subscriber base continued to expand with mobile subscribers reaching 63 million, up 12 percent, bolstered by record-level prepaid acquisitions during the year. Home broadband subscribers grew 6 percent to 1.13 million from a year ago.

Home broadband revenues expanded 28 percent to ₱14.5 billion attributed to continued subscriber growth in fixed wireless solutions as Globe introduced new home broadband plans. Meanwhile, corporate data revenues climbed 28 percent to ₱10 billion, boosted by strong demand for domestic and international leased line services, sustained circuit expansion, and the increasing popularity of cloud-based services, such as data storage and cloud computing.

Globe registered a 9 percent-growth in earnings before interest, taxes, depreciation, and amortization, reaching a record ₱50 billion during the year. EBITDA margin improved to 42 percent from its year-ago level of 40 percent.

In 2016, Globe rolled out over 500 LTE 700 and 1,200 LTE 2600 sites using frequencies obtained from the SMC deal. This year, it is deploying around 1,800 LTE 700 and 1,000 LTE 2600 sites. In addition, it will deploy around 1,800 LTE 1800 sites to boost capacity and coverage. In home broadband, Globe rolled out over 260,000 high-speed lines in 2016. It expects to deploy an additional 425,000 high-speed lines within the year.

Globe programmed approximately \$750 million in capital expenditures this year, with the bulk of this allocated for the deployment of LTE mobile and home broadband, expansion of network capacities and coverage, and enhancement of corporate data services.

Interest Income

Interest income declined 7 percent to ₱6.8 billion as a result of Ayala Land's and Ayala's lower investible funds.

Other Income

Other income rose 16 percent to ₱13.1 billion owing to contributions from Manila Water's and Automotive's other income. This was complemented by various gains from AC Energy's partial divestments of its investment stakes.

Costs and Expenses

Consolidated cost of sales expanded 15 percent to ₱141.4 billion mainly driven by higher sales from the real estate, electronics manufacturing, automotive, energy, and water infrastructure businesses.

Consolidated general and administrative expenses increased 8 percent to ₱19.4 billion attributed to combined increments in the expenses of the parent's and Ayala Automotive's manpower costs, Ayala Automotive's marketing and selling costs, Ayala Land's contracted services, and Manila Water's and AC Energy's depreciation and management fees, as well as AC Energy's project development costs.

Interest Expense and Other Financing Charges

Consolidated interest expenses and other financing charges climbed 7 percent to ₱14.3 billion mainly due to Ayala Land's higher loans to fund new and expansion projects.

The Ayala group's total debt rose 12 percent year-on-year, to ₱295.9 billion at the end of 2016. The increased debt levels of Ayala Land, Manila Water, IMI, AC Energy, and AC Auto were partially offset by the parent company's settlement of loans. The parent company's debt decreased 19 percent to ₱76.0 billion at the end of 2016.

Balance Sheet Highlights

Ayala's balance sheet remains at a healthy level, providing the company with sufficient capacity to execute on its growth and expansion plans.

Current accounts and notes receivable surged 41 percent due to increased sales across Ayala Land's brands, in addition to leasing and advances to contractors. This was bolstered by IMI and Ayala Automotive which recorded higher sales, on top of Manila Water's higher sales and advances to its contractors.

Cash and cash equivalents decreased 27 percent to ₱60.2 billion, resulting from the parent's payment of loans and other payables, and AYC's settlement of loans. In addition, Manila Water required funds for the payment of its maturing debt and dividends funded from new loan proceeds.

Investments in associates and joint ventures grew 11 percent to ₱180.3 billion, attributable to ALI's additional investments; an increased share in net earnings from BPI and Globe, as well as AC Energy's operating investees; and an additional infusion into GNPowr Dinginin. ALI's investments into various properties, as well as its new acquisitions of land, drove the 33 percent increase in investment properties to ₱110.9 billion.

Property, plant, and equipment surged 62% to ₱64.1 billion, from the construction of power plants for GNP Kauswagan and MonteSol, IMI's expansion in Mexico and China, and Ayala Land's new plants and machinery, as well as the consolidation of its acquired entities.

At the end of 2016, parent company net debt to equity ratio remains comfortable at 0.56 to 1 and consolidated net debt to equity ratio at 0.63 to 1.

Outlook for 2017

2016 saw heightened levels of volatility amid geopolitical and economic transitions around the world: the rise of populism, Brexit, and other critical leadership changes such as in the US presidential elections. Despite increased uncertainty overseas, the Philippine economy expanded at 6.8 percent in 2016—the fastest growth rate in Asia, allowing the country to sustain its momentum.

Even with an overall positive economic environment in the country, Ayala will remain vigilant in monitoring relevant global and domestic macroeconomic indicators and trends that may potentially impact the operations of its various businesses.

Ayala expects most of its businesses to grow at a solid pace. It continues to assemble a portfolio of automotive and manufacturing businesses under AC Industrials to capture opportunities in the global industrial space. Further, Ayala continues to build up its power business, with various strategic acquisitions both in the Philippines and abroad.

Ayala maintains a healthy balance sheet with access to various funding options to meet requirements. A robust risk management system allows the company to maximize opportunities for reinvention, and navigate the challenges faced by its business units.

Key performance indicators of the Company and its significant subsidiaries

The table sets forth the comparative key performance indicators of the Company and its significant subsidiaries.

Ayala Corporation (Consolidated)

(In million pesos, except ratios)	2016	2015	2014
Income	237,286	207,667	184,276
Net Income Attributable to Equity Holders	26,011	22,279	18,609
Total Assets	911,705	794,075	726,048
Total Debt	295,854	263,341	258,845
Stockholders' Equity ¹	230,923	208,657	185,664
Current Ratio ²	1.22	1.28	1.50
Debt to Equity Ratio ³	1.28	1.26	1.39

Ayala Land, Inc.

(In million pesos, except ratios)	2016	2015	2014
Revenue	124,629	107,183	95,197
Net Income Attributable to Equity Holders	20,908	17,630	14,803
Total Assets	536,433	442,342	388,944
Total Debt	159,801	130,996	124,666
Stockholders' Equity ¹	147,705	133,731	106,940
Current Ratio ²	1.12	1.14	1.22
Debt to Equity Ratio ³	1.08	0.98	1.17

Integrated Micro-Electronics, Inc.

(In thousand US dollars, except ratios)	2016	2015	2014
Revenue	842,966	814,364	844,474
Net Income Attributable to Equity Holders	28,116	28,790	29,117
Total Assets	635,909	516,535	552,707
Total Debt	180,774	119,899	112,194
Stockholders' Equity ¹	236,606	232,243	244,051
Current Ratio ²	1.51	1.54	1.73
Debt to Equity Ratio ³	0.76	0.52	0.46

Manila Water Company, Inc.

(In million pesos, except ratios)

	2016	2015	2014
Revenue	17,712	16,936	16,357
Net Income Attributable to Equity Holders	6,065	5,958	5,813
Total Assets	85,479	80,608	74,860
Total Debt	27,619	26,220	25,471
Stockholders' Equity ¹	43,384	38,825	34,508
Current Ratio ²	1.10	0.80	1.16
Debt to Equity Ratio ³	0.64	0.68	0.74

¹ Stockholders' Equity attributable to owners of the Parent.² Current Assets/ Current Liabilities.³ Total Debt/ Stockholders' Equity¹ (Total Debt includes short-term debt, long-term debt and current portion of long-term debt).**Causes for any material changes****(Increase or decrease of 5% or more in the financial statements)****Balance Sheet Items****As of December 31, 2016 (Audited) vs. December 31, 2015 (Audited)****Cash and cash equivalents – 27% decrease from ₱82,154 million to ₱60,223 million**

Decline due to AC parent's payment of loans and payable to DBS; AYC and MWCI's settlement of loans; ALI's expansion projects which were funded from new loan proceeds, including bonds offer of AC and ALI. This account is at 7% and 10% of the total assets as of December 31, 2016 and 2015, respectively.

Short-term investments – 51% decrease from ₱2,052 million to ₱1,009 million

Decline due to maturity of short-term investments of AC used to settle loans. This account is at less than 1% of the total assets as of December 31, 2016 and 2015.

Accounts and notes receivable (current) – 41% increase from ₱82,596 million to ₱116,842 million

Increase attributable to ALI group's higher sales across brands as well as from leasing business plus advances to various contractors; IMI and Automotive groups' higher sales; and MWCI's higher sales and advances to contractors. This account is at 13% and 10% of the total assets as of December 31, 2016 and 2015, respectively.

Inventories – 12% increase from ₱68,431 million to ₱76,753 million

Increase pertains to ALI group's higher completed inventories for new and existing residential projects; Auto's higher vehicle inventories and IMI's turnkey business. This account is at 8% and 9% of the total assets as of December 31, 2016 and 2015, respectively.

Other Current Assets – 22% increase from ₱27,617 million to ₱33,638 million

Increase pertains to ALI group's higher UITF placements, input tax, advances to contractors and materials and supplies; plus higher input tax and prepaid loan transaction costs of ACEHI. This account is at 4% of the total assets as of December 31, 2016 and 2015.

Accounts and notes receivable (non-current) – 13% decrease from ₱41,793 million to ₱36,484 million

Decrease attributable to ALI's collection and reclassification of receivables to current. This account is at 4% and 5% of the total assets as of December 31, 2016 and 2015, respectively.

Land and improvements – 9% increase from ₱92,895 million to ₱101,049 million

Increase comprised of ALI group's additional investments. This account is at 11% and 12% of the total assets as of December 31, 2016 and December 31, 2015, respectively.

Investments in associates & joint ventures – 11% increase from ₱162,711 million to ₱180,314 million

Growth was attributable to additional investments of ALI (OCLP), higher share in net earnings from BPI and Globe; plus additional infusion into Dinginin project and share in earnings from operating investees of ACEHI group. This account is at 20% of the total assets as of December 31, 2016 and 2015.

Investment in bonds and other securities – 22% increase from ₱3,738 million to ₱4,565 million

Increase due to additional/ new investments of ALI and BHL. This account is less than 1% of the total assets as of December 31, 2016 and 2015.

Investment properties – 33% increase from ₱83,669 million to ₱110,917 million

ALI group's higher investment in developing various properties such as new estates/ communities, malls, office buildings and new land acquisitions drove the increase in this account. This account is at 12% and 10% of the total assets as of December 31, 2016 and 2015, respectively.

Property, plant and equipment – 62% increase from ₱39,644 million to ₱64,074 million

Increase coming from ACEHI's construction of power plants for GNP Kauswagan's coal investment and Monte Solar solar energy; IMI's expansion mainly in Mexico/ China; and ALI's new plants/machineries and consolidation of acquired entities. This account is at 7% and 5% of the total assets as of December 31, 2016 and 2015, respectively.

Service concession assets – 5% increase from ₱78,829 million to ₱82,421 million

Increase caused by MWCI's additions to its concession assets/ projects. This account is at 9% and 10% of the total assets as of December 31, 2016 and 2015, respectively.

Intangible assets – 149% increase from ₱3,910 million to ₱9,716 million

Higher balance arising from IMI's acquisition of a new subsidiary. This account is at 1% and less than 1% of the total assets as of December 31, 2016 and 2015, respectively.

Deferred tax assets – 27% increase from ₱9,743 million to ₱12,415 million

Increase caused by ALI group's higher deferred tax asset due to tax effect of temporary difference from sale and collection of booked accounts. This account is at 1% of the total assets as of December 31, 2016 and 2015.

Pension and other noncurrent assets - 49% increase from ₱14,291 million to ₱21,282 million

Increase due to ALI's leasehold rights from new investment properties; ACEHI's various bid deposits; and MWCI's higher balance of FCDA due to forex movements. The account also includes the Group's pension asset which has no significant movement for the period.¹⁰ This account is at 2% of the total assets as of December 31, 2016 and 2015.

Accounts payable and accrued expenses - 13% increase from ₱145,598 million to ₱164,601 million

Increase caused by higher trade payables and accruals of ALI group due to new project launched in 2016 and taxes payable; IMI higher sales and consolidation of a new subsidiary; ACEHI's higher accruals and interest payable; and Automotive group's higher vehicle costs and inventories; offset by AC's settlement of accounts relating to acquisition of additional ADHI shares from DBS and MWCI's lower accruals. This account is at 30% and 31% of the total liabilities as of December 31, 2016 and 2015, respectively.

Short-term debt – 26% increase from ₱24,387 million to ₱30,858 million

Mainly due to loan of ALI, IMI and Automotive groups partially offset by AC's settlement of ST debt. This account is at 6% and 5% of the total liabilities as of December 31, 2016 and 2015, respectively.

¹⁰ The Company's pension fund is known as the AC Employees Welfare and Retirement Fund (ACEWRF). ACEWRF is a legal entity separate and distinct from the Company, governed by a board of trustees appointed under a Trust Agreement between the Company and the initial trustees. It holds common and preferred shares of the Company in its portfolio. All such shares have voting rights under certain conditions, pursuant to law. ACEWRF's portfolio is managed by a committee appointed by the fund's trustees for that purpose. The members of the committee, all of whom are Managing Directors of the Company, are Jose Teodoro K. Limcaoco (the Company's Chief Finance Officer, Chief Risk Officer & Finance Group Head), Solomon M. Hermosura (the Company's Group Head of Corporate Governance, General Counsel, Corporate Secretary & Compliance Officer), John Philip S. Orbeta (the Company's Head for Strategic Human Resources), Ma. Cecilia T. Cruzabra (the Company's Treasurer), and Josephine G. de Asis (the Company's Comptroller). ACEWRF has not exercised voting rights over any shares of the Company that it owns.

Income tax payable – 17% increase from ₱1,943 million to ₱2,270 million

Mainly due to higher tax payable of ALI, Automotive, IMI and MWCI group. This account is less than 1% of the total liabilities as of December 31, 2016 and 2015, respectively

Long-term debt (current) – 30% decrease from ₱28,154 million to ₱19,793 million

Decrease attributable to net settlement of loans of ALI, IMI, MWCI and AYC groups partially offset by AC's and ALI bond offers. This account is at 4% and 6% of the total liabilities as of December 31, 2016 and 2015, respectively.

Service concession obligation (current) – 40% decrease from ₱1,256 million to ₱754 million

Decrease was due to MWCI's lower computed and actual obligation due within one year. This account is at less than 1% of the total liabilities as of December 31, 2016 and 2015.

Other current liabilities – 278% increase from ₱4,630 million to ₱17,523 million

Primarily due to ALI group's higher advances and deposits on projects and IMI's consolidation of a new subsidiary. This account is at 3% and 1% of the total liabilities as of December 31, 2016 and 2015, respectively.

Long-term debt (noncurrent) – 16% increase from ₱210,800 million to ₱245,203 million

Increase due to loan availment and bond issuance of ALI; MWCI, IMI and ACEHI's additional loans partially offset by AC's settlement of loans. This account is at 45% of the total liabilities as of December 31, 2016 and 2015.

Service concession obligation (non-current) – 9% decrease from ₱7,538 million to ₱6,823 million

Decrease was due to MWCI's lower computed actual obligation. This account is at 1% and 2% of the total liabilities as of December 31, 2016 and 2015, respectively.

Deferred tax liabilities – 48% increase from ₱6,440 million to ₱9,544 million

Increase resulting from ALI group's revenue recognition. This account is at 2% and 1% of the total liabilities as of December 31, 2016 and 2015.

Other noncurrent liabilities – 27% increase from ₱32,239 million to ₱40,870 million

Increase mainly due to customer deposits for various ALI projects as well as contribution from its leasing group's increase in security deposits, reservations and advance rental deposits. This account is at 8% and 7% of the total liabilities as of December 31, 2016 and 2015, respectively.

Cumulative translation adjustments - 390% increase from ₱289 million to ₱1,415 million

Increase due to upward impact of net foreign assets and liabilities, significantly coming from ACEHI and BHL groups. Forex of PHP vs US\$ increased causing higher CTA figure (P49.72 in December 2016 vs. 47.06 in December 2015).

Cost of share based payments – 13% decrease from ₱569 million to ₱496 million

Pertains to adjustments in stock options of AC employees.

Remeasurement gains on defined benefit plan – 24% decrease from negative ₱1,250 million to negative ₱1,548 million

Decrease attributable to the effect of PAS 19- immediate recognition of service cost and re-measurement of unrealized actuarial losses.

Net unrealized gain on available-for-sale financial assets – 16% improvement from negative ₱554 million to negative ₱467 million

Pertains to increase in the market value of securities held by BPI group as available for sale financial assets partially offset by realized gain in one of the Bestfull's investments which was then recognized in P&L.

Retained earnings – 17% increase from ₱124,468 million to ₱145,622 million

Represents share in full year 2016 group net income partially offset by dividends declared.

Non-controlling Interests (NCI) – 17% increase from ₱119,887 million to ₱140,073 million

Represents share in full year 2016 group net income and the NCI component arising from consolidation of ALI's new subsidiary and higher investments in ACEHI's projects; offset by dividends received.

Income Statement items

For the Period Ended December 31, 2016 (Audited) vs. December 31, 2015 (Audited)

Sale of goods and rendering services – 14% increase from a total of ₱174,035 million to ₱199,209 million

Growth in sale of goods came primarily from sustained growth in all segments of ALI, higher sales of Automotive group across brands and IMI's increase significantly from Europe plus contribution of its new subsidiary. Higher revenues from rendering of service resulted from ALI's overall growth significantly on construction and leasing businesses, increments in MWCI, IMI and ACEHI. As a percentage to total income, this account is at 84% in both December 31, 2016 and 2015, respectively.

Share of profit of associates and joint ventures – 21% increase from ₱15,038 million to ₱18,154 million

Increase arising from significant contribution of BPI on gains from trading securities and increments in core banking business, improved share in net earnings of AJVs of ALI, ACEHI and Infra. As a percentage to total income, this account is at 8% and 7% in December 31, 2016 and 2015, respectively.

Interest income – 7% decrease from ₱7,297 million to ₱6,777 million

Decline resulting from ALI's and AYC's lower investible funds. This account is at 3% and 4% of the total income in December 31, 2016 and 2015, respectively.

Other income – 16% increase from ₱11,297 million to ₱13,146 million

Increase due to MWCI's higher rehabilitation works; transaction gains of ACEHI from partial divestment and revaluation of investments; and increase in Automotive's collateral business. This account is at 6% and 5% of the total income in December 31, 2016 and 2015, respectively.

Cost of sales and rendering services – 15% increase from ₱123,061 million to ₱141,350 million

Increase resulting from higher sales of ALI, IMI, Automotive, ACEHI and MWCI groups. As a percentage to total costs and expenses, this account is at 77% in both December 31, 2016 and 2015.

General and administrative expenses – 8% increase from ₱18,052 million to ₱19,412 million

Increase mainly on combined increments in the group's expenses specifically from: ALI (contracted services), AC (manpower costs), MWCI (depreciation and management fees), Automotive (marketing and selling expenses, manpower costs), IMI (professional fees) and ACEHI (project development, management fees and depreciation). As a percentage to total costs and expenses, this account is at 11% in both December 31, 2016 and 2015.

Interest expense and other financing charge – 7% increase from ₱13,276 million to ₱14,258 million

Increase attributable to higher loans of ALI group to fund new and expansion projects. As a percentage to total costs and expenses, this account is at 8% in both December 31, 2016 and 2015.

Other charges – 39% increase from ₱5,970 million to ₱8,325million

Increase mainly on higher rehabilitation works costs of MWCI and impairment provisions for certain investments. As a percentage to total costs and expenses, this account is at 5% and 4% in December 31, 2016 and 2015, respectively.

Provision for income tax (current and deferred) – 17% increase from ₱9,011 million to ₱10,507 million

Primarily due to higher taxable income of several subsidiaries significant portion is attributable to ALI group on account of better sales and other operating results.

Income attributable to Owners of the parent – 17% increase from ₱22,279 million to ₱26,011 million

Increase resulting from better performance of most subsidiaries and associates of the Group.

Income attributable to Non-controlling interests – 9% increase from ₱16,016 million to ₱17,421 million

Better operating results of most of the subsidiaries of the Group.

2015

Ayala Corporation's net income expanded 20 percent to ₱22.3 billion in 2015, beating its target a year earlier than planned. This was primarily driven by the solid performance of its real estate and telecommunications businesses and lifted by contributions from its power generation unit.

Excluding capital gains primarily from the partial sale of AC Energy's stake in North Luzon Renewables in 2015 and from the divestment of Stream Global Services in the previous year, Ayala's net earnings actually grew 24 percent year-on-year.

Consolidated Sale of Goods and Services

Sale of goods and rendering services grew 11 percent to ₱174 billion largely driven by the the double-digit growth in real estate revenues. This was boosted by higher sales in the Honda and Isuzu dealerships of Ayala Automotive. This accounted for 84 percent of total income at the end of 2015.

Real Estate

The sustained performance of its residential and office developments and commercial leasing segments drove Ayala Land's net income in 2015, which reached ₱17.6 billion, 19 percent higher year-on-year.

Revenues from the residential business expanded 12 percent to ₱58 billion on new bookings and project completion. Reservation sales rose 4 percent to ₱105.3 billion, of which 25 percent account for overseas Filipino buyers. New launches and higher completion of office developments fueled the 32 percent growth in office space sales, which reached ₱6.4 billion during the year.

The higher occupancy and average rental rates of its shopping centers and office spaces combined with steady improvement of its hotels and resorts portfolio lifted Ayala Land's commercial leasing revenues, which climbed 16 percent to ₱24.5 billion.

Ayala Land's sustained earnings momentum during the year was further supported by the improved margin performance across its product lines as well as efficient cost management measures with earnings before interest and taxes (EBIT) margin at 29 percent from 27 percent a year ago.

Ayala Land continued to build up its recurring income business, with malls, office, and hotels and resorts accounting for 34 percent of its net earnings in 2015.

Ayala Land's capital spending during the year reached ₱82 billion. This year, it has earmarked ₱85 billion to support its pipeline of projects.

Water

As it ramps up its businesses outside Metro Manila, Manila Water posted a 2 percent-growth in consolidated net income to ₱6 billion. Revenues rose 4 percent to ₱16.9 billion backed by a 2 percent growth in billed volume.

Earnings contribution from non-East Zone investments rose 46 percent, accounting for 16 percent of Manila Water's net income during the year. Billed volume of its domestic units, which include Boracay Water, Clark Water, Laguna Water and Cebu Manila Water Development, climbed 30 percent. Manila Water's investments in Vietnam, which include bulk water companies Thu Duc Water and Kenh Dong Water and a stake in Saigon Water, contributed ₱404 million in net income, up 13 percent from the previous year.

In the East Zone, Manila Water expanded its coverage areas in Pasig, Taguig, Marikina, and Rizal, resulting in a 3 percent growth in billed volume, balancing out the impact of the tariff reduction.

Manila Water continues to expand its portfolio of businesses. In January, it signed an agreement with Ayala Land to provide water and used water services to all its developments nationwide. In addition, its 5-gallon bottled water

product under the brand name “Healthy Family” opened three new plants in the fourth quarter of 2015 with a combined capacity of 43,000 bottles per day.

Electronics

Integrated Micro-Electronics Inc. reported a flat net income of \$28.8 million (or ₱1.3 billion) year-on-year, owing to the volatility in the foreign currency markets and weakness in China’s economy, one of its largest markets. Enhanced portfolio mix and cost efficiency initiatives across IMI’s operations covered for the softness in revenues.

Revenues of \$814.4 million (or ₱37 billion) dropped 4 percent from a year ago mainly due to a weak euro and downturn in the computing and telecommunications segments. Excluding the impact of changes in currency exchange, automotive revenues climbed 21 percent, while total revenues rose 2 percent.

The revenue headwinds were offset by IMI’s strong volume growth in the automotive segment. IMI’s China operations recorded \$279.3 million in revenues during the year, a 14 percent decline from the previous year as the 4G telecommunications network rollout in China reaches its projected volume coupled with a slowdown in the consumer electronics segment.

IMI’s Europe and Mexico operations ended flat, with combined revenues of \$267.4 million as a result of weakness in the euro. IMI’s electronics manufacturing services operations in the Philippines posted \$225.3 million in revenues, a 10 percent growth from a year ago due to a strong demand for automotive cameras and security and access control devices.

Power Generation

AC Energy Holdings recorded a net income of ₱2.1 billion during the year as its power generation assets came online and achieved more efficient operating levels. Furthermore, it realized gains from the partial sale of its stake in North Luzon Renewables, an 81-megawatt wind farm in Ilocos Norte.

AC Energy currently has an attributable capacity of approximately 600 megawatts in its portfolio among conventional and renewable power projects currently in operations and under construction. It expects this capacity to reach close to 1,000 MW by 2016 once the first phase of its 2x660 GN Power plant in Dinginin, reaches financial close. In renewable energy, AC Energy’s 18 MW solar power farm, Monte Solar Energy Inc., started commercial operations in February. In conventional energy, the second 135 MW unit of its thermal plant, South Luzon Thermal Energy Corporation in Calaca, Batangas, also started commercial operations in February. In addition, the first unit of its 4x138 GN Power plant in Kauswagan is expected to be completed in the fourth quarter of 2017.

Share of Profit of Associates and Joint Ventures

Share of profit of associates and joint ventures expanded 14 percent to ₱15 billion bolstered by higher equity in net earnings from Globe Telecom (Globe), and Bank of the Philippine Islands (BPI), and wind and coal businesses of AC Energy.

Banking

Bank of the Philippine Islands reported net earnings of ₱18.2 billion in 2015, up 1.1 percent, as the bank’s core lending business continued to drive growth, reducing reliance on securities trading.

BPI’s total revenues rose 6.4 percent to ₱59.4 billion driven by net interest income, which grew 11 percent to ₱38.6 billion on the back of higher average asset base. Non-interest income dropped 1.2 percent to ₱20.7 billion as the bank’s trading performance weathered a volatile year, with foreign exchange and securities trading posting gains of ₱2.9 billion.

Net loans expanded 9 percent to ₱872.9 billion, comprising 78 percent corporate and 22 percent retail borrowers. Deposits grew 8.5 percent to ₱1.3 trillion year-on-year. The bank registered a current and savings account ratio of 72.3 percent. Cost-to-income ratio remained at 53.7 percent, while total assets stood at ₱1.5 trillion, up 4.6 percent from a year ago.

Despite the increase in its loan portfolio, the bank maintained strong asset quality and remained well capitalized with gross 90-day non-performing loans (NPL) level at 1.6 percent of total loans in the fourth quarter of 2015 from 1.8 percent in the previous quarter. BPI's loan loss cover stood at 110.2 percent, excluding the value of collaterals. BPI ended the year with total capital of ₱150.3 billion, net of cash dividends declared, 4.3 percent higher than the previous year. This resulted in BASEL III capital adequacy ratio of 13.6 percent at the end of 2015.

Telecommunications

Globe Telecom posted another record year, with net income surging 23 percent to ₱16.5 billion buoyed by the solid revenue trajectory from demand for data services across mobile, broadband, and fixed line segments. The ₱1.2 billion gain from the sale of its 51 percent stake in Yondu Inc. also lifted Globe's earnings during the year. Core net income, which excludes one-time adjustments, grew 4 percent.

Service revenues jumped 15 percent to ₱113.7 billion. Mobile revenues grew 9 percent to ₱85.1 billion on sustained growth in the postpaid segment, up 7 percent, coupled with faster expansion coming from the prepaid segment, up 10 percent. Similarly, mobile subscribers reached 52.9 million at the end of 2015, a 20 percent-increase from the previous year. Postpaid subscribers grew 6 percent, while prepaid subscribers jumped 21 percent. As it continued to roll out infrastructure improvements in its data network, Globe mobile data revenues expanded 55 percent to ₱22.1 billion.

In its broadband business, which now includes Bayan Telecommunications, Globe's revenues and subscriber base climbed 38 percent to ₱17.5 billion and 55 percent to 4.3 million, respectively. Excluding the impact of Bayan's consolidation in the second half of 2015, Globe's full year broadband service revenues grew 27 percent year-on-year to ₱16.1 billion.

EBITDA expanded 17 percent to ₱45.8 billion, with EBITDA margin steady at 40 percent.

Globe spent about ₱32.1 billion in capital expenditures in 2015 primarily to support its data infrastructure requirements. This year, it has programmed \$700 to \$750 million in capital spending to fund its data network initiatives.

Interest Income

Interest income rose 33 percent to ₱7.3 billion during the period owing to higher investible funds and accretion income from Ayala Land's installment sales.

Other Income

Other income expanded 23 percent to ₱11.3 billion owing to strong growth in the other income of Ayala Land, Manila Water, and Ayala Automotive, lifted by the gain from AC Energy's partial divestment of its stake in its wind farm. In the previous year, Ayala's other income included the divestment gain from Stream amounting to ₱1.8 billion.

Costs and Expenses

Consolidated cost of sales increased 10 percent to ₱123 billion as a result of higher sales of the real estate and automotive groups.

Consolidated general and administrative expenses rose 14 percent to ₱18.1 billion, mainly due to combined increments in the expenses of parent company's and Ayala Land's manpower costs, provisions and depreciation expense, Ayala Automotive's marketing costs, and AC Energy's project and business development expenses.

Interest Expense and Other Financing Charges

Consolidated interest expense and other financing charges grew 11 percent to ₱13.3 billion during the year on the back of higher loans secured by Ayala Land to fund its new and expansion projects.

The Ayala group's total debt increased 2 percent from its year-ago level to ₱263.3 billion at the end of 2015. The higher debt levels of Ayala Land, Ayala Automotive, and AC Energy was offset by the parent company's lower debt level, which decreased 7 percent to ₱93.6 billion at the end of 2015.

Balance Sheet Highlights

Cash and cash equivalents as of the end of the year decreased 9 percent to ₱82 billion primarily driven by the parent company's payment of loans, dividends, and placements in short-term investments. In addition, Ayala Land's funding requirements for its projects and investment in MCT Malaysia contributed to the decline, partially offsetting the divestment proceeds from AC Energy.

Current accounts and notes receivable registered a 14 percent growth to ₱82.6 billion attributed to Ayala Land's higher residential sales and rental receivable from mall merchants. This was supported by Ayala Automotive's higher vehicles sales combined with receivables from the AC Energy's partial sale of its stake in its wind farm.

Other current assets decreased 21 percent to ₱27.6 billion mainly driven by Ayala Land's redemption of UITF investments and the maturity of its other current investments and lower deposits and escrow accounts.

Ayala's balance sheet remains healthy with parent company net debt to equity ratio at 0.44 to 1 and consolidated net debt to equity ratio at 0.55 to 1.

Outlook for 2016

Overall, Ayala believes the Philippines continues to be fundamentally strong, having remained resilient amid the challenges in the global economy. In 2016, Ayala expects most of its business units to continue growing at a healthy pace. Further, it continues to strengthen its growing portfolio of power and infrastructure investments, with various projects coming to fruition. In particular, it expects its power business to sustain its positive earnings trajectory in 2016.

Ayala maintains a healthy balance sheet with access to various funding options to meet requirements. It remains vigilant in tracking economic indicators and other relevant metrics across the group to give it a pulse on the economy.

Key performance indicators of the Company and its significant subsidiaries

The table sets forth the comparative key performance indicators of the Company and its significant subsidiaries.

Ayala Corporation (Consolidated)

(In million pesos, except ratios)

	2015	2014	2013
Income	207,667	184,276	159,412
Net Income Attributable to Equity Holders	22,279	18,609	12,778
Total Assets	794,075	726,048	599,664
Total Debt	263,341	258,845	205,681
Stockholders' Equity ¹	208,657	185,664	143,476
Current Ratio ²	1.28	1.50	1.46
Debt to Equity Ratio ³	1.26	1.39	1.43

Ayala Land, Inc.

(In million pesos, except ratios)

	2015	2014	2013
Revenue	107,183	95,197	81,523
Net Income Attributable to Equity Holders	17,630	14,803	11,742
Total Assets	442,342	388,944	325,474
Total Debt	130,996	124,666	101,902
Stockholders' Equity ¹	133,731	106,940	98,470
Current Ratio ²	1.14	1.22	1.45
Debt to Equity Ratio ³	0.98	1.17	1.03

Integrated Micro-Electronics, Inc.

(In thousand US dollars, except ratios)

	2015	2014	2013
Revenue	814,364	844,474	745,032
Net Income Attributable to Equity Holders	28,790	29,117	10,473
Total Assets	516,535	552,707	488,229
Total Debt	119,899	112,194	110,257
Stockholders' Equity ¹	232,243	244,051	192,650
Current Ratio ²	1.54	1.73	1.53
Debt to Equity Ratio ³	0.52	0.46	0.57

Manila Water Company, Inc.

(In million pesos, except ratios)

	2015	2014	2013
Revenue	16,936	16,357	15,926
Net Income Attributable to Equity Holders	5,958	5,813	5,752
Total Assets	80,608	74,860	72,858
Total Debt	26,220	25,471	26,252
Stockholders' Equity ¹	38,825	34,508	30,477
Current Ratio ²	0.80	1.16	1.12
Debt to Equity Ratio ³	0.68	0.74	0.86

¹ Stockholders' Equity attributable to owners of the Parent.² Current Assets/ Current Liabilities.³ Total Debt/ Stockholders' Equity¹ (Total Debt includes short-term debt, long-term debt and current portion of long-term debt).

Causes for any material changes
(Increase or decrease of 5% or more in the financial statements)

Balance Sheet Items**As of December 31, 2015 (Audited) vs. December 31, 2014 (Audited)****Cash and cash equivalents – 9% decrease from ₱90,770 million to ₱82,154 million**

Primarily due to AC Parent's payment of loans, dividends and placements to Short-term investment; AYC's placements and loan payment; ALI's funding of new and expansion projects and investment in MCT Malaysia; offset partially by proceeds from sale of investment by ACEHI. This account is at 10% and 13% of the total assets as of December 31, 2015 and December 31, 2014, respectively.

Short-term investments – 86% higher from ₱1,103 million to ₱2,052 million

Due to additional placements made by AC Parent for the period. This account is at less than 1% of the total assets as of December 31, 2015 and 2014.

Accounts and notes receivable (current) – 14% increase from ₱72,710 million to ₱82,596 million

Increase attributable to ALI group's higher sales of residential units and rental receivable from mall merchants; Automotive group's increase in vehicle sales plus receivables relating to sale of investment by ACEHI. This account is at 10% of the total assets as of December 31, 2015 and 2014.

Inventories – 25% increase from ₱54,962million to ₱68,431 million

Increase pertains to ALI group's higher completed inventories for new and existing projects (mainly residential business) and Automotive group's higher vehicle inventory. This account is at 9% and 8% of the total assets as of December 31, 2015 and December 31, 2014, respectively.

Other current assets – 21% decrease from ₱35,157million to ₱27,617 million

Decrease mainly due to ALI group's redemption of UITF investments, maturity of other current investments and decline in deposits/escrow accounts. This account is at 3% and 5% of the total assets as of December 31, 2015 and December 31, 2014, respectively.

Accounts and notes receivable (noncurrent) – 31% increase from ₱32,006 million to ₱41,793 million

Increase attributable to ALI group's higher sales of residential units. This account is at 5% and 4% of the total assets as of December 31, 2015 and December 31, 2014, respectively.

Land and improvements – 16% increase from ₱79,960 million to ₱92,895 million

Increase comprised of ALI group's additional investment properties (malls, office buildings and land acquisitions). This account is at 12% and 11% of the total assets as of December 31, 2015 and December 31, 2014, respectively.

Investments in associates & joint ventures – 7% increase from ₱152,765 million to ₱162,711 million

Increase attributable to investments of ALI into MCIT Malaysia and AC Infra into LRMC; and improved earnings of BPI and Globe; offset by partial disposal of investment in Philwind of ACEHI. This account is at 20% and 21% of the total assets as of December 31, 2015 and December 31, 2014, respectively.

Investment in bonds and other securities – 9% increase from ₱3,432 million to ₱3,738 million

Mainly due to Bestfull's additions in investment shares. This account is less than 1% of the total assets as of December 31, 2015 and 2014.

Investment properties – 17% increase from ₱71,324 million to ₱83,669 million

Increase comprised of ALI group's additional investment properties (malls, office buildings and land acquisitions). This account is at 11% and 10% of the total assets as of December 31, 2015 and December 31, 2014, respectively.

Property, plant and equipment – 42% increase from ₱27,953 million to ₱39,644 million

Increase mainly due to ALI group's additional properties (malls, office buildings and land acquisitions); Energy sector's construction in progress and land & building acquisitions for various projects; IMI's expansion in Europe and Education's acquisition of UNC. This account is at 5% and 4% of the total assets as of December 31, 2015 and December 31, 2014, respectively.

Service concession assets – 5% increase from ₱74,837 million to ₱78,829 million

Increase caused by MWCI's additions to its concession assets/ projects. This account is at less than 10% of the total assets as of December 31, 2015 and 2014.

Intangible assets – 7% decrease from ₱4,183 million to ₱3,910 million

Decrease attributed to Energy sector's provision for impairment of certain asset. This account is at less than 1% of the total assets as of December 31, 2015 and 2014.

Deferred tax assets – 21% increase from ₱8,055 million to ₱9,743 million

Increase resulted from ALI group's higher deferred tax asset due to tax effect of temporary difference from sale and collection of booked accounts. This account is at 1% of the total assets as of December 31, 2015 and 2014.

Pension and other noncurrent assets - 15% decrease from ₱16,830 million to ₱14,291 million

Decrease attributable to maturity of non-current cash of AYC Finance offset by ALI group's higher pre-operating expenses, deferred charges and down payments pertaining to new projects. The account also includes the Group's pension asset which has no significant movement for the period.¹¹ This account is at 2% of the total assets as of December 31, 2015 and December 31, 2014.

¹¹ The Company's pension fund is known as the AC Employees Welfare and Retirement Fund (ACEWRF). ACEWRF is a legal entity separate and distinct from the Company, governed by a board of trustees appointed under a Trust Agreement between the Company and the initial trustees. It holds common and preferred shares of the Company in its portfolio. All such shares have voting rights under certain conditions, pursuant to law. ACEWRF's portfolio is managed by a committee appointed by the fund's trustees for that purpose. The members of the committee, all of whom are Managing Directors of the Company, are Jose Teodoro K. Limcaoco, (the Company's Chief Finance Officer, Chief Risk Officer & Finance Group Head), Solomon M. Hermosura (the Company's Group Head of Corporate Governance, General Counsel, Corporate Secretary & Compliance Officer), John Philip S. Orbeta (the Company's Head for Strategic Human Resources), Ma. Cecilia T. Cruzabra (the Company's Treasurer), and Josephine G. de Asis (the Company's Comptroller). ACEWRF has not exercised voting rights over any shares of the Company that it owns.

Accounts payable and accrued expenses - 15% increase from ₱126,102 million to ₱145,598 million

Increase caused by higher trade payables and accruals of ALI group for its new and existing projects (including higher construction payables); ACEHI's higher project development costs; offset by AC's settlement of dividends payable. This account is at 31% and 29% of the total liabilities as of December 31, 2015 and December 31, 2014, respectively.

Short-term debt – 5% increase from ₱21,084 million to ₱24,387 million

Mainly due loan availment of AC Parent and Automotive group; offset by net debt settlement of the ALI group. This account is at 5% of the total liabilities as of December 31, 2015 and 2014.

Long-term debt (current) – 162% increase from ₱10,761 million to ₱28,154 million

Mainly attributable to AC, MWCI and AYC groups' reclassification of loans maturing this year and ALI's loan availment this year. This account is at 6% and 2% of the total liabilities as of December 31, 2015 and December 31, 2014, respectively.

Service concession obligation (current) – 23% increase from ₱1,020 million to ₱1,256 million

Increase was due to MWCI's higher computed and actual obligation due within one year. This account is at less than 1% of the total liabilities as of December 31, 2015 and 2014.

Other current liabilities – 51% decrease from ₱9,452 million to ₱4,630 million

Net decrease was mainly due to ALI group's payment to various contractors and release of retention payable from projects; offset by payables of Health and Education groups to sellers of Generika and UNC, respectively. This account is at 1% and 2% of the total liabilities as of December 31, 2015 and December 31, 2014.

Long-term debt (noncurrent) – 7% decrease from ₱226,999 million to ₱210,800 million

Due to settlements and reclassification to current loans of AC, MWCI and AYC groups partly offset by net loan availment of ALI group. This account is at 45% and 52% of the total liabilities as of December 31, 2015 and December 31, 2014, respectively.

Pension liabilities – 17% increase from ₱2,180 million to ₱2,546 million

Increase relates to liabilities due to higher service cost and impact of remeasurement unrealized gain/losses per year-end actuarial reports (PAS19). This account is at less than 1% of the total liabilities as of December 31, 2015 and December 31, 2014.

Other current liabilities – 26% increase from ₱25,641 million to ₱32,239 million

Increase on account of ALI group's higher accounts re: inventory/ projects and deposits. This account is at 7% and 6% of the total liabilities as of December 31, 2015 and December 31, 2014,, respectively.

Cumulative translation adjustments - 148% increase (improvement) from negative ₱604 million to positive ₱288 million

Upward impact due to slight year-on-year depreciation of PhP vs US\$ (47.06 in 2015 vs. 44.72 in 2014).

Cost of share based payments – 51% increase from ₱377 million to ₱569 million

Pertains to exercise of stock options of AC employees.

Remeasurement gains on defined benefit plan – 24% decrease from negative ₱1,006 million to ₱1,250 million

Decrease attributable to the effect of PAS 19- immediate recognition of service cost and re-measurement of unrealized actuarial gains or losses

Net unrealized gain on available-for-sale financial assets – 76 times decrease from negative ₱7 million to negative ₱554 million

Pertains to the movement in the market value of securities held by BPI group as available for sale financial assets.

Equity reserve – 66% increase from ₱7,478 million to ₱12,402 million

Increase mainly came from AC's dilution resulting from ALI's top-up placement in January 2015.

Retained earnings – 16% increase from ₱107,040 million to ₱124,468 million

Represents share in full year 2015 group net income, reduced by the amount of dividends declared.

Non-controlling interests – 18% increase from ₱101,202 million to ₱119,887 million

Includes share in full year 2015 group net income, effect of ALI's top-up placement, share in dividends declared and share in other comprehensive income.

Income Statement items

For the Year Ended December 31, 2015 (Audited) vs. December 31, 2014 (Audited)

Sale of goods and rendering services – 11% increase from a total of ₱156,417 million to ₱174,035 million

Growth in sale of goods came primarily from higher sales of ALI and Automotive groups. ALI posted double-digit growth in revenues on sustained demand for real estate development. Automotive group's higher sales were driven by Honda and Isuzu. Higher revenues from rendering of service resulted from higher occupancy rate of ALI's leasing and hotel operations. As a percentage to total income, this account is at 84% and 85% in December 31, 2015 and December 31, 2014, respectively.

Share of profit of associates and joint ventures – 14% increase from ₱13,185 million to ₱15,038 million

Increase significantly from the higher equity in net earnings of Globe (on subscriber-based revenue growth), BPI (on higher net interest income); and wind and coal business of ACEHI. As a percentage to total income, this account is at 7% in December 31, 2015 and 2014.

Interest income – 33% increase from ₱5,494 million to ₱7,297 million

Mainly from ALI, AC and AYC groups higher investible funds and higher accretion income on installment sales of ALI. This account is at 4% and 3% of the total income in December 31, 2015 and December 31, 2014, respectively.

Other income – 23% increase from ₱9,180 million to ₱11,297 million

Increase on account of combined improvements in other income of ALI (management income), MWC (rehabilitation works) and Automotive (automotive collateral business) groups plus the realized gain from AC Energy's partial divestment of one of its wind power business (₱1.5 billion). Last year's balance included the divestment gain from Stream (₱1.8 billion). This account is at 5% of the total income in December 31, 2015 and 2014.

Cost of sales and rendering services – 10% increase from ₱112,269 million to ₱123,061 million

Increase resulting from higher sales of ALI and Automotive groups. As a percentage to total costs and expenses, this account is at 77% and 78% in December 31, 2015 and December 31, 2014, respectively.

General and administrative expenses – 14% increase from ₱15,831 million to ₱18,052 million

Increase mainly on combined increments in expenses of ALI and AC (manpower costs), Automotive (marketing) and Energy (costs related to commencement of project operations) groups. As a percentage to total costs and expenses, this account is at 11% in December 31, 2015 and 2014.

Interest expense and other financing charge – 11% increase from ₱11,934 million to ₱13,276 million

Increase attributable to higher loans of ALI group to fund new and expansion projects. As a percentage to total costs and expenses, this account is at 8% in December 31, 2015 and 2014.

Other charges – 56% increase from ₱3,829 million to ₱5,970 million

Increase mainly on higher rehabilitation works costs of MWCI. As a percentage to total costs and expenses, this account is at 4% and 3% in December 31, 2015 and December 31, 2014.

Provision for income tax (current and deferred) – 11% increase from ₱8,138 million to ₱9,012 million

Primarily due to higher taxable income of several subsidiaries significant part of which comes from ALI and MWCI groups on account of better sales and other operating results.

Income attributable to Owners of the parent – 20% increase from ₱18,609 million to ₱22,279 million

Increase resulting from better performance of most subsidiaries and associates of the Group.

Income attributable to Non-controlling interests – 17% increase from ₱13,665 million to ₱16,016 million

Better operating results of most of the subsidiaries of the Group.

There are no known trends, events or uncertainties that will result in the Company's liquidity increasing or decreasing in a material way.

There were no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

Likewise, there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

There are no seasonal aspects that may have a material effect on the financial condition of the Company.

NATURE AND SCOPE OF BUSINESS

Ayala Corporation was incorporated in the Republic of the Philippines on January 23, 1968. The Company's registered office address and principal place of business is 32nd to 35th Floors, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City. The Company is a publicly listed company which is 47.74% owned by Mermac, Inc., 10.15% owned by Mitsubishi Corporation, and the rest by the public.

The Company is organized as a holding company holding equity interests in the Ayala Group (the "Group"), one of the most significant business groups in the Philippines. Ayala's business activities are divided into: (a) real estate, (b) financial services, (c) telecommunications, (d) water (e) industrial technologies, (f) power, (g) infrastructure, (h) healthcare, and (i) education.

II. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY

A) Principal market where the registrant's common equity is traded.

The following table shows the high and low prices (in PHP) of Ayala Corporation's shares in the Philippine Stock Exchange for the year 2017 and 2016:

	<u>2017</u>		<u>2016</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
1 st qtr	850.00	722.50	765.00	600.00
2 nd qtr	899.00	837.00	870.50	723.00
3 rd qtr	995.00	841.00	908.00	833.00
4 th qtr	1116.00	970.00	880.50	670.00

Source: Bloomberg

The market capitalization of the Company's common shares as of end-2017, based on the closing price of ₱1,015.00/share, was approximately ₱630.5billion.

The price information of Ayala common, preferred B series 1 and preferred B series 2 shares as of the close of the latest practicable trading date, March 14, 2018 is ₱1,038.00, ₱504.00, and ₱514.00, respectively.

B) Holders

The following are the top 20 registered holders of the Company's securities based on the records of our stock transfer agents:

Common Shares

There are 6,555 registered holders of common shares as of February 28, 2018.

	Stockholder name	No. of common shares	Percentage of common shares
1.	Mermac, Inc.	296,625,706	47.7428%
2.	PCD Nominee Corporation (Non-Filipino)	166,229,892	26.7552%
3.	PCD Nominee Corporation (Filipino)	72,566,420	11.6797%
4.	Mitsubishi Corporation	63,077,540	10.1525%
5.	Shoemart, Inc.	7,529,203	1.2118%
6.	Sysmart Corporation	1,500,912	0.2415%
7.	SM Investment Corporation	1,418,610	0.2283%
8.	Philippine Remnants Co., Inc.	823,046	0.1324%
9.	ESOWN Administrator 2009	529,679	0.0852%
10.	ESOWN Administrator 2016	501,564	0.0807%
11.	ESOWN Administrator 2017	456,286	0.0734%
12.	ESOWN Administrator 2015	453,429	0.0879%
13.	ESOWN Administrator 2014	374,879	0.0603%
14.	ESOWN Administrator 2012	369,189	0.0594%
15.	Mitsubishi Logistics Corporation	360,512	0.0580%
16.	ESOWN Administrator 2008	317,697	0.0511%
17.	ESOWN Administrator 2007	168,271	0.0270%
18.	Telengtan Brothers & Sons, Inc.	136,857	0.0220%
19.	Lucio Yan	127,996	0.0206%
20.	Xavier P. Loinaz	126,052	0.0202%

Preferred B Series 1 Shares

There are 17 registered holders of preferred B series 1 shares as of February 28, 2018.

	Stockholder name	No. of preferred B series 1 shares	Percentage of preferred B series 1 shares
1.	PCD Nominee Corp – Filipino	19,829,580	99.1480%
2.	PCD Nominee Corp – Non Filipino	84,560	0.4228%
3.	Insigne Fortuna Holdings Inc.	19,320	0.0966%
4.	One Point Contact, Inc.	18,000	0.0900%
5.	Mariano Vicente Lim Tan or Katherine Tan or Elena Lim Tan	8,000	0.0400%
6.	Santos, Leonel A. and/or Santos, Alicia	7,000	0.0350%
7.	Tan, Ben Cuevo and/or Tan, Imelda Toralba	6,000	0.0300%
8.	Chan, Raymond O. or Chan Lynette	5,000	0.0250%
9.	Chavez, Felix B. or Aida T. Chavez or Irene T. Chavez	5,000	0.0250%
10.	Philippine British Assurance Company, Inc.	4,000	0.0200%
11.	Zalamea, Enriquez M. Jr.	4,000	0.0200%
12.	Henry Dy Tan and or Sherly G. Tan	3,400	0.0170%
13.	Uy, Miguel F.	2,000	0.0100%
14.	Macabuhay, Melchor T.	1,540	0.0077%
15.	Bautista, Feliciano M. and or Bautista, Elisa D.	1,000	0.0050%
16.	Ching Bun Teng	1,000	0.0050%
17.	Lim, Iris Veronica Go	600	0.0030%

Preferred B Series 2 Shares

There are 10 registered holders of preferred B series 2 shares as of February 28, 2018.

	Stockholder name	No. of preferred B series 2 shares	Percentage of preferred B series 2 shares
1.	PCD Nominee Corp – Filipino	26,876,700	99.5433%
2.	PCD Nominee Corp – Non Filipino	57,780	0.2177%
3.	First Life Financial Co., Inc.	40,000	0.1481%
4.	Jayme Alba or Elizabeth Alba	7,520	0.0279%
5.	R M Tiongco Holdings, Inc.	5,000	0.0185%
6.	Manalo Marwin Roman Tadeo and Ma. Dorothy Teodora Modomo	4,000	0.0148%
7.	Ramon, Carmen Paz C.	4,000	0.0148%
8.	Teh, Alfonso S.	2,000	0.0074%
9.	Luna, Reynaldo H.	1,000	0.0037%
10.	Leoncio, Hipolito A.	1,000	0.0037%

Voting Preferred Shares

There are 1,028 registered holders of voting preferred shares as of February 28, 2018.

	Stockholder name	No. of voting preferred shares	Percentage of voting preferred shares
1.	Mermac, Inc.	159,683,946	79.8420%
2.	Mitsubishi Corporation	32,640,492	16.3203%
3.	Deutsche Bank AG Manila OBO UBS HK A/C 12105904001	1,561,478	0.7807%
4.	Fernando Zobel de Ayala	554,983	0.2775%

5.	Jaime Augusto Zobel de Ayala	543,802	0.2719%
6.	CBNA MLA OBO AC 6002079755	364,810	0.1824%
7.	Delfin L. Lazaro	258,297	0.1291%
8.	Britel Fund Trustees Limited	170,064	0.0850%
9.	HSBC Manila OBO A/C 000-808154-573	169,803	0.0849%
10.	Deutsche Regis Partners, Inc. A/C Clients	137,372	0.0686%
11.	BDO Securities Corporation	115,794	0.0578%
12.	AB Capital Securities Inc.	113,164	0.0565%
13.	Deutsche Bank AG, Manila Branch	111,385	0.0557%
14.	Mercedita S. Nollado	84,996	0.0424%
15.	Ariston Dela Rosa Estrada, Jr.	84,396	0.0421%
16.	Asiasec Equities Inc.	78,007	0.0390%
17.	HSBC Manila OBO A/C 000-083766-550	73,272	0.0366%
18.	HSBC Manila OBO A/C 000-171512-575	72,884	0.0364%
19.	Papa Securities Corporation	69,646	0.0348%
20.	Ansaldo Godinez & Company Inc.	65,977	0.0329%

C) Dividends

Stock Dividends		
Percent	Record Date	Payment Date
20%	May 22, 2007	June 18, 2007
20%	April 24, 2008	May 21, 2008
20%	July 5, 2011	July 29, 2011

Cash Dividends On Common Shares			
Year	Payment Date	Rate	Record Date
2015	July 24, 2015	2.88/share	July 9, 2015
	January 2, 2016	2.88/share	December 17, 2015
2016	July 24, 2016	2.88/share	July 11, 2016
	January 1, 2017	2.88/share	December 16, 2016
2017	July 22, 2017	3.46/share	July 7, 2017
	December 31, 2017	3.46/share	December 15, 2017

Dividend policy

As a holding company, Ayala's policy is to provide a fixed-rate, semi-annual cash dividend on common shares. For voting preferred shares, the rate is 1.875% per annum. For non-voting Preferred B Series 1 and 2 shares, the dividends are given 5.25% and 5.575% per annum, respectively.

D) Recent sale of securities

The following shares were issued to/subscribed by the Company's executives as a result of the exercise of stock options (ESOP) and the subscription to the stock ownership (ESOWN) plans:

<u>Year</u>	<u>No. of shares</u>	
	<u>ESOP</u>	<u>ESOWN*</u>
2016	136,955	531,133
2017	169,035	957,850

**Net of cancelled subscriptions.*

The above shares formed part of the 8,864,000 ESOP and ESOWN shares subject of the Commission's resolution dated January 12, 2006 confirming the issuance of such shares as exempt transactions pursuant to Section 10.2 of the Securities Regulation Code.

E) Corporate Governance

- i. The evaluation system which was established to measure or determine the level of compliance of the Board of Directors and top level management with its Revised Manual of Corporate Governance consists of a Board Performance Assessment which is accomplished by the Board of Directors indicating the compliance ratings. The above is submitted to the Compliance Officer who issues the required Annual Corporate Governance Report to the Securities and Exchange Commission.
- ii. To ensure good governance, the Board establishes the vision, strategic objectives, key policies, and procedures for the management of the company, as well as the mechanism for monitoring and evaluating Management's performance. The Board also ensures the presence and adequacy of internal control mechanisms for good governance.
- iii. There were no deviations from the Company's Revised Manual of Corporate Governance. The Company has adopted in the Revised Manual of Corporate Governance the leading practices and principles of good corporate governance, and full compliance therewith has been made since the adoption of the Revised Manual.
- iv. The Company is taking further steps to enhance adherence to principles and practices of good corporate governance. In line with this, the Board also adopted the Charter of the Board of Directors on June 26, 2014.

Upon the written request of the stockholders, the Company undertakes to furnish said stockholder with a copy of SEC Form 17-A free of charge. Any written request for a copy of SEC Form 17-A shall be addressed to the following:

**Ayala Corporation
32F to 35F, Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City**

**Attention: Mr. Jose Teodoro K. Limcaoco
Chief Finance Officer**

CERTIFICATION OF INDEPENDENT DIRECTOR

I, Xavier P. Loinaz, Filipino, of legal age and a resident of _____
City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of Ayala Corporation and have been its independent director since April 3, 2009.
2. I am affiliated with the following companies or organizations:

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
Bank of the Philippine Islands	Independent Director	March 31, 2009 to present
DAO I Condominium Corp.	Member, Board of Directors	September 30, 2011 to present
Alay Kapwa Kilusan Pangkalusugan	Chairman, Board of Directors	February 2010 to present
BPI/MS Insurance Corporation	Independent Director	May 29, 2009 to present
BPI Family Savings Bank, Inc.	Independent Director	April 15, 2009 to present
E. Zobel Foundation	Member, Board of Trustees	January 2009 to present
XPL MTJL Properties	Vice-Chairman	2009 to present
XPL Manitou Properties, Inc.	Chairman and President	2009 to present

I am not affiliated to any Government Owned and Controlled Corporation.

3. I possess all the qualification and none of the disqualifications to serve as an Independent Director of Ayala Corporation, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am not related to the following director/officer/substantial shareholder of Ayala Corporation and its subsidiaries and affiliates other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its implementing Rules and Regulations, Code of Corporate Governance and other SEC Issuances.
7. I shall inform the Corporate Secretary of Ayala Corporation of any changes in the abovementioned information within five days from its occurrence.

Done, this MAR 12 2018 day of _____, at MAKATI CITY.


Xavier P. Loinaz
Affiant

SUBSCRIBED AND SWORN to before me this MAR 12 2018 day of _____ at MAKATI CITY,
affiant personally appeared before me and exhibited to me his Passport No. _____ issued at Manila
on March 18, 2014.

Doc. No. 384 ;
Page No. 78 ;
Book No. IV ;
Series of 2018.

Notarial DST pursuant to
Sec. 188 of the Tax Code
affixed on Notary Public's copy.




NIMFA L. PEREZ-PARAS
Notary Public – Makati City
Appt. No. M-473 until December 31, 2018
Attorney's Roll No.
PTR No. 01-08-2018; Makati City
IBP Lifetime Roll No.
MCLE Compliance No. V-0020970; 03May2016
27th Floor, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue,
Makati City, Philippines

CERTIFICATION OF INDEPENDENT DIRECTOR

I, Antonio Jose U. Periquet, Filipino, of legal age and a resident of _____ City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of Ayala Corporation and have been its independent director since September 3, 2010.
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Pacific Main Holdings, Inc.	Chairman	1999 - present
Campden Hill Group, Inc.	Chairman	2012 - present
Campden Hill Advisors, Inc.	Chairman	2012 - present
BPI Asset Management and Trust Corporation	Chairman	2017 - present
ABS-CBN Corporation	Independent Director	2013 - present
ABS-CBN Holdings Corporation	Independent Director	2012 - present
Bank of the Philippine Islands (BPI)	Independent Director	2012 - present
BPI - Capital Corporation	Independent Director	2010 - present
BPI - Family Savings Bank, Inc.	Independent Director	2012 - present
DMCI Holdings, Inc.	Independent Director	2010 - present
Max's Group of Companies, Inc.	Independent Director	2014 - present
Philippine Seven Corporation	Independent Director	2010 - present
The Straits Wine Company, Inc.	Director	2010 - present
Lyceum of the Philippines University	Trustee	2010 - present

3. I possess all the qualification and none of the disqualifications to serve as an Independent Director of Ayala Corporation, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am not related to the following director/officer/substantial shareholder of Ayala Corporation and its subsidiaries and affiliates other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code. *(where applicable)*.

NAME OF DIRECTOR/ OFFICER/ SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP
N. A.		

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding. / *I disclose that I am the subject of the following criminal / administrative investigation or proceeding (as the case may be):*

OFFENSE CHARGED/INVESTIGATED	TRIBUNAL OR AGENCY INVOLVED	STATUS
N.A.		

6. I have the required written or consent from the (head of the agency/department) to be an independent director in Ayala Corporation, pursuant to Office of the President Memorandum Circular No. 17 and Section 12, Rule XVIII of the Revised Civil Service Rules.
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its implementing Rules and Regulations, Code of Corporate Governance and other SEC Issuances.
8. I shall inform the Corporate Secretary of Ayala Corporation of any changes in the abovementioned information within five days from its occurrence.

Done, this MAR 12 2018 day of _____, at MAKATI CITY

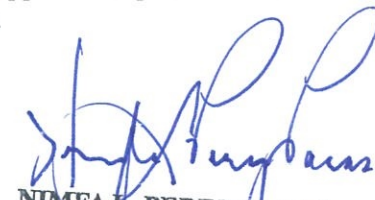

ANTONIO JOSE L. PERIQUET, JR.
 Affiant

SUBSCRIBED AND SWORN to before me this MAR 12 2018 day of _____ at MAKATI CITY,
 affiant personally appeared before me and exhibited to me his/her Philippine Passport No. _____
 issued at the Department of Foreign Affairs Manila on 13 February 2018.

Doc. No. 980;
 Page No. 77;
 Book No. N;
 Series of 2018.



Notarial DST pursuant to
 Sec. 188 of the Tax Code
 affixed on Notary Public's copy.


NIMEA L. PEREZ-PARAS
 Notary Public - Makati City
 Appt. No. M-473 until December 31, 2018
 Attorney's Roll No. _____
 PTR No. _____; 01-08-2018; Makati City
 IBP Lifetime Roll No. _____
 MCLE Compliance No. V-0020970; 03May2016
 27^a Floor, Tower One & Exchange Plaza
 Ayala Triangle, Ayala Avenue,
 Makati City, Philippines

CERTIFICATE OF INDEPENDENT DIRECTORS

I, **RAMON R. DEL ROSARIO, JR.**, Filipino, of legal age and a resident of Metro Manila, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of Ayala Corporation and have been its independent director since April 16, 2010.

2. I am affiliated with the following companies or organizations:

Philippine Investment Management, Inc.	President/	(7/18/02-present)
	CEO	(8/03/05-present)
PHINMA Corp.	Vice Chair/President	(12/12/03-present)
	CEO	(04/11/11-present)
PHINMA Energy Corp. (formerly		
Trans-Asia Oil & Energy Development Corp.	Chairman	(4/10/178-present)
	Director	(04/15/02-present)
PHINMA Power Generation Corp.		
(formerly Trans-Asia Power Generation		
Corp.)	Chairman/	(05/26/09-present)
	Director	(04/18/96-present)
PHINMA Renewable Energy Corp.	Chairman	(05/26/09-present)
CIP II Power Corp.	Chairman	(2007 -present)
PHINMA Petroleum and Geothermal, Inc.	Chairman	(02/18/13-present)
One Subic Power Generation Corp.	Chairman	(05/12/14-present)
PHINMA Property Holdings Corp.	Vice Chairman/	(04/15/05-present)
	Director	(01/20/86-present)
Araullo University	Chairman	(04/20/04-present)
Cagayan de Oro College	Chairman	(June 2005-present)
University of Iloilo	Chairman	(02/25/09-present)
University of Pangasinan	Chairman	(02/02/09-present)
Southwestern University	Chairman	(03/09/16-present)
St. Jude College	Chairman	(01/17/18-present)
United Pulp and Paper Co., Inc.	Chairman	(08/11/03-present)
PHINMA Hotels, Inc. (formerly		
Microtel Inns and Suites (Pilipinas), Inc.	Chairman	(12/11/98-present)
PHINMA Hospitality, Inc. (formerly		
Microtel Development Corp.)	Chairman	(08/23/99-present)
Union Galvasteel Corp.	Director	(10/20/93-present)
Fuld & Co., Inc.	Chairman	(07/27/11-present)
Integrative Competitive Intelligence		
Asia (ICI Asia)	Director	(07/25/11-present)
Paramount Building Management		
and Services Corp.	Chairman	(01/29/97-present)
PHINMA Foundation, Inc.	Vice Chairman	(12/10/08-present)

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Ayala Corp. as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. I am not related to any director/officer/substantial shareholder of Ayala Corporation and its subsidiaries and affiliates .
5. To the best of my knowledge, I am not subject of any pending criminal or administrative investigation or proceeding.
6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
7. I shall inform the Corporate Secretary of Ayala Corp. of any changes in the abovementioned information within five days from its occurrence.

Done, this day of , at Makati City.


RAMON R.DEL ROSARIO, JR.

Affiant

SUBSCRIBED AND SWORN to before me this MAR 13 2018 day of 2018 at Makati City Affiant personally appeared before me and exhibited to me his Passport Numbered at Makati City on January 13, 2014.

Doc. No. 98
Page No. 21
Book No. II
Series of 2018.

Notarial DST pursuant to
Sec. 188 of the Tax Code
affixed on Notary Public's copy.




MARIA PAULA G. ROMERO-BAUTISTA
Notary Public - Makati City
Appt. No. 153 until December 31, 2019
Roll of Attorneys No.
IBP No. - 01/11/2018 - Makati City
PTR No. - 01/11/2018 - Makati City
MCLE Compliance No. V-0017192- 03/28/2016
3rd Floor Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

**Ayala Corporation**

33F Tower One Ayala Triangle
Ayala Avenue Makati City 1226
Philippines

Tel +632 908 3000

Fax +632 848 5768

www.ayala.com.ph

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

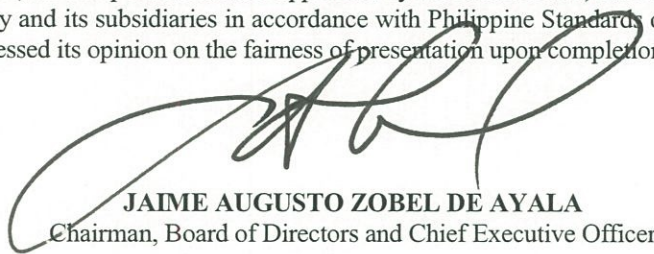
The management of Ayala Corporation is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the 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 Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

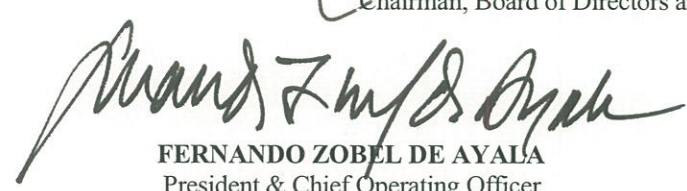
The Board of Directors is responsible for overseeing the Company's financial reporting process.

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

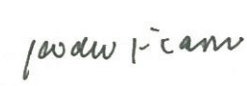
SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Company and its subsidiaries in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness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


JAIME AUGUSTO ZOBEL DE AYALA

Chairman, Board of Directors and Chief Executive Officer


FERNANDO ZOBEL DE AYALA

President & Chief Operating Officer

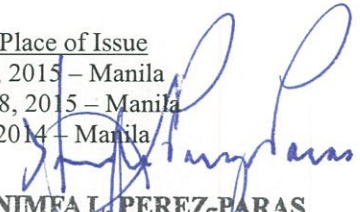

JOSE TEODORO K. LIMCAOCO

Chief Finance Officer

SUBSCRIBED AND SWORN to before me this MAR 09 2018 at Makati City, affiants exhibiting to me their respective Passports, to wit:

Name	Passport No.
Jaime Augusto Zobel de Ayala	
Fernando Zobel de Ayala	
Jose Teodoro K. Limcaoco	

Date & Place of Issue
August 4, 2015 – Manila
December 8, 2015 – Manila
May 2, 2014 – Manila


NIMEA L. PEREZ-PARAS

Notary Public – Makati City

Appt. No. M-473 until December 31, 2018

Attorney's Roll No.

PTR No. 01-08-2018; Makati City

IBP Lifetime Roll No.

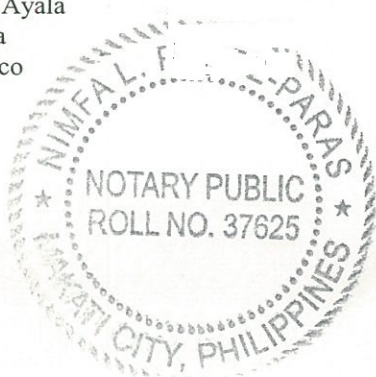
MCLE Compliance No. V-0020970; 03May2016

27th Floor, Tower One & Exchange Plaza

Ayala Triangle, Ayala Avenue,
Makati City, Philippines

Doc. No. 358 ;
Page No. 67 ;
Book No. IV ;
Series of 2018.

Notarial DST pursuant to
Sec. 188 of the Tax Code
affixed on Notary Public's copy.



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Ayala Corporation
32F-35F Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue, Makati City

Opinion

We have audited the accompanying consolidated financial statements of Ayala Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, 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, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (the 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 these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



Recognition of Real Estate Revenue and Costs

Ayala Land, Inc. and subsidiaries (the ALI Group) is involved in real estate project developments under the Ayala Land Premier, Alveo, Avida and Amaia brands for which it applies the percentage of completion (POC) method in determining real estate revenue and costs. The POC is based on the physical proportion of work and the cost of sales is determined based on the estimated project development costs applied with the respective project's POC. The assessment process for the POC and the estimated project development costs requires technical determination by management's specialists (project engineers). In addition, the Group requires a certain percentage of buyer's payments of total selling price (buyer's equity), to be collected as one of the criteria in order to initiate revenue recognition. Reaching this level of collection is an indication of buyer's continuing commitment and the probability that economic benefits will flow to the Group. This matter is significant to our audit because the assessment of the stage of completion, total estimated project development costs and the level of buyer's equity involves significant management judgment.

Refer to Notes 3 and 4 to the consolidated financial statements for the disclosures on real estate revenue and cost recognition.

Audit Response

We obtained an understanding of ALI Group's process for determining the percentage of completion, including the cost accumulation process, and for determining and updating the total estimated project development costs, and performed tests of the relevant controls. We obtained the certified POC reports prepared by the project engineers and assessed the competence and objectivity of the project engineers by reference to their qualifications, experience and reporting responsibilities. For selected projects, we compared the certified POC against supporting documents such as accomplishment reports from the contractors. We conducted ocular inspections of selected projects, together with the project managers, and made the relevant inquiries. We evaluated management's basis of the buyer's equity by comparing this to the historical analysis of sales collections from buyers with accumulated payments above the collection threshold. We traced the analysis to supporting documents.

For selected projects, we obtained the project reserve memorandum approved by the Investment Committee of ALI Group indicating the work breakdown structure and total project development costs as estimated by the project engineers. For changes in estimated cost components including those relating to unforeseen costs related to projects, we compared these against the special budget appropriations request form and supporting documents such as contractor's change order form. For changes in total project development costs, we obtained the revised project reserve memorandum approved by the Investment Committee of ALI Group, compared this against the supporting documents, and performed inquiries with the project engineers and other relevant management personnel on the rationale for such changes.

Revenue Recognition for Manila Concession (East Zone)

The Manila Water Company, Inc. and subsidiaries (the MWC Group) derives its water and sewer revenue, and environmental revenue substantially from the East Zone. The recognition process for the East Zone revenue requires the processing of data from a large number of customers; classified as either residential, commercial, semi-business, or industrial within MWC Group's concession area. The tariffs billed to customers depend on the customer type and are determined based on a formula as prescribed by the Metropolitan Waterworks and Sewerage System Regulatory Office (MWSS RO). This matter is significant to our audit because the revenue recognized depends on the completeness of the capture of water consumption based on the meter readings over the concession area taken on various dates; the propriety of rates applied across customer types; and the reliability of the systems involved in processing the billing transactions.



Relevant disclosures related to this matter are provided in Notes 3, 4, 7 and 34 to the consolidated financial statements.

Audit Response

We obtained an understanding, evaluated the design and tested the controls over the read and bill process, which includes the capture of water consumption and calculation of billed fees, and uploading of data from the billing system to MWC Group's financial reporting system. We involved our internal specialist in the testing of the related controls over these processes. We performed test calculations of the billed amounts using the volume of water consumption and MWSS RO-approved rates and compared them with the amounts reflected in the billing statements.

Amortization of MWC Group's Service Concession Assets using Units-of-production Method

The service concession assets (SCA) of MWC Group is related to its water concession agreements. In 2017, MWC Group changed the amortization method for SCA from straight-line method to units-of-production (UOP) method. As a result, SCA is amortized based on the actual billed volume over the estimated billable water volume for remaining period of the concession agreement. The UOP amortization method is a key audit matter as the method involves significant management judgment and estimates, particularly in determining the total estimated volume of billable water over the remaining periods of the concession agreements. It considers different factors such as population growth, supply and consumption, and service coverage, including ongoing and future expansions.

Relevant disclosures related to this matter are provided in Notes 3, 4 and 14 to the consolidated financial statements.

Audit Response

We obtained an understanding of management's processes and controls in the estimation of billable water volume. We evaluated the competence, capabilities, and objectivity of MWC Group management's specialist who estimated the total billable water volume. We also reviewed the report of MWC Group management's specialist and gained an understanding of the methodology and the basis of computing the forecasted volumes. Furthermore, we compared the billable water volume during the year against the data generated from the billing system for water. We recalculated the amortization expense for the year and the SCAs as of year-end based on the established billable water volume.

Accounting for Business Combinations

The Group made a number of acquisitions in 2017 including 94.90% ownership interest in MT Misslbeck Technologies GmbH (MT) through AC Industrials Technology Holdings, Inc. and subsidiaries (the AITHI Group) for a total consideration of €21.9 million (₱1.3 billion). No goodwill or gain on bargain purchase was recognized based on the provisional purchase price allocation performed. In 2017, Integrated Micro-Electronics, Inc. and subsidiaries (the IMI Group) finalized the purchase price allocation for its 2016 acquisition of VIA Optronics GmbH (VIA). This resulted in the determination of the carrying amount of the patent amounting to US\$8.3 million (₱394.0 million) and goodwill of US\$44.5 million (₱2.2 billion). We considered the accounting for these acquisitions to be a key audit matter because it required a significant amount of management judgment and estimation in identifying the underlying acquired assets and liabilities and in determining their fair values, specifically the acquired real estate properties and intangible assets.

Further details of the acquisitions made by the Group and the purchase price allocation are disclosed in Note 23 to the consolidated financial statements.



Audit Response

For the acquisition of MT, we reviewed the purchase agreement covering the acquisition, the consideration paid and the provisional purchase price allocation. We reviewed the identification of MT's underlying assets and liabilities, specifically the real estate properties, based on our understanding of the business of MT and management's explanations on the rationale for the acquisition. We assessed the competence, capabilities and objectivity of the external appraiser who prepared the appraisal report by considering their qualifications, experience and reporting responsibilities. We involved our internal specialist in evaluating the methodologies and assumptions used in arriving at the fair values of the real estate properties. We compared the key assumptions used such as the discount rate, lease rates and land value by reference to relevant market data.

In the case of the acquisition of VIA, we evaluated IMI Group's determination of the final fair value adjustments to the provisionally reported values of the acquired assets and liabilities of VIA. We involved our internal specialist in testing the fair value of the patent including the evaluation of the methodologies and key assumptions used such as revenue forecast, royalty rate, tax rate and discount rate. We evaluated the revenue forecast against VIA's recent financial performance and industry outlook. We compared the royalty rate against the royalty agreement between VIA and VIA Optronics (Suzhou), LLC. We evaluated the tax rate used against the effective tax rate in Germany and tested the parameters used in the determination of the discount rate against market data. We checked the mathematical accuracy of the finalized purchase price allocation and reviewed the presentation and disclosures in the consolidated financial statements.

Impairment Testing of Goodwill

Goodwill acquired by IMI Group through business combinations, which as of December 31, 2017 amounted to US\$147.4 million (₱7.4 billion), is required to be tested for impairment annually or whenever an indication of impairment exists. We focused on this area in our audit because of the materiality of the asset and its valuation which requires management to make significant estimates and assumptions with respect to the expected future cash flows of the related cash-generating units (CGU) and the discount rate used in calculating the present value of the cash flows.

Management's disclosures on goodwill are included in Note 15 to the consolidated financial statements.

Audit Response

We involved our internal specialist in evaluating the methodologies and assumptions used by the IMI Group in its value in use calculation, specifically on assessing the composition of estimated future cash flows and the discount rates. We paid particular attention to the assumptions used such as the forecasted revenue growth rate, which we compared against actual historical growth rates and industry outlook and gross margins against historical rates. We tested the parameters used in the derivation of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is more sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

Accounting for Investments in Associate and Joint Venture

The Group has effective ownership of 48% in Bank of the Philippine Islands and subsidiaries (BPI) and 31% in Globe Telecom, Inc. and Subsidiaries (Globe) as of December 31, 2017. These investments are accounted for using the equity method. The application of the equity method of accounting to these investments is a key audit matter to our audit because BPI and Globe contributed ₱10.8 billion and ₱4.6 billion or 22% and 9%, respectively, to the consolidated net income of the Group in 2017.



The Group's share in BPI's net income is significantly affected by the level of impairment provisioning made on BPI's loans and receivables. BPI recorded impairment losses on its loans portfolio for the year ended December 31, 2017 of which the Group's share is considered material. The impairment assessment of the loans portfolio requires the exercise of significant management judgment and estimates about the financial condition of the counterparties, forecasted cash flows and observable market prices of loan collaterals.

The Group's share in Globe's net income is significantly affected by Globe's revenue. Globe's revenue recognition is characterized by inherent risk primarily due to the significant volume of transactions and the dependence on technology given the complexity of the operation of billing systems used. In 2017, Globe Group finalized the purchase price allocation for its 2016 acquisition of Vega Telecom, Inc. (VTI), Bow Arken Holdings Company, Inc. (BAHCI) and Brightside Holdings Corporation (BHC) which is accounted for as an investment in joint venture. This resulted in Globe's share in the final net fair values of the identified assets and liabilities amounting to ₱10.1 billion and adjusted goodwill of ₱18.0 billion. The determination of the fair values of the intangible assets, including the spectrum, required significant management judgment and estimates. In addition, Globe's impairment assessment of goodwill requires significant judgment and is based on assumptions that are affected by expected market or economic conditions, including growth rates and discount rates.

Relevant disclosures related to the Group's investments in BPI and Globe are provided in Note 11 to the consolidated financial statements.

Audit Response

We sent instructions to the statutory auditors of BPI and Globe to perform an audit on the relevant financial information of BPI and Globe for the purpose of the Group's consolidated financial statements. These instructions contained a discussion on their scope of work, risk assessment procedures, audit strategy and reporting requirements. We discussed with BPI and Globe statutory auditors about their key audit areas, planning and execution of audit procedures, significant areas of estimation and judgment, and results of their work for the year ended December 31, 2017. We reviewed their working papers and obtained relevant conclusion statements related to their audit procedures.

For BPI, we focused on the BPI's statutory auditor's procedures on the specific and collective impairment testing of BPI's loan portfolio. We discussed with the BPI's statutory auditor about the overall characteristics of the loan portfolio, changes during the year, and rationale for the increase in impairment provisioning. We reviewed the procedures performed in testing the processes and controls over credit risk rating, which is relevant in determining impairment provisioning, and the analysis made on the loss rates for collective impairment test considering current information on collateral values and loan foreclosures.

In the case of Globe, we involved our internal specialist in the review of the Globe's statutory auditor's procedures on testing the IT general and application controls over the revenue process. For the finalization of the purchase price allocation of VTI, BACH and BHC, we focused on the procedures performed on the fair value determination of the identifiable intangible assets. We involved our internal specialist in the review of the procedures performed in assessing the key assumptions used in valuing the intangible assets. For impairment assessment of goodwill, we also involved our internal specialist in the review of the procedures performed in assessing the key assumptions, including the discount rate used, and cash flow forecast in comparison to recent performance and market expectations.



We obtained the relevant financial information of BPI and Globe and recomputed the Group's share in the net income of BPI and Globe for the year ended December 31, 2017.

Consolidation process

Ayala Corporation is the holding company of a significant number of domestic and foreign legal entities with diversified business portfolio. In preparing the consolidated financial statements, several factors were considered such as fair value adjustments arising from business combinations, the presence of non-controlling interests, numerous intercompany transactions, translation of investees' foreign-currency denominated financial information to Ayala Corporation's functional currency, and other equity adjustments. Accordingly, we considered the consolidation process as a key audit matter due to the inherent complexity involved in consolidating the financial information of the domestic and foreign entities comprising the Group.

Note 2 to the consolidated financial statements provides the relevant disclosures on the Group's investees.

Audit Response

We obtained an understanding of the consolidation process and controls by which the consolidated financial statements are prepared, and tested the relevant controls with the assistance of our internal specialist. We obtained an understanding of the Group's process for identifying related parties and related party transactions and the reconciliation of intercompany balances, and performed testing of the relevant controls. We tested significant consolidation adjustments, including elimination, deferral and realization of intercompany transactions and balances, amortization/depreciation/reversal of fair value adjustments arising from business combinations, the currency translation adjustments, and movements in non-controlling interests and other equity adjustments.

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

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

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



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

Management is responsible for the preparation and fair presentation of these 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 Lucy L. Chan.

SYCIP GORRES VELAYO & CO.



Lucy L. Chan
Partner
CPA Certificate No. 88118
SEC Accreditation No. 0114-AR-4 (Group A),
January 7, 2016, valid until January 6, 2019
Tax Identification No. 152-884-511
BIR Accreditation No. 08-001998-46-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621239, January 9, 2018, Makati City

March 9, 2018



AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 30, 31 and 32)	₱64,259,279	₱60,223,324
Short-term investments (Notes 6, 30, 31 and 32)	5,400,239	1,008,705
Accounts and notes receivable (Notes 7, 30, 31 and 32)	124,109,122	116,841,963
Inventories (Note 8)	76,542,538	76,752,875
Other current assets (Notes 9 and 31)	45,324,696	33,638,483
Total Current Assets	315,635,874	288,465,350
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 7, 31 and 32)	45,774,058	36,484,347
Land and improvements (Note 10)	93,869,008	101,049,171
Investments in associates and joint ventures (Note 11)	202,649,300	180,313,743
Investment properties (Note 12)	137,657,633	110,916,644
Property, plant and equipment (Note 13)	85,430,631	64,074,471
Service concession assets (Note 14)	91,049,570	82,422,249
Intangible assets (Note 15)	16,705,000	9,716,403
Deferred tax assets - net (Note 24)	12,720,910	12,414,647
Other noncurrent assets (Note 16, 30, 31 and 32)	20,053,768	25,847,478
Total Noncurrent Assets	705,909,878	623,239,153
Total Assets	₱1,021,545,752	₱911,704,503
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt (Notes 19, 30, 31 and 32)	₱29,904,723	₱30,858,137
Accounts payable and accrued expenses (Notes 17, 30, 31 and 32)	169,652,527	164,600,578
Income tax payable	1,710,260	2,270,315
Other current liabilities (Notes 18, 31 and 32)	25,983,794	17,522,984
Current portion of:		
Long-term debt (Notes 19, 30, 31 and 32)	13,731,967	19,792,669
Service concession obligation (Notes 14, 31 and 32)	803,898	754,519
Total Current Liabilities	241,787,169	235,799,202
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 30, 31 and 32)	306,975,262	245,203,145
Service concession obligation - net of current portion (Notes 14, 31 and 32)	7,748,056	6,822,862
Deferred tax liabilities - net (Note 24)	8,108,305	9,543,754
Pension liabilities (Note 26)	2,600,756	2,469,140
Other noncurrent liabilities (Notes 20, 31 and 32)	43,233,816	40,870,522
Total Noncurrent Liabilities	368,666,195	304,909,423
Total Liabilities	610,453,364	540,708,625

(Forward)



	December 31	
	2017	2016
Equity		
Equity attributable to owners of the parent		
Paid-in capital (Note 21)	₱75,001,174	₱74,379,760
Share-based payments (Note 27)	248,212	495,759
Remeasurement losses on defined benefit plans (Note 26)	(1,303,288)	(1,548,192)
Net unrealized loss on available-for-sale financial assets (Note 16)	(1,107,962)	(466,676)
Cumulative translation adjustments	2,794,303	1,414,550
Equity reserve (Notes 2 and 23)	11,600,281	12,211,275
Equity conversion option (Note 19)	1,113,003	1,113,745
Retained earnings (Note 21)	170,302,028	145,622,311
Treasury stock (Note 21)	(2,300,000)	(2,300,000)
	256,347,751	230,922,532
Non-controlling interests (Note 2)	154,744,637	140,073,346
Total Equity	411,092,388	370,995,878
Total Liabilities and Equity	₱1,021,545,752	₱911,704,503

See accompanying Notes to Consolidated Financial Statements.



AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Earnings Per Share Figures)

	Years Ended December 31		
	2017	2016	2015
REVENUE			
Sale of goods (Notes 28 and 30)	₱178,676,125	₱137,307,163	₱118,285,566
Rendering of services (Notes 12, 28 and 30)	63,551,515	61,901,736	55,749,425
Share of profit of associates and joint ventures (Notes 11 and 28)	18,494,458	18,153,893	15,038,015
Interest income from real estate (Note 7)	5,409,944	5,010,993	5,172,744
Dividend income	653,721	570,455	229,362
	266,785,763	222,944,240	194,475,112
COSTS AND EXPENSES			
Costs of sales (Notes 8, 22 and 30)	132,793,134	105,752,969	89,487,870
Costs of rendering services (Notes 22 and 30)	42,881,335	35,597,431	33,573,245
General and administrative (Notes 22, 27 and 30)	25,213,100	20,932,709	18,937,183
	200,887,569	162,283,109	141,998,298
OTHER INCOME (CHARGES)			
Interest income (Note 30)	1,403,537	1,765,943	2,124,055
Other income (Note 22)	20,938,274	12,575,606	11,067,575
Interest and other financing charges (Notes 19, 22 and 30)	(14,441,334)	(14,258,189)	(13,276,414)
Other charges (Note 14 and 22)	(11,672,137)	(6,804,908)	(5,085,532)
	(3,771,660)	(6,721,548)	(5,170,316)
INCOME BEFORE INCOME TAX	62,126,534	53,939,583	47,306,498
PROVISION FOR INCOME TAX (Note 24)			
Current	14,629,398	11,357,136	8,847,768
Deferred	(2,369,639)	(850,162)	163,676
	12,259,759	10,506,974	9,011,444
NET INCOME	₱49,866,775	₱43,432,609	₱38,295,054
Net Income Attributable to:			
Owners of the parent (Note 25)	₱30,263,842	₱26,011,263	₱22,278,955
Non-controlling interests	19,602,933	17,421,346	16,016,099
	₱49,866,775	₱43,432,609	₱38,295,054
EARNINGS PER SHARE (Note 25)			
Basic	₱46.67	₱39.88	₱33.89
Diluted	₱45.99	₱39.31	₱33.38

See accompanying Notes to Consolidated Financial Statements.



AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2017	2016	2015
NET INCOME	₱49,866,775	₱43,432,609	₱38,295,054
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences arising from translations of foreign investments	2,360,433	1,600,871	1,151,571
Changes in fair values of available-for-sale financial assets – net (Note 16)	(706,081)	(51,054)	(69,805)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains on defined benefit plans (Note 26)	350,532	162,382	78,152
Tax effect relating to components of other comprehensive income	(51,063)	(19,486)	(18,035)
	1,953,821	1,692,713	1,141,883
SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES			
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences arising from translations of foreign investments	105,163	(70,907)	47,017
Changes in fair values of available-for-sale financial assets	65,822	201,430	(588,087)
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains/(losses) on defined benefit plans	53,422	(284,084)	(267,438)
	224,407	(153,561)	(808,508)
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX	2,178,228	1,539,152	333,375
TOTAL COMPREHENSIVE INCOME	₱52,045,003	₱44,971,761	₱38,628,429
Total Comprehensive Income Attributable to:			
Owners of the parent	₱31,247,213	₱26,926,275	₱22,380,172
Non-controlling interests	20,797,790	18,045,486	16,248,257
	₱52,045,003	₱44,971,761	₱38,628,429

See accompanying Notes to Consolidated Financial Statements.



AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousands)

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT											
	Paid-in Capital (Note 21)	Share-based Payments (Note 27)	Other Comprehensive Income		Cumulative Translation Adjustments	Equity Reserve (Note 2)	Equity Conversion Option (Note 19)	Retained Earnings (Note 21)	Treasury Stock (Note 21)	Total	Non-controlling Interests (Note 2)	Total Equity
			Remeasurement Gains (Losses) on Defined Benefit Plans (Note 26)	Net Unrealized Gain (Loss) on Available-for- Sale Financial Assets (Note 16)								
For the year ended December 31, 2016												
As of January 1, 2017	₱74,379,760	₱495,759	(₱1,548,192)	(₱466,676)	₱1,414,550	₱12,211,275	₱1,113,745	₱145,622,311	(₱2,300,000)	₱230,922,532	₱140,073,346	₱370,995,878
Net income	-	-	-	-	-	-	-	30,263,842	-	30,263,842	19,602,933	49,866,775
Other comprehensive income (loss)	-	-	191,482	(707,108)	1,274,590	-	-	-	-	758,964	1,194,857	1,953,821
Share in other comprehensive income (loss) of associates and joint ventures	-	-	53,422	65,822	105,163	-	-	-	-	224,407	-	224,407
Total comprehensive income (loss)	-	-	244,904	(641,286)	1,379,753	-	-	30,263,842	-	31,247,213	20,797,790	52,045,003
Exercise of ESOP/ESOWN	621,414	(247,043)	-	-	-	-	-	-	-	374,371	-	374,371
Cost of share-based payments	-	(504)	-	-	-	-	-	(504)	-	(504)	-	(504)
Exercise of exchange option (Note 19)	-	-	-	-	-	8,606	(742)	-	-	7,864	2,048	9,912
Cash dividends	-	-	-	-	-	-	-	(5,584,125)	-	(5,584,125)	(5,395,567)	(10,979,692)
Change in non-controlling interests	-	-	-	-	-	(619,600)	-	-	-	(619,600)	(732,980)	(1,352,580)
At December 31, 2017	₱75,001,174	₱248,212	(₱1,303,288)	(₱1,107,962)	₱2,794,303	₱11,600,281	₱1,113,003	₱170,302,028	(₱2,300,000)	₱256,347,751	₱154,744,637	₱411,092,388

EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT												
			Other Comprehensive Income									
	Paid-in Capital (Note 21)	Share-based Payments (Note 27)	Remeasurement Gains (Losses) on Defined Benefit Plans (Note 26)	Net Unrealized Gain (Loss) on Available-for- Sale Financial Assets (Note 16)	Cumulative Translation Adjustments	Equity Reserve (Note 2)	Equity Conversion Option (Note 19)	Retained Earnings (Note 21)	Treasury Stock (Note 21)	Total	Non-controlling Interests (Note 2)	Total Equity
For the year ended December 31, 2016												
As of January 1, 2016	₱73,919,322	₱568,847	(₱1,249,716)	(₱554,297)	₱288,683	₱12,402,311	₱1,113,745	₱124,468,464	(₱2,300,000)	₱208,657,359	₱119,886,624	₱328,543,983
Net income	—	—	—	—	—	—	—	26,011,263	—	26,011,263	17,421,346	43,432,609
Other comprehensive income (loss)	—	—	(14,392)	(113,809)	1,196,774	—	—	—	—	1,068,573	624,140	1,692,713
Share in other comprehensive income (loss) of associates and joint ventures	—	—	(284,084)	201,430	(70,907)	—	—	—	—	(153,561)	—	(153,561)
Total comprehensive income (loss)	—	—	(298,476)	87,621	1,125,867	—	—	26,011,263	—	26,926,275	18,045,486	44,971,761
Exercise of ESOP/ESOWN	460,438	(321,094)	—	—	—	—	—	—	—	139,344	—	139,344
Cost of share-based payments	—	248,006	—	—	—	—	—	—	—	248,006	—	248,006
Cash dividends	—	—	—	—	—	—	—	(4,857,416)	—	(4,857,416)	(5,335,772)	(10,193,188)
Change in non-controlling interests	—	—	—	—	—	(191,036)	—	—	—	(191,036)	7,477,008	7,285,972
At December 31, 2016	₱74,379,760	₱495,759	(₱1,548,192)	(₱466,676)	₱1,414,550	₱12,211,275	₱1,113,745	₱145,622,311	(₱2,300,000)	₱230,922,532	₱140,073,346	₱370,995,878



EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT											Total Equity
	Paid-in Capital (Note 21)	Share-based Payments (Note 27)	Other Comprehensive Income		Cumulative Translation Adjustments	Equity Reserve (Note 2)	Equity Conversion Option (Note 19)	Retained Earnings (Note 21)	Treasury Stock (Note 21)	Non-controlling Interests (Note 2)	Total	
Remeasurement Gains (Losses) on Defined Benefit Plans (Note 26)			Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 16)									
For the year ended December 31, 2015												
As of January 1, 2015	₱73,571,505	₱377,376	(₱1,005,572)	(₱7,211)	(₱603,765)	₱7,478,259	₱1,113,745	₱107,039,814	(₱2,300,000)	₱185,664,151	₱101,202,334	₱286,866,485
Net income	—	—	—	—	—	—	—	22,278,955	—	22,278,955	16,016,099	38,295,054
Other comprehensive income (loss)	—	—	23,294	41,001	845,431	—	—	—	—	909,726	232,158	1,141,884
Share in other comprehensive income (loss) of associates and joint ventures	—	—	(267,438)	(588,087)	47,017	—	—	—	—	(808,508)	—	(808,508)
Total comprehensive income (loss)	—	—	(244,144)	(547,086)	892,448	—	—	22,278,955	—	22,380,173	16,248,257	38,628,430
Exercise of ESOP/ESOWN	347,817	(72,729)	—	—	—	—	—	—	—	275,088	—	275,088
Cost of share-based payments	—	264,200	—	—	—	—	—	—	—	264,200	—	264,200
Cash dividends	—	—	—	—	—	—	—	(4,850,305)	—	(4,850,305)	(4,836,270)	(9,686,575)
Change in non-controlling interests	—	—	—	—	—	4,924,052	—	—	—	4,924,052	7,272,303	12,196,355
At December 31, 2015	₱73,919,322	₱568,847	(₱1,249,716)	(₱554,297)	₱288,683	₱12,402,311	₱1,113,745	₱124,468,464	(₱2,300,000)	₱208,657,359	₱119,886,624	₱328,543,983



AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱62,126,534	₱53,939,583	₱47,306,498
Adjustments for:			
Interest and other financing charges - net of amount capitalized (Note 22)	14,441,334	14,258,189	13,276,414
Depreciation and amortization (Note 22)	12,297,860	11,560,471	9,443,089
Cost of share-based payments (Note 26)	(504)	248,006	373,161
Provision for impairment/Losses on (Note 22):			
Investments in bonds and other securities	18,813	—	61,701
Investments in associates and joint ventures	356,700	1,436,854	546,333
Property, plant and equipment	—	45,737	88,753
Land and improvements	572,001	—	—
Intangible assets	26,112	—	423,541
Mark to market gain on financial assets at fair value through profit or loss and derivatives (Note 22)	(779,553)	(473,855)	(243,452)
Dividend income	(653,721)	(570,455)	(229,362)
Other investment income (Note 22)	18,528	(712,735)	(124,039)
Gain on sale of (Note 22):			
Investments	(1,394,560)	(2,128,522)	(1,508,987)
Other assets	(126,337)	(5,182)	(51,936)
Interest income	(6,813,481)	(6,776,936)	(7,296,799)
Share of profit of associates and joint ventures (Note 11)	(18,494,458)	(18,153,893)	(15,038,015)
Operating income before changes in operating assets and liabilities	61,595,268	52,667,262	47,026,900
Decrease (increase) in:			
Accounts and notes receivable – trade	(16,037,362)	(14,509,112)	(17,139,767)
Inventories	10,027,708	(5,676,226)	(4,267,408)
Service concession assets	(10,667,636)	(6,423,693)	(6,609,718)
Other current assets	(9,028,474)	(5,387,939)	2,540,623
Increase (increase) in:			
Accounts payable and accrued expenses	4,510,461	20,002,946	16,638,678
Net pension liabilities	462,117	(1,143,247)	342,193
Other current liabilities	7,857,053	12,834,529	(3,827,639)
Net cash generated from operations	48,719,135	52,364,520	34,703,862
Interest received	6,782,727	7,054,102	7,363,940
Interest paid	(13,374,230)	(14,029,313)	(13,289,559)
Income tax paid	(16,626,572)	(10,172,006)	(10,192,869)
Net cash provided by operating activities	25,501,060	35,217,303	18,585,374
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale/maturities of investments in bonds and other securities	1,834,186	1,659,387	826,148
Sale/maturities of financial assets at fair value through profit or loss	3,408,555	2,948,650	28,117,351
Sale/redemptions of investments in associates and joint ventures	944,104	3,672,767	5,782,807
Sale of a subsidiary (Note 2)	—	109,729	—

(Forward)



	Years Ended December 31		
	2017	2016	2015
Disposals of:			
Property, plant and equipment (Note 13)	₱1,016,548	₱363,849	₱434,084
Investment properties (Note 12)	165	777,105	681,913
Land and improvements (Note 10)	—	—	24,449
Maturities of (additions to) short-term investments	(4,391,533)	1,043,583	(949,250)
Additions to:			
Service concession assets (Note 14)	(26,290)	(110,383)	(217,527)
Investments in associates and joint ventures	(11,779,429)	(13,422,670)	(8,767,207)
Property, plant and equipment (Note 13)	(25,189,980)	(24,344,093)	(15,753,861)
Investment properties (Note 12)	(28,233,052)	(28,449,015)	(12,706,724)
Land and improvements (Note 10)	(6,591,910)	(5,128,862)	(22,475,160)
Accounts and notes receivable - non trade	(1,336,144)	(11,274,562)	(979,350)
Financial assets at fair value through profit or loss	(1,555,243)	(2,742,790)	(22,357,315)
Investments in bonds and other securities	(799,529)	(52,642)	(1,079,053)
Intangible assets (Note 15)	(492,057)	(533,376)	319,530
Dividends received from associates, joint ventures and investments in equity securities (Note 11)	8,953,251	8,560,393	8,309,970
Acquisitions through business combinations - net of cash acquired (Note 23)	(5,322,990)	(2,551,035)	(781,687)
Decrease (increase) in other noncurrent assets	5,775,538	(6,709,456)	2,749,436
Net cash used in investing activities	(63,785,810)	(76,183,421)	(38,821,446)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term and long-term debt	225,841,869	97,216,392	75,097,645
Payments of short-term and long-term debt	(172,070,751)	(68,047,835)	(71,223,956)
Dividends paid (Note 21)	(10,864,490)	(10,104,138)	(9,130,756)
Service concession obligation paid (Note 14)	(778,819)	(858,230)	(646,815)
Collections of subscriptions receivable	374,371	139,344	166,127
Increase (decrease) in:			
Other noncurrent liabilities	1,181,105	1,368,605	5,135,008
Non-controlling interests in consolidated subsidiaries (Note 23)	(1,362,580)	(679,238)	12,223,836
Net cash provided by financing activities	42,320,705	19,034,900	11,621,089
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,035,955	(21,931,218)	(8,614,983)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	60,223,324	82,154,542	90,769,525
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	₱64,259,279	₱60,223,324	₱82,154,542

See accompanying Notes to Consolidated Financial Statements.



AYALA CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Ayala Corporation (the Parent Company) is incorporated in the Republic of the Philippines on January 23, 1968. On April 15, 2016, during the annual meeting of its stockholders, the stockholders ratified the amendment of the Fourth Article of the Articles of Incorporation (AOI) to extend the corporate term for 50 years from January 23, 2018. The amendment to the AOI was approved by the Securities and Exchange Commission (SEC) on April 5, 2017. The Parent Company's registered office address and principal place of business is 32F-35F, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City. The Parent Company is a publicly listed company which is 47.74% owned by Mermac, Inc., 10.15% owned by Mitsubishi Corporation and the rest by the public.

The Parent Company is the holding company of the Ayala Group of Companies (the Group), with principal business interests in real estate and hotels, financial services and insurance, telecommunications, water infrastructure, electronics manufacturing, industrial technologies, automotive, power generation, transport infrastructure, international real estate, healthcare, education and technology ventures.

2. Group Information

The consolidated financial statements comprise the financial statements of the Parent Company and the following subsidiaries of the Group:

Subsidiaries	Nature of Business	% of Economic Ownership Interest held by the Group	
		2017	2016
AC Energy, Inc. (ACEHI) <i>(formerly AC Energy Holdings, Inc.)</i>	Power Generation	100.0%	100.0%
AC Infrastructure Holdings Corporation (AC Infra)	Transport Infrastructure	100.0	100.0
AC International Finance Limited (ACIFL)*	Investment Holding	100.0	100.0
AG Counselors Corporation (AGCC)	Consulting Services	100.0	100.0
AC Industrial Technology Holdings Inc. (AITHI) <i>(formerly Ayala Automotive Holdings Corporation)</i>	Industrial Technology and Automotive	100.0	100.0
Ayala Aviation Corporation (AAC)	Air Charter	100.0	100.0
AC Education, Inc. (AEI) <i>(formerly Ayala Education, Inc.)</i>	Education	100.0	100.0
Ayala Land, Inc. (ALI)	Real Estate and Hotels	47.1	47.2
AYC Finance Ltd. (AYCFL)*	Investment Holding	100.0	100.0
Azalea International Venture Partners Limited (AIVPL)**	Business Process Outsourcing (BPO)	100.0	100.0
Ayala Healthcare Holdings, Inc. (AHCHI)	Healthcare	100.0	100.0
Bestfull Holdings Limited (BHL)***	Investment Holding – International	100.0	100.0
Darong Agricultural and Development Corporation (DADC)	Agriculture	100.0	100.0
HCX Technology Partners, Inc. (HCX)	HR Technology Services	100.0	100.0
Integrated Microelectronics, Inc. (IMI)	Electronics Manufacturing	50.7	50.7
Manila Water Company, Inc. (MWC)	Water Infrastructure	51.6	51.6
Michigan Holdings, Inc. (MHI)	Investment Holding	100.0	100.0
Philwater Holdings Company, Inc. (Philwater)	Investment Holding	100.0	100.0
Purefoods International, Ltd. (PFIL)**	Investment Holding	100.0	100.0
Technopark Land, Inc. (TLI)	Real Estate	78.8	78.8
AC Ventures Holding Corporation (AVHC) <i>(formerly Water Capital Works, Inc.)</i>	Investment Holding	100.0	100.0

*Incorporated in Cayman Islands

**Incorporated in British Virgin Islands

***Incorporated in Hong Kong



Unless otherwise indicated, the principal place of business and country of incorporation of the Parent Company's investments in subsidiaries, associates and joint ventures is the Philippines.

Except as discussed below, the voting rights held by the Parent Company in its investments in subsidiaries are in proportion to its ownership interest.

The following significant transactions affected the Parent Company's investments in its subsidiaries:

Investment in ACEHI

On various dates in 2017 and 2016, the Parent Company infused additional capital to ACEHI which amounted to ₱3.9 billion and ₱2.3 billion, respectively. The proceeds were used to finance the various renewable energy, wind and coal projects of ACEHI to complete its planned 2,000 megawatt (MW) capacity.

On March 16, 2017, ACEHI signed definitive documents to acquire 100% ownership of Bronzeoak Clean Energy (BCE) and San Carlos Clean Energy (SCCE). With the acquisition, SCCE and BCE have been renamed as AC Energy DevCo Inc. and Visayas Renewables Corp., respectively (see Note 23). In addition, ACEHI acquired Manapla Sun Power Dev't. Corp., SCC Bulk Water Supply, Inc. and Solienda, Inc. in 2017 (see Note 23).

On December 29, 2017, the SEC approved the change in name of AC Energy Holdings, Inc. to AC Energy, Inc.

In December 2016, ACEHI sold all of its 70% ownership interest in QuadRiver Energy Corporation (Quadriver), Philnew Hydro Power Corporation (Hydro Power) and PhilnewRiver Corporation (PhilnewRiver) to Sta. Clara Power Corporation (Sta. Clara). As consideration for its purchase, Sta. Clara issued a noninterest-bearing note for ₱350.0 million, payable over four (4) years. ACEHI recognized ₱143.6 million gain from the disposal included under "Other Income" account in the consolidated statement of income (see Note 22) and, as the note is noninterest-bearing, ACEHI also recognized a 'Day 1' loss of ₱60.8 million. Subsequently, ACEHI recognized a provision for impairment losses on the note amounting to ₱289.2 million (see Note 22).

Investment in AC Infra

On various dates in 2017 and 2016, the Parent Company infused additional capital to AC Infra amounting to ₱243.8 million and ₱205.3 million, respectively. The additional capital was used for operating and capital expenditures of AC Infra and investment in Light Rail Manila Holdings, Inc. (see Note 12).

Investment in ACIFL

In March and April 2017, ACIFL repurchased its 115,000,000 shares and 39,968,660 shares, respectively, which were issued and registered in the name of the Parent Company, ACIFL's sole shareholder. The repurchase price was at par of US\$1.00 per share for a total amount of US\$155.0 million. ACIFL remained a wholly-owned subsidiary of the Company after the transaction.

In May 2016, ACIFL repurchased 21,000,000 shares which were issued and registered in the name of the Parent Company. The repurchase price was at par of US\$1.00 per share for a total amount of US\$21.0 million. ACIFL remained a wholly-owned subsidiary of the Parent Company after the transaction.

As of December 31, 2016, ACIFL, through its wholly-owned subsidiary, AYC Holdings Inc. (AYCH), owns 50.7% of the common shares of IMI. On March 29, 2017, AYCH transferred its 50.7% ownership in IMI to AITHI through a special block sale of shares as approved by the Philippine Stock Exchange (PSE). The transaction was granted exemptive relief from the application of the mandatory tender offer rules by SEC on March 21, 2017 on the ground that the change in the form of the Parent Company's ownership of the IMI shares is by no means a takeover by a third party and will not affect the management and control of IMI.



Investment in AITHI

On June 1, 2017, AITHI, through its wholly-owned subsidiary AC Industrial (Singapore) Pte. Ltd. (ACI Singapore), entered into an agreement to acquire 94.90% ownership interest in MT Misslbeck Technologies GmbH (MT) which was subsequently renamed to MT Technologies GmbH. The closing of the transaction transpired on July 5, 2017 upon completion of pre-closing conditions and regulatory approval (see Note 23).

On various dates in 2017, the Parent Company infused ₱7.8 billion to AITHI Group to acquire 50.7% of the common shares of IMI from AYCH amounting to ₱5.7 billion and to fund its various investments.

On various dates in 2016, the Parent Company infused ₱200.0 million to AITHI to fund the following new investments:

- Incorporation of Adventure Cycle Philippines, Inc. (ACPI), 100% owned subsidiary, with capital infusion of ₱102.5 million. ACPI's primary purpose is to engage in the sale of motorcycles and related parts, accessories and services. ACPI was appointed by KTM-AG (KTM) as the exclusive distributor of KTM motorcycle models in the Philippines.
- Incorporation of KTM Asia Motorcycle Manufacturing, Inc. (KTM Asia), with 66.67% and 33.33% ownership of ACPI and KTM, respectively. AITHI infused ₱62.5 million in capital funds to this investment. KTM Asia's primary purpose is to engage in the assembly, manufacturing and distribution of motorcycle goods and materials.
- Incorporation of Qflex Philippines, Inc. (Qflex), 100% owned of AITHI. Its primary purpose is to engage in the production, assembly and distribution of any and all types of electric, industrial or power generation-related products and services.

On August 15, 2016, the SEC approved the change in name of Ayala Automotive Holdings Corporation to AC Industrials Technology Holdings, Inc.

In 2016, AITHI has been appointed by KTM as the exclusive distributor of KTM motorcycle models in the Philippines.

Investment in AAC

The Parent Company infused additional capital to AAC amounting to ₱25.6 million in 2017. The additional capital was used to purchase new aircrafts and support working capital requirements.

In 2017, AAC converted its advances from the Parent Company amounting to ₱259.3 million to 4,321,742 common shares.

Investment in AEI

In 2017 and 2016, the Parent Company infused additional capital to AEI amounting to ₱225.6 million and ₱402.8 million, respectively, to fund AEI's investments in Affordable Private Education Center (APEC Schools) and University of Nueva Caceres (UNC) as well as operating requirements.

In 2015, AEI acquired 6,513 shares or 59% of UNC. In 2016, AEI sold 900 UNC shares for a total consideration of ₱62.0 million. The transaction reduced the ownership interest of AEI from 59% to 51%. In 2017, AEI acquired additional 813 UNC shares from minority shareholders for a total consideration of ₱56.0 million, increasing its ownership interest to 58.52% as of December 31, 2017.

On February 27, 2017, SEC approved the change of name of Ayala Education, Inc. to AC Education, Inc. as approved by the BOD on December 9, 2016.



Investment in ALI

ALI shares with cost of ₱198.2 million and ₱301.2 million as of December 31, 2017 and 2016, respectively, were collateralized to secure the Parent Company's loan facility. The fair value of ALI shares collateralized amounted to ₱11.6 billion and ₱12.6 billion as of December 31, 2017 and 2016, respectively (see Note 19).

For the year 2016, ALI had several new investments and re-organization. Among the significant investments of ALI include subscription to 51% of the total outstanding shares of Prime Orion Philippines, Inc. (POPI) for a total subscription price of ₱5.6 billion (see Note 23). ALI paid 25% (₱1.4 billion) and the balance or 75% of the subscription price is conditioned upon fulfillment of certain conditions. The transaction resulted in ₱188.0 million gain upon acquisition or negative goodwill based on the finalized purchase price allocation.

In April 2016, ALI purchased 6.0 million common shares and 24.0 million preferred redeemable shares of Prow Holdings, Inc. (PHI), with par value of ₱10.00 per share each for ₱300.0 million. Subsequently, on May 23, 2016, additional 3.0 million common shares and 12.0 million preferred redeemable shares with par value of ₱10.00 per share were acquired by ALI for ₱150.0 million. Furthermore, in August 2016, a total of 9,150,931 common shares and 12,876,456 preferred redeemable shares were purchased for a total consideration of ₱220.3 million which brought ALI's ownership to 55.0% of the total outstanding capital stock of PHI. The transactions were entered based on the governing joint venture agreement between ALI and Leonio Land Holdings, Inc. (LLHI) for the development of Alviera Estate in Porac, Pampanga. The series of subscriptions was accounted for as a linked transaction as the transaction was negotiated as a whole.

In June 2017, Orion Land, Inc. (OLI), a subsidiary of POPI, acquired 512,480,671 common shares equivalent to 11.69% ownership at ₱2.45 share amounting to ₱1,255.58 million. As a result of the transaction, ALI's effective ownership in POPI increased to 63.05% (see Note 23).

The fair value of ALI shares held by the Parent Company amounted to ₱309.2 billion and ₱221.8 billion as of December 31, 2017 and 2016, respectively. The voting rights held by the Parent Company in ALI is 68.7% and 68.8% in 2017 and 2016, respectively.

Investment in AIVPL and HCX

In 2016, Livelt Investments, Limited (Livelt), a wholly-owned subsidiary of AIVPL, sold its 82.5% ownership interest in IQ BackOffice Holdings Ltd. (IQB), a California-based business process outsourcing company particularly engaged in finance and accounting outsourcing (FAO) and human resource outsourcing (HRO), to IQB's management team. The Group retained the HRO business under its newly incorporated subsidiary, HCX Technology Partners, Inc. (HCX).

The divestment resulted in ₱152.7 million loss in 2016 based on the remaining carrying value of the investment which is net of losses recognized in prior years (see Note 22).

Investment in AHCHI

On various dates in 2017 and 2016, the Parent Company infused ₱518.0 million and ₱230.8 million to AHCHI to fund its various investments, respectively.

Investment in BHL

In July 2017 and May 2016, the Parent Company sold to ACIFL 1,286,320 common shares and 1,330,757 redeemable preferred shares of BHL for a total consideration of ₱652.1 million and ₱702.4 million, respectively. BHL remained a wholly-owned subsidiary of the Parent Company after the transaction.

In September 2017, BHL through its wholly-owned subsidiary AI North America (AINA), fully acquired Renewable Energy Test Center, LLC (RETC) (see Note 23).



Investment in IMI

In May 2017, IMI, through its subsidiary IMI UK, acquired 80% interest in Surface Technology International Enterprises Limited (STI) for US\$54.7 million which resulted in a provisional goodwill amounting to US\$56.0 million (see Note 23).

In September 2016, IMI, through its subsidiary Dutch Coop, acquired 76% interest in VIA Optronics GmbH (VIA) for €47.8 million (US\$53.4 million) which resulted in a goodwill amounting to US\$44.5 million (see Note 23).

The fair value of the IMI shares held by the Group amounted to ₱17.8 billion and ₱5.7 billion as of December 31, 2017 and 2016, respectively. The voting rights held by the Group in IMI as of December 31, 2017 and 2016 is 50.7%.

Investment in MWC

The fair value of the MWC shares held by the Group amounted to ₱24.3 billion and ₱25.1 billion as of December 31, 2017 and 2016, respectively. The voting rights held by the Group in MWC is 80.4% as of December 31, 2017 and 2016 (see Note 23).

Investment in AVHC

On various dates in 2017, the Parent Company infused a total of ₱1.3 billion to AVHC to fund its various investments in BF Jade E-Service Philippines, Inc. (BF Jade), the owner of Zalora Philippines (Zalora) and Globe Fintech Innovations, Inc. (GFI or Mynt) (see Note 11).

On August 22, 2017, the SEC approved the amended AOI and amended By-laws of AVHC with the following changes:

- i. Change in name of Water Capital Works, Inc. to AC Ventures Holding Corp;
- ii. Increase of capital stock, from ₱1.0 million divided into 1 million shares at ₱1.00 par value each to ₱5.0 billion divided into 50 million shares at ₱100.00 par value each; and
- iii. Amendment in its primary purpose to include, among others, engaging in investment, loans and other transactions other than providing services for the capital works program of MWC.

Material partly-owned subsidiaries with material economic ownership interest

Information of subsidiaries that have material non-controlling economic interests is provided below:

2017	ALI	MWC	IMI*
	(In Thousands, except for %)		
Proportion of equity interests held by non-controlling interest	52.9%	48.4%	49.3%
Voting rights held by non-controlling interest	31.3%	19.6%	49.3%
Accumulated balances of non-controlling interest	₱111,363,317	₱32,149,779	₱7,023,270
Net income allocated to non-controlling interest	16,007,113	2,647,465	860,396
Comprehensive income allocated to material non-controlling interest	16,641,251	3,111,303	1,166,163
Dividends paid to non-controlling interest	3,799,525	1,387,852	208,190
*Translated using the exchange rate at the reporting date (US\$1:₱49.93 on December 31, 2017).			
2016	ALI	MWC	IMI*
	(In Thousands, except for %)		
Proportion of equity interests held by non-controlling interest	52.8%	48.4%	49.3%
Voting rights held by non-controlling interest	31.2%	19.6%	49.3%
Accumulated balances of non-controlling interest	₱100,980,039	₱30,387,713	₱5,844,379
Net income allocated to non-controlling interest	14,359,219	2,734,568	654,474
Comprehensive income allocated to material non-controlling interest	14,464,850	2,947,311	960,241
Dividends paid to non-controlling interest	3,761,342	1,362,166	202,074
*Translated using the exchange rate at the reporting date (US\$1:₱49.72 on December 31, 2016).			



The summarized financial information of these subsidiaries is provided below. These information are based on amounts before inter-company eliminations.

2017	ALI	MWC	IMI*
	(In Thousands)		
Statement of financial position			
Current assets	₱218,560,955	₱12,867,251	₱28,979,972
Noncurrent assets	355,431,379	88,747,373	17,023,115
Current liabilities	184,623,237	10,826,374	22,585,772
Noncurrent liabilities	197,105,739	42,836,037	9,606,947
Statement of comprehensive income			
Revenue	139,373,341	18,515,772	54,453,068
Profit attributable to:			
Equity holders of the parent	25,304,965	5,527,918	1,697,719
Non-controlling interests	2,860,694	(6,661)	22,007
Total comprehensive income attributable to:			
Equity holders of the parent	26,500,790	5,578,845	2,567,221
Non-controlling interests	2,860,694	(5,415)	22,007
Statement of cash flows			
Operating activities	25,699,762	(204,215)	(909,456)
Investing activities	(35,372,264)	(2,324,441)	(3,913,562)
Financing activities	9,800,657	7,483,699	4,986,386
Effect of changes in foreign exchange on cash and cash equivalents	(34,396)	—	40,271
Net increase (decrease) in cash and cash equivalents	₱93,759	₱4,955,043	₱203,639

*Translated using the exchange rate at the reporting date (US\$1:₱49.93 on December 31, 2017).

2016	ALI	MWC	IMI*
	(In Thousands)		
Statement of financial position			
Current assets	₱211,012,113	₱8,255,899	₱20,234,788
Noncurrent assets	325,420,882	93,772,074	11,542,678
Current liabilities	188,203,171	7,481,507	13,428,936
Noncurrent liabilities	175,546,637	37,766,885	6,449,145
Statement of comprehensive income			
Revenue	123,265,895	17,711,911	41,912,291
Profit (loss) attributable to:			
Equity holders of the parent	20,908,011	5,463,134	1,397,922
Non-controlling interests	3,523,774	109,681	(4,971)
Total comprehensive income attributable to:			
Equity holders of the parent	21,107,974	5,942,404	1,193,573
Non-controlling interests	3,524,312	112,037	(4,971)
Statement of cash flows			
Operating activities	33,040,297	1,068,966	1,864,599
Investing activities	(57,806,847)	(614,276)	(4,813,714)
Financing activities	26,583,490	(3,238,945)	2,220,183
Effect of changes in foreign exchange on cash and cash equivalents	—	—	(16,056)
Net increase (decrease) in cash and cash equivalents	₱1,816,940	(₱2,784,255)	(₱744,988)

*Translated using the exchange rate at the reporting date (US\$1:₱49.72 on December 31, 2016).



2015	ALI	MWC	IMI*
	(In Thousands)		
Statement of comprehensive income			
Revenue	₱105,693,048	₱16,935,883	₱38,323,975
Profit (loss) attributable to:			
Equity holders of the parent	17,630,275	5,957,780	1,354,845
Non-controlling interests	3,266,612	176,260	924
Total comprehensive income attributable to:			
Equity holders of the parent	17,553,565	6,215,958	1,049,400
Non-controlling interests	3,267,399	176,260	924
Statement of cash flows			
Operating activities	₱20,181,733	₱4,988,869	₱2,344,693
Investing activities	(48,887,550)	(795,528)	(1,659,398)
Financing activities	19,115,925	(3,795,939)	(1,418,880)
Effect of changes in foreign exchange on cash and cash equivalents	—	—	(23,754)
Net increase (decrease) in cash and cash equivalents	(₱9,589,892)	₱397,402	(₱757,339)

*Translated using the exchange rate at the reporting date (US\$1:₱47.06 on December 31, 2015).

3. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) financial assets and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱) and all values are rounded to the nearest thousand pesos (₱000) unless otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs include Philippine Financial Reporting Standards, Philippine Accounting Standards and Interpretations issued by the Philippine Interpretations Committee (PIC).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017.

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

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



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

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

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests pertain to the equity in a subsidiary not attributable, directly or indirectly to the Parent Company. Any equity instruments issued by a subsidiary that are not owned by the Parent Company are non-controlling interests including preferred shares and options under share-based transactions. The portion of profit or loss and net assets in subsidiaries not wholly-owned are presented separately in the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of financial position, separately from the Parent Company's equity. Non-controlling interests are net of any outstanding subscription receivable.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

In accounting for call and put options over non-controlling interests, management determines whether it has present access to the returns associated with the non-controlling interests. If the options give the Group access to the returns over the non-controlling interests, the Group consolidates the acquiree as if it acquired a 100% interest.

If the options does not give the Group present access to the returns over the non-controlling interests, the Group takes the view that the non-controlling interests should be accounted for in accordance with PFRS 10, *Consolidated Financial Statements* and must be presented within equity separate from the equity of the Parent Company, until the option is exercised.

The call option is accounted for under PAS 39, *Financial Instruments: Recognition and Measurement*, as a derivative asset carried at fair value through profit or loss.

The financial liability for the put option is accounted for under PAS 39 like any other written put option on equity instruments. On initial recognition, the corresponding debit is made to a component of equity attributable to the parent, not to the non-controlling interest. All subsequent changes in the carrying amount of the financial liability that result from the remeasurement of the present value payable on exercise are recognized in profit or loss also attributable to the parent.

If the put option is exercised, the entity accounts for an increase in its ownership interest. At the same time, the entity derecognizes the financial liability and reverses the component of equity that was reduced on initial recognition. If the put option expires unexercised, the financial liability is reclassified to the same component of equity that was reduced on initial recognition.



A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity as "Equity reserve" and attributed to the owners of the Parent Company.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while the resulting gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Changes in Accounting Policies and Disclosures

Adoption of New and Amended Accounting Standards and Interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial years except for the new PFRS, amended PFRS and improvements to PFRS which were adopted beginning January 1, 2017. The nature and the impact of each new standards and amendments is described below:

- Amendment to PFRS 12, Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

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

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

The Group has provided the required information in Note 33 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

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



Standards and Interpretation Issued but not yet Effective

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

Effective beginning or after January 1, 2018

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

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

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

The Group is currently assessing the potential effect of the amendments on its 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 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting and on the amount of its credit losses. The Group is currently assessing the impact of adopting this standard.

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

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

The Group is assessing the potential effect of the amendments on its consolidated financial statements.



- *PFRS 15, Revenue from Contracts with Customers*

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

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

The Group is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effectivity date.

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

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

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

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

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

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



Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.
- PFRS 16, *Leases*
PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

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

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

The Group is currently assessing the impact of adopting 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.
- 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:

- a. Whether an entity considers uncertain tax treatments separately
- b. The assumptions an entity makes about the examination of tax treatments by taxation authorities



- c. How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- d. 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.

Standards with Deferred effectivity

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

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

Change of presentation

In 2017, the Group changed the presentation of its consolidated statement of income from the single step to the multiple step presentation. This presentation better reflects and distinguishes other income from revenue and other charges from the operating expenses of the Group. Prior years consolidated statements of income have been re-presented for comparative purposes. The change in presentation has no impact on the consolidated net income, equity, cash flows and earnings per share of the Group in 2016 and 2015.

Significant Accounting Policies

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on a current and noncurrent classification. An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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



All other liabilities are classified as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. 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 from dates of acquisition and which are subject to an insignificant risk of changes in value.

Short-term Investments

Short-term investments are short-term placements with maturities of more than three months but less than one year from the date of acquisition. These earn interest at the respective short-term investment rates.

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

All financial assets and financial liabilities are recognized initially at fair value. Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS financial assets. The Group also classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market.

The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

'Day 1' difference

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

Financial assets and financial liabilities at FVPL

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



Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Fair value gains or losses on investments held for trading, net of interest income or expense accrued on these assets, are recognized in the consolidated statement of income under "Other income" or "Other charges". Interest earned or incurred is recorded in "Interest income" or "Interest and other financing charges" while dividend income is recorded in "Other income" when the right to receive payment has been established.

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

Financial assets and financial liabilities may be designated at initial recognition as at FVPL if any of the following criteria are met:

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

The Group's financial assets and financial liabilities at FVPL pertain to government securities, other investment securities, derivatives not designated as accounting hedges and embedded derivatives.

Derivative instruments (including bifurcated embedded derivatives) are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are taken directly to the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group uses derivative instruments such as structured currency options and currency forwards to hedge its risks associated with foreign currency fluctuations. Such derivative instruments provide economic hedges under the Group's policies but are not designated as accounting hedges.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows that otherwise would be required under the contract.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial asset at FVPL. This accounting policy relates to the consolidated statement of financial position captions "Cash and cash equivalents", "Short-term investments" and "Accounts and notes receivable" (except for Advances to contractors and suppliers and Advances to other companies).



After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. The amortization is included in the "Interest income" account in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized under "Provision for doubtful accounts" in the consolidated statement of income.

Loans and receivables are included in current assets if maturity is within 12 months or when the Group expects to realize or collect within 12 months from the reporting date. Otherwise, they are classified as noncurrent assets.

AFS financial assets

AFS financial assets are those which are designated as such or do not qualify to be classified as designated at FVPL, HTM, or loans and receivables.

Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains or losses arising from the fair valuation of AFS financial assets are recognized in other comprehensive income and are reported as "Net unrealized gain (loss) on available-for-sale financial assets" (net of tax where applicable) in equity. The Group's share in its associates' or joint ventures' net unrealized gain (loss) on AFS is likewise included in this account.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income under "Other income" or "Other charges". Where the Group holds more than one investment in the same security, the cost is determined using the weighted average method. Interest earned on AFS financial assets is reported as interest income using the effective interest rate. Dividends earned are recognized under "Other income" in the consolidated statement of income when the right to receive payment is established. The losses arising from impairment of such investments are recognized under "Provision for impairment losses" in the consolidated statement of income.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses.

The Group's AFS financial assets pertain to investments in debt and equity securities included in "Investments in bonds and other securities" under "Other noncurrent assets" in the consolidated statement of financial position. AFS financial assets are included under "Other current assets" if expected to be realized within 12 months from reporting date.

Other financial liabilities

Issued financial instruments or their components, which are not designated 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 its 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 effective interest rate 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 effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income.

This accounting policy applies primarily to the Group's short-term and long-term debt, accounts payable and accrued expenses, and other current and noncurrent liabilities and obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Other financial liabilities are included in current liabilities if maturity is within 12 months or when the Group expects to realize or collect within 12 months from the reporting date. Otherwise, they are classified as noncurrent liabilities.

Exchangeable bonds

AYCFL issued exchangeable bonds (see Note 19). On issuance of exchangeable bonds, the proceeds are allocated between the embedded exchange option and the liability component. The embedded exchange option is recognized at its fair value. The liability component is recognised as the difference between total proceeds and the fair value of the exchange option.

The exchange option is subsequently carried at its fair value with fair value changes recognized in profit or loss. The liability component is carried at amortised cost until the liability is extinguished on exchange or redemption.

When the exchange option is exercised, the carrying amounts of the liability component and the exchange option are derecognized. The related investment in equity security of the guarantor is likewise derecognized.

Upon consolidation, the exchangeable bond is classified as a compound instrument and accounted for using split accounting. The value allocated to the equity component at initial recognition is the residual amount after deducting the fair value of the liability component from the issue proceeds of the exchangeable bonds. Transaction costs incurred in relation to the issuance of the exchangeable bonds was apportioned between the liability and equity component based on their values at initial recognition.

Subsequently, the liability component is carried at amortized cost using the effective interest rate method while the equity component is not revalued. When the conversion option is exercised, the carrying amount of the liability and equity component is derecognized and their balances transferred to equity. No gain or loss is recognized upon exercise of the conversion option.

Deposits, retentions payable and customers' guaranty and other deposits

Deposits, retentions payable and customers' deposits and other deposits are initially measured at fair value. After initial recognition, these are subsequently measured at amortized cost using the effective interest rate method. The difference between the cash received and its fair value is deferred (included in the "Deferred credits" account in the consolidated statement of financial position). Deposits are amortized using the straight-line method with the amortization included under the "Rendering of services" account in the consolidated statement of income while customers' guaranty and other deposits are amortized over the remaining concession period with the amortization included under "Interest and other financing charges" in the consolidated statement of income.

Financial guarantee contracts

Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.



Derecognition of Financial Assets and Liabilities

Financial asset

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

- the rights to receive cash flows from the assets have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a “pass-through” arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained 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 or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability

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

Impairment of Financial Assets

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

Loans and receivables

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

If there is objective evidence that an impairment loss 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 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 carrying amount of the asset is reduced through the use of an allowance account



and the amount of the loss is charged to the consolidated statement of income under "Provision for doubtful accounts". Interest income continues to be recognized based on the original effective interest rate of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Financial assets carried at cost

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

AFS financial assets

In the case of equity investments classified as AFS financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment loss, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from other comprehensive income and recognized in the consolidated statement of income under "Other charges." Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "Interest income" account in the consolidated statement of income. If, in a subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Offsetting Financial Instruments

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



Inventories

Inventories are carried at the lower of cost and net realizable value (NRV). Costs incurred in bringing each product to its present location and conditions are generally accounted for as follows:

Real estate inventories

- Land cost
- Land improvement cost
- Amounts paid to contractors for construction and development
- Borrowing costs, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs

Vehicles - purchase cost on specific identification basis.

Finished goods and work-in-process - determined on a moving average basis; cost includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity.

Parts and accessories, materials, supplies and others - purchase cost on a moving average basis.

NRV for real estate inventories vehicles, finished goods and work-in-process and parts and accessories is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale, while NRV for materials, supplies and others represents the related replacement costs. In the event that NRV is lower than cost, the decline shall be recognized as an expense in the consolidated statement of income.

The cost of real estate inventory recognized in the consolidated statement of income on disposal is determined with reference to the specific costs incurred on the property and estimated costs to be incurred, and allocated to saleable area based on relative size.

An allowance for inventory losses is provided for slow-moving, obsolete and defective inventories based on management's physical inspection and evaluation. When inventories are sold, the cost and related allowance is removed from the account and the difference is charged against operations.

Prepaid Expenses

Prepaid expenses are carried at cost less the amortized portion. These typically comprise prepayments for commissions, marketing fees and promotion, taxes and licenses, rentals and insurance.

Creditable Withholding Tax

This pertains to the tax withheld at source by the Group's customer and is creditable against the income tax liability of the Group.

Value-Added Tax (VAT)

Expenses and assets are recognized, net of the amount of VAT, except:

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

The net amount of VAT recoverable from, or payable, to the taxation authority is included as part of receivables or payables in the statement of financial position.

Deposits in Escrow

Deposits in escrow pertain to the proceeds from the sale of the Group's projects that have only been granted temporary License to Sell (LTS) as of reporting date. These proceeds are deposited in a local bank and earn interest at prevailing bank deposit rates.



Advances to Other Companies and Advances to Contractors and Suppliers

Advances to other companies and advances to contractors and suppliers are carried at cost less impairment losses, if any.

Noncurrent Assets Held for Sale

Noncurrent assets held for sale are carried at the lower of its carrying amount and fair value less costs to sell. At reporting date, the Group classifies assets as held for sale (disposal group) when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The Group measures noncurrent asset held for sale at the lower of its carrying amount and fair value less cost to sell (see Note 9).

Land and Improvements

Land and improvements consist of properties for future development and are carried at the lower of cost or NRV. NRV is the estimated selling price in the ordinary course of business, less estimated cost of completion and estimated costs necessary to make the sale. Cost includes purchase price and those costs incurred for development and improvement of the properties.

Investments in Associates and Joint Ventures

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.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in associates or joint ventures 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 or joint venture since the acquisition date. Goodwill relating to the associate or joint venture 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 associate or joint venture. Any change in OCI of these investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, 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 or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of associates and joint ventures is shown on the face of the consolidated statement of income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.



The financial statements of the associate or joint venture 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 or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as "Share of profit of associates and joint ventures" in the consolidated statement of income.

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

Investment Properties

Investment properties comprise completed property and property under construction or re-development that are held to earn rentals and for capital appreciation, and are not occupied by the companies in the Group. The Group uses the cost model in measuring investment properties since this represents the historical value of the properties subsequent to initial recognition. Investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value.

Expenditures incurred after the investment property has been put in operation, such as repairs and maintenance are normally charged against income in the period in which the costs are incurred.

Construction-in-progress (including borrowing cost) are carried at cost and transferred to the related investment property account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupation.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, regardless of utilization. The estimated useful lives and the depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of investment properties.

The estimated useful lives of investment properties follow:

Land improvements	8 to 40 years
Buildings	20 to 40 years

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 gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of the property for measurement or for disclosure purposes.



The Group discloses the fair values of its investment properties in accordance with PAS 40. The Group engaged independent valuation specialist to assess fair value as at December 31, 2017 and 2016. The Group's investment properties consist of land and building pertaining to land properties, retail (malls) and office properties. These were valued by reference to market-based evidence using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Property, Plant and Equipment

Property, plant and equipment, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value. The initial cost of property, plant and equipment consists of its construction cost or purchase price and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use.

Construction-in-progress is stated at cost. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated or amortized until such time that the relevant assets are completed and put into operational use.

Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization of property, plant and equipment commences once the property, plant and equipment are available for use and computed on a straight-line basis over the estimated useful lives of the property, plant and equipment as follows:

Buildings and improvements	3 to 40 years
Machinery and equipment	3 to 10 years
Hotel property and equipment	20 to 50 years
Furniture, fixtures and equipment	2 to 10 years
Transportation equipment	3 to 5 years

The assets' residual values, useful lives and depreciation and amortization methods are reviewed periodically to ensure that the amounts, periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

When property, plant and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Service Concession Arrangements

Intangible Asset Model

The Group accounts for its concession arrangements with Department of Public Works and Highways (DPWH), Metropolitan Waterworks and Sewerage System (MWSS), Provincial Government of Laguna (PGL), Tourism Infrastructure and Enterprise Zone Authority (TIEZA) and Clark Development Corporation (CDC), Obando Water District (OWD), and Calasiao Water District (CWD) under the Intangible Asset model as the Group receives the right (license) to charge users of public service. Under the Group's concession agreements, the Group is granted the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide the public water services. The legal title to these assets shall remain with DPWH, MWSS, PGL, TIEZA and CDC at the end of the concession period.



The “Service concession assets” (SCA) pertain to the fair value of the service concession obligations at drawdown date and construction costs related to the rehabilitation works performed by the Group and other local component costs and cost overruns paid by the Group.

Amortization of SCA commences once the SCA are available for use and are calculated on a straight-line basis over the remaining concession period. Beginning May 1, 2017, the SCA of MWC, Boracay Island Water Company (BIWC), Clark Water Corporation (CWC), and Laguna AAA Water Corporation (LAWC) are amortized using the units of production (UOP) method over the expected total billable volume for the remaining concession period to better reflect the usage of the SCA, which is directly related to its expected total billable volume and is aligned with industry practice.

This change in method resulted to a ₱554.0 million reduction of amortization expense from May 1 to December 31, 2017. No current financial estimate of the impact of the change in future periods can be made since it is impracticable to reliably estimate the difference between future amortization expenses based on UOP method and straight-line amortization method due to the variability of the factors such as future capital expenditures.

In addition, the Parent Company, MWC, LAWC, BIWC, CWC, Obando Water Company, Inc. (Obando Water), Calasiao Water Company, Inc. (Calasiao Water), Cebu Manila Water Development, Inc. (CMWDI), and Tagum Water Company, Inc. (TWC) recognize and measure revenue from rehabilitation works in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenue*, for the services it performs. Recognition of revenue is by reference to the ‘stage of completion method,’ also known as the ‘percentage of completion method’ as provided under PAS 11. Contract revenue and costs from rehabilitation works are recognized as “Revenue from rehabilitation works” and “Cost of rehabilitation works,” respectively, in profit or loss in the period in which the work is performed.

The Parent Company recognizes its contractual obligations to restore certain parts of the infrastructure to a specified level of condition in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as the obligations arise.

Financial Asset Model

On the other hand, the concession arrangement with the Department of Transportation (DOTr), Provincial Government of Cebu (PGC) and Tagum Water District (TWD) are accounted for under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial asset for its construction services from or at the direction of the grantor. Under the concession arrangement with PGC and TWD, Cebu Manila Water Development, Inc. (CMWD) and TWC, both subsidiaries of MWC, are awarded the right to deliver bulk water supply to the grantor for a specific period of time under the concession period. The concession agreement with DOTr qualifies under the Financial Asset model as Arca South Integrated Terminal Inc. (ASITI), a subsidiary of ALI, has an unconditional contractual right to receive cash or other financial assets (i.e. the Annual Grantor Payment) for its construction, operating and maintenance services directly from DOTr.

Under this model, the operator recognizes a financial asset in its balance sheet in consideration for the services it provides (design, construction, etc.). Such financial assets are recognized in the balance sheet under “Other current assets” and “Other noncurrent assets” in an amount corresponding to the fair value of the infrastructure on first recognition and subsequently at amortized cost. The receivable is settled when payments from the grantor are received. The financial income calculated on the basis of the effective interest rate is recognized in profit or loss.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and provision for impairment loss, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.



The estimated useful life of intangible assets is assessed as either finite or indefinite.

The estimated useful lives of intangible assets with finite lives are assessed at the individual asset level. Intangible assets with finite lives are amortized over their estimated useful lives on a straight line basis. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

The estimated useful lives of intangible assets follow:

Leasehold rights	20 to 23 years
Customer relationships	7 years
Unpatented technology	5 years
Developed software	3 years
Licenses	3 years
Technical service agreement	3 years
Trademark	3 to 5 years

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible assets and is recognized in the consolidated statement of income when the intangible asset is derecognized.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset under "Project Development Cost" when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development; and,
- The ability to use the intangible asset generated.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. The estimated useful life of research and development costs is 5 years. During the period of development, the asset is tested for impairment annually.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.



When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and included under "Remeasurement gain/loss arising from business combination" in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as bargain purchase gain. The Group reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure amounts to be recognized at the acquisition date if the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained. If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall recognize immediately in the consolidated statement of income any excess remaining after reassessment.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of



completing the initial accounting within twelve months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

Combinations of Entities Under Common Control

Business combinations of entities under common control are accounted for using the pooling of interests method. The pooling of interests method generally involve the following:

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity.
- The consolidated statement of income reflects the results of the combining entities for the full year, irrespective of when the combination took place.
- Comparative financial information are presented as if the entities had always been combined.

The effects of any intercompany transactions are eliminated to the extent possible.

Asset Acquisitions

If the assets acquired and liabilities assumed in an acquisition transaction do not constitute a business as defined under PFRS 3, the transaction is accounted for as an asset acquisition. The Group identifies and recognizes the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets) and liabilities assumed. The acquisition cost is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such transaction or event does not give rise to goodwill. Where the Group acquires a controlling interest in an entity that is not a business, but obtains less than 100% of the entity, after it has allocated the cost to the individual assets acquired, it notionally grosses up those assets and recognizes the difference as non-controlling interests.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other fair value indicators. 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.



For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investments in associates and joint ventures

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee company. The Group determines at each reporting date whether there is any objective evidence that the investment in the investee company is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the investee company and the carrying cost and recognizes the amount as a reduction of the "Share of profit of associates and joint ventures" account in the consolidated statement of income.

Impairment of goodwill

For assessing impairment of goodwill, a test for impairment is performed annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Fair Value Measurement

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

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

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

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 consolidated 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 and 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 reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

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 obligations and a reliable estimate can be made of the amount of the obligation.

Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Equity

Capital stock is measured at par value for all shares subscribed, issued and outstanding. When the shares are sold at premium, the difference between the proceeds at the par value is credited to "Additional paid-in capital" (APIC) account. Direct costs incurred related to equity issuance are chargeable to APIC account. If APIC is not sufficient, the excess is charged against retained earnings. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Subscriptions receivable pertains to the uncollected portion of the subscribed shares and is presented as reduction from equity.

Retained earnings represent accumulated earnings of the Group less dividends declared.

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue and Cost Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:



Real estate revenue and costs

For real estate sales, the Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectibility of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectibility is also assessed by considering factors such as the credit standing of the buyer, age and location of the property.

Revenue from sales of completed real estate projects is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee (PIC), Q&A 2006-01, the percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished, and the costs incurred or to be incurred can be measured reliably). Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work. The percentage of completion is determined by ALI Group's project development engineers.

Any excess of collections over the recognized receivables are included under "Other current liabilities" in the liabilities section of the consolidated statement of financial position.

If any of the criteria under the full accrual or percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the "Other current liabilities" account in the liabilities section of the consolidated statement of financial position.

Cost of real estate sales is recognized consistent with the revenue recognition method applied and is determined with reference to the specific, including estimated costs, on the property allocated to sold area. Cost of residential and commercial lots and units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by ALI's project engineers.

Estimated development costs include direct land development, shared development cost, building cost, external development cost, professional fees, post construction, contingency, miscellaneous and socialized housing. Miscellaneous costs include payments such as permits and licenses, business permits, development charges and claims from third parties which are attributable to the project. Contingency includes fund reserved for unforeseen expenses and/ or cost adjustments. Revisions in estimated development costs brought about by increases in projected costs in excess of the original budgeted amounts are considered as special budget appropriations that are approved by management and are made to form part of total project costs on a prospective basis and allocated between costs of sales and real estate inventories.

Revenue from construction contracts

Revenue from construction contracts are recognized using the percentage-of-completion method, measured principally on the basis of the estimated physical completion of the contract work.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.



Rental income

Rental income under noncancellable and cancellable leases on investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term and the terms of the lease, respectively, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Rooms revenue from hotel and resort operations

Rooms revenue from hotel and resort operations are recognized when services are rendered. Revenue from banquets and other special events are recognized when the events take place.

Water and sewer revenue

Water and sewer revenue are recognized when the related water and sewerage services are rendered. Water and sewerage are billed every month according to the bill cycles of the customers. As a result of bill cycle cut-off, monthly service revenue earned but not yet billed at end of the month are estimated and accrued. These estimates are based on historical consumption of the customers. A certain percentage of water revenue is recognized as environmental charges. Other customer related fees such as reconnection and disconnection fees are recognized when these services have been rendered.

Supervision fees

Supervision fees are recognized using the percentage of completion (POC) method of accounting, measured principally on the basis of the physical proportion of the contract work to the estimated completion of a project.

Revenue from pipeworks and integrated used water services

Revenue from pipeworks and integrated used water services is recognized when the related water and wastewater network related services are rendered.

Distributors' fee

Distributors' fee is recognized when significant risk and rewards of ownership of trade assets have been transferred to the distributor.

Revenue from packaged water

Revenue from packaged water and other water related products is recognized when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods where the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of transfers of risks and rewards varies depending on the individual terms of the contract of sale but usually occurs when the customer receives the product.

Operation and maintenance services

Service fee income is recognized when the operation, maintenance and management services have been rendered for water and waste water facilities of Bonifacio Water Corporation (BWC).

Performance fees

Performance fees are recognized when the non-revenue water reduction (NRW) has been recovered based on specific targets and schedule as agreed in the Non-revenue Water Reduction Service Agreement (NRWSA) with Zamboanga City Water District (ZCWD).

Service fees

Service fees for technical assistance extended to ZCWD are recognized when the related services have been rendered.



Other operating income

Other customer related fees such as connection, reconnection and disconnection fees, income from customers late payments, sale of scrap materials, income from septic sludge disposal, and income from bacteriological water analysis are recognized when these services have been rendered.

Revenue from rehabilitation works

Revenue from rehabilitation works is recognized and measured by the Group in accordance with PAS 11 for the construction and PAS 18 for the service. This includes revenue from rehabilitation works which is equivalent to the related cost for the rehabilitation works covered by the service concession arrangements which is recognized as part of SCA.

When the Group provides construction or upgrade services, the consideration received or receivable is recognized at its fair value. The Group accounts for revenue and costs relating to operation services in accordance with PAS 18.

Toll revenues

Revenue from toll fees is recognized upon entry of vehicles in the toll road facility and receipt of cash payment. Toll fees received in advance, through transponders or magnetic cards, are included under "Accounts Payable".

Revenue from sales of electronic products and vehicles and related parts and accessories

Revenue from sales of electronic products and vehicles and related parts and accessories are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received excluding discounts, returns, rebates and sales taxes.

Energy sales

Energy sales is recognized upon actual delivery of concerted electricity from the 51.9M NorthWind Renewable Energy Plant (REP) at Bagui Farm and 18MW DC Solar Power Plant of Montesolar at Bais, Negros Oriental.

The tariff on the generation of REP's original twenty (20) turbines (Phases I & II) is a Feed-in-Tariff (FIT) rate specific to ACEHI of ₱5.76/kWh, as approved by the Energy Regulatory Commission (ERC) in its decision dated June 30, 2014. The FIT specific to ACEHI is lower than the national FIT and is valid for twenty (20) years, less the actual years of operation as provided for under the FIT Rules.

The tariff on the new six (6) turbines (Phase III) shall be the national FIT of ₱8.53/kWh, subject to compliance by ACEHI of the requirements under the FIT System. Being a new plant and established under the incentives granted under RA 9513, it shall have FIT period of twenty (20) years.

Revenue from sale of electricity through Retail Electricity Supply Contract (RESC) is composed of generation charge from monthly energy supply with various contestable customers and is recognized monthly based on the actual energy delivered. The basic energy charges for each billing period are inclusive of generation charge and retail supply charge.

Marketing and management fees

Marketing fees, management fees from administrative and property management and revenue from vehicle repairs are recognized when services are rendered.

Revenue from digitizing and document creation services

Revenue from digitizing and document creation services are recognized when the service is completed and electronically sent to the customer. Provision for discounts and other adjustments are provided for in the same period the related sales are recorded.



Tuition and other school fees

Tuition and other school fees are recognized over the period of instruction. Tuition and other school fees collected during the year that are applicable in the next school year are deferred and presented under the "Others" account in the Other Noncurrent Liabilities section of the consolidated statement of financial position.

Interest income

Interest income is recognized as it accrues using the effective interest method.

Dividend income

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

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

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

Group as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the consolidated asset are classified as operating leases. Fixed lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis while the variable rent is recognized as an expense based on terms of the lease contract.

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms.

Group as lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as income in the consolidated statement of income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rent is recognized as revenue in the period in which it is earned.

Commissions

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage-of-completion method is used, commissions are likewise charged to expense in the period the related revenue is recognized. Commission expense is included in the "Costs of sales" account in the consolidated statement of income.



Expenses

Expenses are recognized in the statement of income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Expenses are recognized in the statement of income:

- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- Immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statement of financial position as an asset.

Direct operating expenses and general and administrative expenses are recognized as they are incurred.

Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets (included in "Inventories", "Investment properties", "Property, plant and equipment" and "Service concession assets" accounts in the consolidated statement of financial position). All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalized from the commencement of the development work until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Pension Cost

Defined benefit plan

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (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 defined benefit plans is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with the option to accelerate when significant changes to underlying assumptions occur.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset



Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

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

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

Pension liabilities are the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net pension 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.

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

Termination benefit

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Income Tax

Current tax

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

Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. The Group 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 tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of MCIT and NOLCO can be utilized.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures. With respect to investments in foreign subsidiaries, associates and interests in joint ventures, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred 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 tax rates and tax laws that have been enacted or substantively enacted as at the end of the reporting period. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged or credited to income for the period.

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

For periods where the income tax holiday (ITH) is in effect, no deferred taxes are recognized in the consolidated financial statements as the ITH status of the subsidiary neither results in a deductible temporary difference or temporary taxable difference. However, for temporary differences that are expected to reverse beyond the ITH, deferred taxes are recognized.

Foreign Currency Transactions

The functional and presentation currency of the Parent Company and its subsidiaries (except for AYCF, ACIFL, PFIL, BHL, AIVPL and IMI), is the Philippine Peso (₱). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. 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 reporting date. All differences are taken to the consolidated statement of income with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are recognized in the consolidated statement of comprehensive income until the disposal of the net investment, at which time they are recognized in the consolidated statement of income. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.



The functional currency of AYCF, ACIFL, PFIL, BHL, AIVPL and IMI is the US Dollar (US\$). As of the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Parent Company (the Philippine Peso) at the closing rate as at the reporting date and their statement of income accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in the consolidated statement of comprehensive income and reported as a separate component of equity as "Cumulative Translation Adjustment". On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in the consolidated statement of income.

Exchange differences arising from elimination of intragroup balances and intragroup transactions are recognized in profit or loss. As an exception, if the exchange differences arise from intragroup balances that, in substance, forms part of an entity's net investment in a foreign operation, the exchange differences are not to be recognized in profit or loss, but are recognized in OCI and accumulated in a separate component of equity until the disposal of the foreign operation.

On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in profit or loss.

The Group's share in the translation adjustments of associates and joint ventures are likewise included under the "Cumulative Translation Adjustments" account in the consolidated statement of comprehensive income.

MWC Group

As approved by the MWSS Board of Trustees (BOT) under Amendment No. 1 of the Concession Agreement with MWSS, the following will be recovered through billings to customers:

- a. Restatement of foreign currency-denominated loans;
- b. Excess of actual concession fee payment over the amounts of concession fees translated using the base exchange rate assumed in the business plan approved every rate rebasing exercise. The current base exchange rate is ₱41.19:US\$1.0 based on the last rate rebasing exercise effective on January 1, 2013;
- c. Excess of actual interest payment translated at exchange spot rate on settlement date over the amount of interest translated at drawdown rate; and
- d. Excess of actual payment of other financing charges relating to foreign currency-denominated loans translated at exchange spot rate on settlement date over the amount of other financing charges translated at drawdown rate.

In view of the automatic reimbursement mechanism, the MWC Group recognizes deferred foreign currency differential adjustment (FCDA) (included as part of "Other noncurrent assets" or "Other noncurrent liabilities" in the consolidated statement of financial position) for both the realized and unrealized foreign exchange gains and losses. Other water revenue-FCDA is credited (debited) upon recovery (refund) of realized foreign exchange losses (gains). The write-off or reversal of the deferred FCDA pertaining to concession fees will be made upon determination of the rebased foreign exchange rate, which is assumed in the business plan approved by MWSS-Regulatory Office (RO) during the latest Rate Rebasing exercise, unless indication of impairment of the deferred FCDA would be evident at an earlier date.

Share-based Payments

The Group has equity-settled, share-based compensation plans with its employees.



PFRS 2 Options

For options granted after November 7, 2002 that have not vested on or before January 1, 2005, the cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, vesting conditions, including performance conditions, other than market conditions (conditions linked to share prices), shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions are taken into account in estimating the number of equity instruments that will ultimately vest. Fair value is determined by using the Binomial Tree and Black-Scholes model, further details of which are provided in Note 27 to the consolidated financial statements.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the awards ('vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income or expense for a period represents the movement in cumulative expense recognized as of the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Pre-PFRS 2 Options

For options granted before November 7, 2002 that have vested before January 1, 2005, the intrinsic value of stock options determined as of grant date is recognized as expense over the vesting period.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 25).

Employee share purchase plans

The Parent Company and certain subsidiaries have employee share purchase plans (ESOWN) which allow the grantees to purchase the Parent Company's and its respective subsidiaries' shares on installment payment plan. The Group recognizes stock compensation expense over the holding period. These are accounted for similar to the PFRS 2 options. Dividends paid on the awards that have vested are deducted from equity and those paid on awards that are unvested are charged to profit or loss. The Group treats its ESOWN plan as option exercisable within a given period. For the measurement of the fair value of options at the grant date, the Parent Company uses a Binomial Tree Model. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 27.

Earnings Per Share (EPS)

Basic EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares issued and outstanding during the year. The net income attributable to common equity holders is net of dividends attributable to preferred equity holders.



Diluted EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares issued and outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares. Calculation of diluted EPS considers the potential ordinary shares of subsidiaries, associates and joint ventures that have dilutive effect on the basic EPS of the Parent Company. The calculation of diluted EPS does not assume conversion, exercise or other issue of potential common shares that would have an antidilutive effect on earnings per share. Basic and diluted EPS are adjusted to give retroactive effect to any stock dividends declared during the period.

Assets Held in Trust

Assets which are owned by MWSS, PGL, TIEZA and CDC but are operated by the MWC Group under the concession agreements are not reflected in the consolidated statement of financial position but are considered as Assets Held in Trust (see Note 37).

Operating Segments

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 28 to the consolidated financial statements.

Contingencies

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

Events after the Reporting Period

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

4. Significant Accounting Judgments, Assumptions and Estimates

The preparation of the accompanying consolidated financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Judgments

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

Investment in Subsidiaries

The Group determined that it has control over its subsidiaries (see Note 2) by considering, among others, its power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns. The following were also considered:

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



Consolidation of entities in which the Group holds only 50% or less than majority of voting rights

The Group determined that it controls certain entities even though it owns 50% or less than majority of the voting rights. The factors considered include, among others, the size of its block of voting shares, the relative size and dispersion of holdings of other shareholders, and contractual agreements to direct the relevant activities of the entities.

Investment in Associates

The Group determined that it exercises significant influence over its associates (see Note 11) by considering, among others, its ownership interest (holding 20% or more of the voting power of the investee), board representation and participation on board sub-committees, and other contractual terms.

Investment in Joint Ventures

The Group's investments in joint ventures (see Note 11) are structured in separate incorporated entities. Even though the Group holds various percentage of ownership interest on these arrangements, their respective joint arrangement agreements requires unanimous consent from all parties to the agreement for the relevant activities identified. The Group and the parties to the agreement only have rights to the net assets of the joint venture through the terms of the contractual arrangements.

Service concession arrangement

In applying Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, the Group has made a judgment that its concession agreements with DPWH, MWSS, PGL, TIEZA, CDC, OWD and CWD qualify under the Intangible Asset model as it receives the right (license) to charge users of public service.

On the other hand, the Group has made a judgment that the concession agreement with DOTr, PGC and TWD qualifies under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial assets for its construction services directly from the grantors.

The accounting policy on the Group's SCA under the Intangible Asset and Financial model is discussed in Note 3.

Distinction between real estate inventories and land and improvements

The Group determines whether a property will be classified as real estate inventories or land and improvements. In making this judgment, the Group considers whether the property will be sold in the normal operating cycle (real estate inventories) or whether it will be retained as part of the Group's strategic landbanking activities for development or sale in the medium or long-term (land and improvements).

Property acquisitions and business combinations

The Group acquires subsidiaries that own real estate properties. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made with regard to the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the Group (e.g., maintenance, cleaning, security, bookkeeping, hotel services, etc.). The significance of any process is judged with reference to the guidance in PAS 40 on ancillary services.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized.

In 2016, ALI accounted for its acquisition of 55% interest in PHI as an acquisition of an asset. Management has made its judgment in determining whether PHI is a business as defined in PFRS 3.



Impairment of AFS equity investments

The Group treats AFS equity investments 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' generally as 20% or more and 'prolonged' as greater than 6 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Financial assets not quoted in an active market

The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Contingencies

The Group is currently involved in various legal proceedings in the ordinary conduct of business. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and external counsel handling the defense in these matters and is based upon an analysis of potential results.

The Group currently does not believe that these proceedings will have a material adverse effect on the Group's financial position and results of operations (see Note 35).

Management's Use of Estimates

The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Revenue and cost recognition on real estate projects

The Group's revenue recognition and cost policies require management to make use of estimate and assumptions that may affect the reported amounts of revenues and costs. The Group's revenue from real estate and construction contracts is recognized based on the percentage of completion and are measured principally on the basis of the estimated completion of a physical proportion of the contract work. See Note 22 for the related balances. The assessment process for the POC and the estimated project development costs requires technical determination by management's specialists (project engineers). In addition, the Group requires a certain percentage of buyer's payments of total selling price (buyer's equity), to be collected as one of the criteria in order to initiate revenue recognition. Reaching this level of collection is an indication of buyer's continuing commitment and the probability that economic benefits will flow to the Group. The Group considers that the initial and continuing investments by the buyer of about 10% would demonstrate the buyer's commitment to pay.

Accounting for business combination

Purchase price allocation exercise

In July 2017, AITHI acquired 94.90% ownership interest in MT for a total consideration of €21.9 million (₱1.3 billion). AITHI Group is required to perform a purchase price allocation for its investment in MT. A significant portion of MT's net assets pertain to property, plant and equipment and the valuation of these assets requires estimates from management. These estimates include discount rate, lease rates and land value by reference to market data. The provisional purchase price allocation for the acquisition of MT did not result to the recognition of goodwill or gain on bargain purchase.



Furthermore, IMI finalized the purchase price allocation for its 2016 acquisition of VIA and determined the fair value of VIA's patent which amounted to US\$8.3 million (P394.0 million). The determination of the fair value of VIA's patent arising from the finalization of the purchase price allocation also involves estimates such as revenue forecast, royalty rate, tax rate and discount rate.

Further details on the purchase price allocation exercise are provided in Note 23.

In 2016, ALI purchased 2.5 billion common shares or 51% interest in POPI for a total consideration P5,625.0 million. In identifying the assets acquired and liabilities assumed, management has determined that part of the assets being acquired pertains to the leasehold rights of POPI arising from its land lease with Philippine National Railways (PNR).

Further, ALI management has measured the leasehold rights and investment properties that were acquired using the appraisal report that was prepared by the external appraiser. These appraisals involve selecting the appropriate valuation methodology and making various assumptions such as price per square meter (sqm), adjustment factors, discount rate, rental growth rate, location, size and time element factors. The investment properties comprising of building and property and equipment were valued using the cost approach, specifically reproduction cost (new) less depreciation for physical deterioration, functional and economic obsolescence. Significant estimates were made in relation to the reproduction cost (new) using the unit-in-place method which combines direct and indirect costs for a building component. Adjustments were made to the reproduction cost to reflect depreciation. The land was valued using the sales comparison approach. Significant assumptions used include comparable property prices adjusted for nature, location and condition of the land to which the leasehold right is attributed to. In addition, in determining the lease interest, assumptions were made as to rental growth rate and discount rate.

Further details on business combination are provided in Note 23.

Fair value of the financial liabilities on put option

The acquisition of VIA in 2016 and STI in 2017 included call and put options over the non-controlling interests. These options are considered when determining whether the entity has obtained control over the acquiree if in substance the entity already has access to the returns associated with that ownership interest. IMI management assessed that the options do not give IMI Group present access to the returns associated with the non-controlling interests in subsidiary and, therefore, accounted for the non-controlling interests under PFRS 10, while the financial liability was accounted for under PAS 39 measured at the present value of the redemption amount, with a debit to a component of equity attributable to the parent.

IMI management assessed that the discounted, probability-weighted cash flow methodology is the appropriate model to derive the present value of the redemption amount. The key estimates and assumptions used in the valuation include the current equity value of the acquiree, forecasted interest rate and probability of trigger events occurring. The current equity value of VIA is determined using the discounted cash flow approach. The future cash flows are projected using the projected revenue growth rate of VIA. The discount rate represents the current market assessment of the risk specific to the acquiree, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital. For STI, IMI management used the market approach by approximating the EBITDA multiple taken from comparable companies of STI that are engaged in providing electronic services solutions to derive its current equity value. IMI management computed EBITDA as the difference of forecasted gross profit and selling and administrative expenses before depreciation and amortization.

Further details on the valuation of the put options are disclosed in Note 32.



Fair value of contingent consideration liability

The cost of acquisition of STI also includes contingent consideration that will depend on the actual normalized EBITDA performance less adjustments in 2018 and 2019. IMI management assessed that the probability-weighted average of payouts associated with each possible outcome is the appropriate model to derive the fair value as part of the consideration transferred. Valuing normalized EBITDA requires management to make an estimate of the expected future cash flows of STI and an appropriate discount rate in order to calculate the fair value of the contingent consideration as of acquisition date.

Further details on the valuation of the contingent consideration liability are disclosed in Note 32.

Estimating allowance for doubtful accounts

The Group maintains allowance for doubtful accounts based on the results of the individual and collective assessment under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Provision for doubtful accounts is determined as the difference between the receivable's carrying balance and the computed present value. Factors considered in individual assessment are payment history, past due status and term. The collective assessment would require the Group to combine its receivables based on the credit risk characteristics (customer type, payment history, past-due status and term) of the customers. Provision for doubtful accounts is then determined based on historical loss experience of the receivables combined per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

Further details on receivables are provided in Note 7.

Evaluation of net realizable value of inventories and land and improvements

Inventories and land and improvements are valued at the lower of cost and NRV. This requires the Group to make an estimate of the inventories' and land and improvements' estimated selling price in the ordinary course of business, cost of completion and costs necessary to make a sale to determine the NRV. For real estate inventories and land and improvements, the Group adjusts the cost of its real estate inventories and land and improvements to net realizable value based on its assessment of the recoverability of the real estate inventories and land and improvements. In determining the recoverability of the inventories and land and improvements, management considers whether those inventories and land and improvements are damaged or if their selling prices have declined. Likewise, management also considers whether the estimated costs of completion or the estimated costs to be incurred to make the sale have increased.

In the event that NRV is lower than the cost, the decline is recognized as an expense. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

Further details on inventories and land and improvements are provided in Notes 8 and 10, respectively.

Evaluation of impairment of nonfinancial assets

The Group reviews investments in associates and joint ventures, investment properties, property, plant and equipment, service concession assets and intangible assets for impairment of value. Impairment for goodwill is assessed at least annually. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends.



The Group estimates the recoverable amount as the higher of the fair value less costs to sell and value in use. For investments in associates and joint ventures, fair value less costs to sell pertain to quoted prices (listed equities) and to fair values determined using discounted cash flows or other valuation technique such as multiples. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect investments in associates and joint ventures, investment properties, property, plant and equipment, service concession assets and intangible assets.

For goodwill, this requires an estimation of the recoverable amount which is the fair value less costs to sell or value in use of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the future cash flows for the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of cash flows.

Further details on investments in associates and joint ventures, investment properties, property, plant and equipment, service concession assets and intangible assets are provided in Notes 11, 12, 13, 14 and 15, respectively.

Determining the fair value of investment properties

The Group discloses the fair values of its investment properties. The Group engaged independent valuation specialist to assess fair value as at December 31, 2017 and 2016. The Group's investment properties consist of land and building pertaining to land properties, retail (malls) and office properties. These were valued by reference to market based evidence using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Further details on investment properties assets are provided in Note 12.

Estimating billable water volume

Starting May 1, 2017, the SCAs related to MWC Group's concession agreements are amortized using the UOP method based on actual billed volume and total estimated billable volume for the remaining period of the concession agreements (see Note 3). MWC Group considers factors such as population growth rate, supply and consumption, and service coverage, including ongoing and future expansions in estimating the total billable water volume over the remaining periods of the concession agreements. For the year ended December 31, 2017, SCA amortization expense based on the UOP method amounted to ₱862.21 million (see Note 14).

Deferred FCDA

Under the concession agreements entered into by the MWC Group with MWSS and TIEZA, MWC and Boracay Island Water Company (BIWC) are entitled to recover (refund) foreign exchange losses (gains) arising from concession loans and any concessionaire loans. MWC and BIWC recognized deferred FCDA (included as part of "Other noncurrent assets" or "Other noncurrent liabilities" in the consolidated statement of financial position) for both realized and unrealized foreign exchange gains and losses. Deferred FCDA is set up as an asset for the realized and unrealized exchange losses since this is a resource controlled by MWC and BIWC as a result of past events and from which future economic benefits are expected to flow to MWC and BIWC. Realized and unrealized foreign exchange gains, on the other hand, which will be refunded to the customers, are presented as liability.

The deferred FCDA of MWC and BIWC arises from a rate adjustment mechanism for the recovery or compensation on a current basis, subject to quarterly review and adjustment by MWSS or TIEZA, when necessary, of accrued foreign exchange gains and losses, arising from MWSS or TIEZA loans and concession loans used for capital expenditures and concession fee payments.

Further details on deferred FCDA of MWC and BIWC are provided in Note 16.



Deferred tax assets

The Group reviews the carrying amounts of deferred income taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of deferred tax assets to be utilized. The Group looks at its projected performance in assessing the sufficiency of future taxable income.

Further details on deferred tax assets are provided in Note 24.

Recognition and measurement of taxes

The Group has exposure to taxes in numerous jurisdictions. Significant judgment is involved in determining the group-wide provision for taxes including value-added tax, consumption tax and customs duty. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for expected tax issues based on estimates of whether additional taxes are due. Where the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact profit and loss in the period in which such determination is made.

Further details on the carrying amount of the Group's income taxes payable are provided in Note 24.

Share-based payments

The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Parent Company and certain subsidiaries.

Further details on the share-based payments recognized by the Group are provided in Note 27.

Defined benefit plans (pension benefits)

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

In determining the appropriate discount rate, the Group considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 26.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position or disclosed in the notes to the consolidated financial statements cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Further details about the fair value of financial instruments are provided in Note 32.



5. Cash and Cash Equivalents

This account consists of the following:

	2017	2016
	(In Thousands)	
Cash on hand and in banks (Note 30)	₱21,448,048	₱23,721,591
Cash equivalents (Note 30)	42,811,231	36,501,733
	₱64,259,279	₱60,223,324

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term rates.

6. Short-term Investments

Short-term investments pertain to money market placements made for varying periods of more than three months but less than one year and earn interest ranging from 1.6% to 3.7% in 2017 and 0.4% to 2.0% in 2016.

7. Accounts and Notes Receivable – net

This account consists of the following:

	2017	2016
	(In Thousands)	
Trade:		
Real estate	₱100,885,847	₱90,043,604
Electronics manufacturing	13,022,906	9,784,345
Automotive	5,532,186	2,791,338
Water infrastructure	2,234,960	2,712,944
Power generation	1,151,909	461,674
Information technology and BPO	290,915	275,198
International and others	22,518	63,480
Advances to contractors and suppliers	23,886,667	27,609,966
Advances to other companies	19,029,334	16,825,163
Receivable from related parties (Note 30)	3,070,255	2,339,638
Receivable from officers and employees (Note 30)	1,479,532	1,090,801
Dividend receivable (Note 30)	1,153,206	1,228,133
Receivable from BWC	501,014	529,501
Others (Note 30)	300,692	274,881
	172,561,941	156,030,666
Less allowance for doubtful accounts	2,678,761	2,704,356
	169,883,180	153,326,310
Less noncurrent portion	45,774,058	36,484,347
	₱124,109,122	₱116,841,963



The classes of trade receivables of the Group follow:

Real estate

Real estate receivables consist of:

- Residential and office development - pertain to receivables from the sale of high-end, upper middle-income and affordable residential lots and units; economic and socialized housing units and sale of commercial lots; sale of office units; and leisure community developments
- Shopping centers - pertain to lease receivables from retail spaces
- Construction contracts - pertain to receivables from third party construction projects
- Corporate business - pertain to lease receivables from office and factory buildings and receivables from sale of industrial lots
- Management fees - pertain to receivables from facilities management services
- Others - pertain to receivables from hotel operations and other support services

Sales contract receivables, included under residential and office development, are collectible in monthly installments over a period of one (1) to ten (10) years. These are carried at amortized cost using the effective interest rate method with annual interest rates ranging from 8% to 13%. Titles to real estate properties are transferred to the buyers only once full payment has been made.

Receivables from construction contracts, shopping centers and management fee are due within 30 days upon billing. Corporate business receivables are collectible on a monthly or quarterly basis depending on the terms of the lease. Receivables from hotel operations and other support services are normally due within 30 to 90 days upon billing.

ALI Group sold real estate receivables on a without recourse basis to partner mortgage banks, which include BPI Family Savings Bank, a related party, totaling ₱7,711.3 million in 2017 and ₱2,008.3 million in 2016. These were sold at a discount with total proceeds of ₱7,320.8 and ₱1,894.2 million, respectively. ALI Group recognized loss on sale amounting to ₱390.5 million in 2017 and ₱114.1 million in 2016 (see Note 22).

Electronics manufacturing

Pertains to receivables arising from manufacturing and other related services for electronic products and components and billings to customers for production and test equipment and all other charges agreed with the customers in carrying out business operations. These are collectible within 30 to 60 days from invoice date.

Automotive

Automotive receivables relate to sale of passenger cars, motorcycles and commercial vehicles and are collectible within 30 to 90 days from date of sale.

Water infrastructure

Water infrastructure receivables arise from water and sewer services rendered to residential, commercial, semi-business and industrial customers of MWC Group and are collectible within 30 days from billing date.

Power generation

Power generation receivables pertain to ACEHI Group's receivable from Ilocos Norte Electric Cooperative, Inc. (INEC), Wholesale Electricity Spot Market (WESM) and National Transmission Corporation (TransCo), acting as administrator of FIT system.

Information technology and BPO

Information technology and BPO receivables arise from venture capital for technology businesses; provision of value-added content for wireless services, online business-to-business and business-to-consumer services; electronic commerce; technology infrastructure sales and technology services; and onshore- and offshore-BPO services and are normally collected within 30- to 60- days from invoice date.



International and others

International and other receivables arose from investments in overseas property companies and projects, charter services, agri-business, education and others and are generally on 30- to 60- day terms.

The nature of the Group's other receivables follows:

Advances to contractors and suppliers

Advances to contractors and suppliers are recouped every progress billing payment date depending on the percentage of accomplishment or delivery.

Advances to other companies

Advances to other companies mainly pertain to ALI's advances to third party joint venture partners that have been made in consideration of project costs and purchases of land that are still subject to completion. ALI Group does not intend that these advances will be repaid, but will instead be recorded as part of the project costs upon development or as part of consideration for purchases of land. The documentation for these advances provides that these will be payable over a fixed term or on demand in order to allow for repayment of the advances when closing does not occur. Certain advances are interest bearing and subject to terms as agreed between the parties.

Advances to other companies also includes receivables from MRT Development Corporation (MRTDC) shareholders which pertains to interest-bearing advances made by North Triangle Depot Commercial Corporation (NTDCC) to MRTDC equivalent to the Pre-2006 Development Rights Payment (DRP) Payables and the Residual Depot DRP which is due more than one year, in relation to the funding and repayment agreement. As of December 31, 2017 and 2016, receivables from MRTDC shareholders for both years amounted to ₱445.5 million and ₱432.1 million, respectively.

Receivables from officers and employees

Receivable from officers and employees pertain to housing, car, salary and other loans granted to the Group's officers and employees which are collectible through salary deduction. These are interest bearing ranging from 6.0% to 10.0% per annum and have various maturity dates ranging from 2018 to 2027.

The Group entered into agreements with BPI Asset Management and Trust Corporation (BPI Trust) in 2017 and 2016 for the assignment of interest-bearing employee receivables amounting to ₱69.0 million and ₱99.6 million, respectively. The transactions were without recourse and did not result to any gain or loss.

Receivables from BWC

Receivables from BWC pertain to the assigned receivables from the share purchase agreement between MWC and Veolia Water Philippines, Inc. (VWPI) related to the acquisition of VWPI's interest in Clark Water Corporation (CWC) in 2011.

The assigned receivable will be paid by BWC at an amount equal to 30% of the product consumed by all of BWC's customers and the tariff imposed by MWC on its customers falling under the corresponding classification pursuant to the Concession Agreement, and all amounts received by BWC as connection fees from customers, and any fee BWC may charge in relation to the interconnection with the wastewater treatment plant of areas of developments outside the BWC service area. The assigned receivable from BWC is interest bearing and MWC Group classifies as current the portion of its gross receivable from BWC that is due within the next twelve (12) months in accordance with the agreed terms.



Others

Other receivables include accrued interest receivable and other nontrade receivables from non-related entities which are non-interest bearing and are due and demandable. This also includes receivable from the DPWH pertaining to the additional costs incurred by the Parent Company in the construction of the Daang Hari-South Luzon Expressway (SLEX) Link Road arising from the government directive to revise the interconnection design of the road amounting to ₱215.9 million (see Note 14).

As of December 31, 2017 and 2016, nominal amounts of trade receivables from residential and office development totaling ₱99,530.8 million and ₱86,747.7 million, respectively, were recorded initially at fair value. The fair values of the receivables were obtained by discounting future cash flows using the applicable rates of similar types of instruments.

Movements in the unamortized discount of ALI Group's receivables as of December 31, 2017 and 2016 follow:

	2017	2016
	(In Thousands)	
Balance at beginning of the year	₱7,448,048	₱4,860,992
Additions during the year	8,294,042	7,598,049
Accretion for the year	(5,409,944)	(5,010,993)
Balance at end of the year	₱10,332,146	₱7,448,048



Movements in the allowance for doubtful accounts follow (in thousands):

	2017							
	Real Estate	Electronics	Water Infrastructure	Automotive	Information Technology and BPO	Power Generation	Parent Company and Others	Total
At January 1	₱1,189,847	₱86,202	₱770,207	₱53,427	₱176,217	₱307,771	₱120,683	₱2,704,354
Provisions during the year (Note 22)	93,718	11,261	586,226	24,356	1,814	50,121	61,437	828,933
Write-offs	(47,900)	(1,428)	–	–	–	–	–	(49,328)
Reversals/Adjustments (Note 22)	(509,861)	3,974	(257,950)	697	(3,273)	–	(8,674)	(775,087)
Reclassification/Others	142	364	–	–	–	(5,330)	(25,287)	(30,111)
At December 31	₱725,946	₱100,373	₱1,098,483	₱78,480	₱174,758	₱352,562	₱148,159	₱2,678,761
Individually impaired	550,660	100,373	67,074	29,903	171,346	–	–	919,356
Collectively impaired	175,286	–	1,031,409	48,577	3,412	352,562	148,159	1,759,405
Total	₱725,946	₱100,373	₱1,098,483	₱78,480	₱174,758	₱352,562	₱148,159	₱2,678,761
Gross amount of loans and receivables individually determined to be impaired	₱550,660	₱100,373	₱67,074	₱29,903	₱171,346	₱–	₱–	₱919,356

	2016							
	Real Estate	Electronics	Water Infrastructure	Automotive	Information Technology and BPO	Power Generation	Parent Company and Others	Total
At January 1	₱786,492	₱22,498	₱578,081	₱31,347	₱10,934	₱–	₱519,980	₱1,949,332
Provisions during the year (Note 22)	399,424	10,173	73,955	8,351	12,145	303,772	38,932	846,752
Addition through business combination	67,739	–	–	–	–	–	–	67,739
Write-offs	(64,206)	(3,757)	–	–	(20,690)	–	–	(88,653)
Reversals/Adjustments (Note 22)	2,082	–	(30,243)	(494)	(29,799)	3,999	(16,361)	(70,816)
Reclassification/Others	(1,684)	57,288	148,414	14,223	203,627	–	(421,868)	–
At December 31	₱1,189,847	₱86,202	₱770,207	₱53,427	₱176,217	₱307,771	₱120,683	₱2,704,354
Individually impaired	960,901	86,202	123,737	38,862	171,346	–	92,784	1,473,832
Collectively impaired	228,946	–	646,470	14,565	4,871	307,771	27,899	1,230,522
Total	₱1,189,847	₱86,202	₱770,207	₱53,427	₱176,217	₱307,771	₱120,683	₱2,704,354
Gross amount of loans and receivables individually determined to be impaired	₱960,901	₱86,202	₱123,737	₱38,862	₱171,346	₱–	₱92,784	₱1,473,832



8. Inventories

This account consists of the following:

	2017	2016
	(In Thousands)	
At cost:		
Residential and condominium units and offices	₱46,739,183	₱39,950,933
Residential and commercial lots	15,032,104	25,608,017
Vehicles	3,601,894	4,001,188
Finished goods	1,812,228	899,915
Work-in-process	1,367,598	633,015
Materials, supplies and others	7,441,182	3,166,766
	75,994,189	74,259,834
At NRV:		
Residential and commercial lots	9,065	936,183
Finished goods	78,869	91,854
Parts and accessories	460,415	497,135
Materials, supplies and others	–	967,869
	548,349	2,493,041
	₱76,542,538	₱76,752,875

A summary of the movement of real estate inventories is set out below.

2017

	Residential and Commercial Lots	Residential and Condominium units and Offices	Total
	(In Thousands)		
Opening balances at January 1	₱26,544,200	₱39,950,933	₱66,495,133
Land acquired during the year	659,866	–	659,866
Land cost transferred from Land and Improvements (Note 10)	4,844,395	6,064,055	10,908,450
Construction/Development costs incurred	7,467,783	37,420,456	44,888,239
Borrowing costs capitalized	–	28,754	28,754
Disposals (recognized as cost of sales)	(22,107,339)	(37,757,091)	(59,864,430)
Transfers from/to investment properties and other assets	(2,454,884)	–	(2,454,884)
Write-down of inventories/reversal of write-down	1,298,438	–	1,298,438
Other adjustments/Reclassifications	(1,211,290)	1,032,076	(179,214)
	₱15,041,169	₱46,739,183	₱61,780,352

2016

	Residential and Commercial Lots	Residential and Condominium units and Offices	Total
	(In Thousands)		
Opening balances at January 1	₱24,298,863	₱34,864,516	₱59,163,379
Land acquired during the year	34,124	–	34,124
Land cost transferred from land and Improvements (Note 10)	581,172	4,214,326	4,795,498
Acquired through business combination	273,299	–	273,299
Construction/Development costs incurred	12,425,216	35,343,182	47,768,398
Borrowing costs capitalized	–	62,507	62,507
Disposals (recognized as cost of sales)	(11,487,472)	(31,284,969)	(42,772,441)
Transfers from/to investment properties and other assets	(553,425)	(511,900)	(1,065,325)
Other adjustments/Reclassifications	972,423	(2,756,791)	(1,784,368)
Exchange differences	–	20,062	20,062
	₱26,544,200	₱39,950,933	₱66,495,133



In 2017, ALI reversed ₱1,298.4 million allowance for impairment in residential and commercial lots due to higher fair value than its carrying amount. This is included under “Other income” (see Note 22).

IMI recorded a reversal of provision for inventory obsolescence amounting to ₱13.7 million and ₱128.0 million in 2017 and 2016, respectively, and recognized provision for inventory obsolescence amounting to ₱74.4 million in 2015. The provision is included under “General and administrative expenses” in the consolidated statements of income (see Note 22).

The cost of the inventories carried at NRV amounted to ₱874.9 million and ₱3.4 billion as of December 31, 2017 and 2016, respectively.

Inventories recognized as cost of sales amounted to ₱132.8 billion, ₱105.7 billion and ₱89.5 billion in 2017, 2016 and 2015, respectively, and were included under “Costs of sales” in the consolidated statements of income.

Club shares held as inventory were reclassified into AFS or consolidated in 2016 (see Note 2).

9. Other Current Assets

This account consists of the following:

	2017	2016
	(In Thousands)	
Input VAT	₱20,403,191	₱11,822,618
Prepaid expenses	12,480,978	11,798,740
Financial assets at FVPL	6,063,585	6,664,015
Creditable withholding tax	3,671,713	2,234,594
Noncurrent assets held for sale (Note 23)	1,821,049	—
Deposits in escrow	259,898	104,163
Concession financial receivable	197,044	200,253
Derivative assets (Notes 31 and 32)	85,347	245,887
Others	341,891	568,213
	₱45,324,696	₱33,638,483

Input VAT

Input VAT is applied against output VAT. The remaining balance is recoverable in future periods.

Prepaid expenses

Prepaid expenses mainly include prepayments for commissions, marketing fees and promotion, taxes and licenses, rentals and insurance and current project costs.

Financial Assets at FVPL

TRG Investments

As of December 31, 2017, financial assets at FVPL includes the Group's investment in the common and preferred shares of The Rohatyn Group (TRG) Allocation LLC and TRG Management LP (collectively TRG investments) amounting to US\$26.8 million (₱1.3 billion) and US\$8.4 million (₱419.4 million), respectively. As of December 31, 2016, the Group's investment in the common and preferred shares of the TRG investments amounted to US\$28.8 million (₱1.4 billion) and US\$7.0 million (₱348.0 million), respectively.

In 2017 and 2016, the Group made additional investment in TRG investments amounting to US\$1.4 million and US\$1.7 million, respectively, representing capital call for the year.

As of December 31, 2017 and 2016, the Group's remaining capital commitment with the TRG Investments amounted to US\$1.7 million and US\$3.0 million, respectively.



Unit Investment Trust Fund (UITF) investments

As of December 31, 2017, ALI Group invested in BPI Money Market Fund (MMF) with a fair value of ₱82.98 million. The BPI MMF's Net Asset Value (NAV) was at ₱5,866.9 million with duration of 142 days.

As of December 31, 2016, ALI Group's investments included BPI Short Term Fund (STF), BPI Money Market Fund (MMF) and BDO Institutional Cash Reserve Fund (ICRF) (the Funds) with an aggregate fair value of ₱1,529.1 million. The Net Asset Value (NAV) of the funds were: (i) BPI STF ₱67,692.0 million with duration of 33 days; (ii) BPI MMF ₱6,281.6 million with duration of 37 days; and (iii) BDO ICRF ₱79,935.0 million with duration of 106 days.

ARCH Fund

In 2007, the private equity fund, called ARCH Capital Asian Partners, L.P. (ARCH Fund I) was established. The ARCH Fund I achieved its final closing, resulting in a total investor commitment of US\$330.0 million in 2007. As of December 31, 2017 and 2016, the carrying amount of the Fund amounted to US\$2.2 million (₱109.8 million) and US\$2.8 million (₱139.2 million), respectively.

In 2017 and 2016, the ARCH Fund I returned capital amounting to US\$0.7 million (₱34.5 million) and US\$1.8 million (₱89.5 million), respectively. The proceeds from the return of capital of ARCH Fund 1 came from its real estate project called The Concordia. Phase 1 to 3 of The Concordia was fully sold and hand over of units to buyers have already started.

In 2011, the Group committed to invest US\$50.0 million in ARCH Capital's second real estate fund, ARCH Capital-TRG Asian Partners, L.P. (ARCH Fund II), which had its first closing on June 30, 2011. As of December 31, 2017 and 2016, the carrying amount of the ARCH Fund II amounted to US\$26.7 million (₱1.3 billion) and US\$30.4 million (₱1.5 billion), respectively.

On various dates in 2017 and 2016, ARCH Fund II made capital calls where the Group's share amounted to US\$0.3 million (₱14.3 million) and US\$0.4 million (₱19.9 million), respectively. In 2017 and 2016, the ARCH Fund II returned capital amounting to US\$7.2 million (₱359.5 million) and US\$15.0 million (₱745.8 million), respectively.

As of December 31, 2017 and 2016, the Group's remaining capital commitment with the ARCH Fund II amounted to US\$0.1 million (₱5.0 million) and US\$0.2 million (₱9.9 million), respectively.

On July 1, 2014, the Group committed to invest 10% of capital raised, capped at US\$50.0 million in ARCH Capital's third real estate fund, ARCH Capital-TRG Asian Partners III, L.P. (ARCH Fund III). As of December 31, 2017 and 2016, the carrying amount of the investment in the ARCH Fund III amounted to US\$36.6 million (₱1,827.4 million) and US\$16.7 million (₱830.3 million), respectively.

On various dates in 2017 and 2016, the ARCH Fund III made capital calls where the Group's share amounted to US\$15.6 million (₱ 778.9 million) and US\$7.1 million (₱353.0 million), respectively.

As of December 31, 2017 and 2016, the Group's remaining capital commitment with the ARCH Fund III amounted to US\$18.2 million (₱908.7 million) and US\$33.8 million (₱1,680.5 million), respectively.

Maloeke Capital Fund 2

Maloeke Capital Fund 2 is a venture capital fund which focuses on technology investments in Indonesia and Southeast Asia. In 2017, the Group committed to invest up to US\$2.0 million. As of December 31, 2017, the Group has invested US\$0.82 million (₱40.9 million) in Maloeke Capital Fund 2 representing 15.38% of the Class A shares of the fund.



Alibaba

Alibaba Group's New Retail Strategic Opportunities Fund is a fund which aims to invest in traditional brick-and-mortar retail companies based in China and integrate them with Alibaba's e-commerce platform, leveraging on Alibaba's consumer reach, data scale and technology. As of December 31, 2017, the carrying amount of the investment in the Alibaba amounted to US\$0.49 million (P24.7 million).

Arbor Venture Fund I L.P. (Arbor Fund I)

The Arbor Fund I is a private equity fund which focuses on providing funding for new ventures in the financial technology and services space. The fund has investments in companies providing big data decision making (credit scoring, identity verification), asset management, payments processing, and on-line credit linked to payment processing, HR services, and cloud based accounting. On November 29, 2017, AIVPL and Total Jade Group Limited (Total Jade), a wholly-owned subsidiary of BHL, entered into an assignment and assumption agreement whereby AIVPL transferred and assigned all its rights with respect to its investment in Arbor Fund I at carrying amount. Total Jade committed to invest US\$2.0 million in Arbor Fund I and Total Jade's remaining capital commitment to Arbor Fund I amounted to US\$1.6 million as of December 31, 2017.

In 2017 and 2016, Arbor Fund I made capital calls where the Group's share amounted to US\$0.5 million (P22.9 million) and US\$0.6 million (P28.8 million), respectively. In 2016, the Group received cash contribution from Arbor Fund I amounting to US\$0.03 million (P1.6 million) which includes return on capital amounting to US\$0.02 million (P1.2 million).

As of December 31, 2017 and 2016, the carrying amount of the investment in Arbor Fund I amounted to US\$1.6 million (P77.5 million) and US\$1.1 million (P56.4 million), respectively. The Group's remaining capital commitment amounted to US\$0.4 million (P22.3 million) and US\$0.9 million (P44.7 million) in 2017 and 2016, respectively.

Arbor Venture Fund GP II, L.P (Arbor Fund II)

Arbor Fund II is a fund which focuses on Asian financial technology firms. Total Jade has committed to invest up to US\$2.0 million and Total Jade's remaining capital commitment to Arbor Fund II amounted to US\$1.6 million as of December 31, 2017.

As of December 31, 2017, the carrying amount of the investment in Arbor Fund II amounted to US\$0.4 million (P20.0 million).

These investments are accounted for at FVPL. There is no change in management's intention to hold the investments for trading purpose. Net changes in fair value of financial assets at FVPL amounting to P779.5 million, P473.8 million and P243.4 million in 2017, 2016 and 2015, respectively, is included under "Other income" in the consolidated statements of income (see Note 22).

Creditable withholding tax

The Group will be able to apply the creditable withholding taxes against income tax payable.

Deposits in escrow

Deposits in escrow pertain to the proceeds from the sale of ALI Group that have been only granted with a temporary License To Sell (LTS) by the Housing and Land Use Regulatory Board (HLURB). For projects with temporary LTS, all payments, inclusive of down payments, reservation, and monthly amortization, among others, made by the buyer within the selling period shall be deposited in an escrow account.

Concession financial receivable

Concession financial receivable is accounted for in accordance with IFRIC 12, arising from the bulk water contract between CMWDI and Metropolitan Cebu Water District (MCWD) whereby the facilities constructed by CMWDI shall be used for the delivery of potable and treated water to MCWD at an aggregate volume of 18,000 cubic meters per day for the first year and 35,000 cubic meters per day for the succeeding years up to twenty (20) years at P24.59 per cubic meter.



In 2016, due to the declaration of the state of calamity arising from the El Niño, CMWDI and MCWD invoked the force majeure clause in the Bulk Water Supply Contract which effectively lifted the requirement for MCWD to purchase and for CMWDI to deliver the agreed thirty five (35) million liters of water starting January 2016 up to September 2016. Due to this change in the timing of the implementation of the thirty five (35) million liters of guaranteed volume, CMWDI recognized an impairment loss amounting to ₱8.60 million on its concession financial receivable. This is recorded as part of "Provision for probable losses and doubtful accounts" in the consolidated statement of comprehensive income (see Note 22).

In 2017, CMWDI also invoked the force majeure clause due to high water turbidity which resulted to intermittent delivery of the required 35.0 million liters of water to MCWD for a period of four (4) months. As a result, an additional ₱2.67 million impairment loss was recognized for the year ended December 31, 2017.

The concession financial receivable arising from the Bulk Water Sales and Purchase Agreement between TWC and TWD is accounted for in accordance with IFRIC 12. As of December 31, 2017 and 2016, TWC is constructing water treatment facilities which shall be used for the delivery of potable water to TWD at an aggregate volume of 26.0 million liters per day for the 1st to 3rd years; 32.0 million liters per day for the 4th to 6th years; and 38.0 million liters per day for the remaining years of the agreement. There shall be a tariff rate adjustment of fifteen percent (15%) every three (3) years starting on the 4th year from the Operations Start Date as defined in the Bulk Water Sale and Purchase Agreement.

The breakdown of the concession financial receivable is as follows:

	2017	2016
	(In Thousands)	
Current	₱197,044	₱200,253
Noncurrent	1,187,508	1,005,561
	₱1,384,552	₱1,205,814

Others include noncurrent assets held for sale arising from the sale and purchase agreement between Speedy-Tech Electronics (Singapore) Co., Ltd., a subsidiary of IMI, and Jinnuo Century Trading Limited in connection with the plan to relocate its manufacturing facility in Liantang, Luohu, in line with the urban redevelopment projects of the Shenzhen City government. The sale is subject to certain conditions which are expected to be completed within 2018.

10. Land and Improvements

The rollforward analysis of this account follows:

	2017	2016
	(In Thousands)	
Cost		
At January	₱101,755,864	₱93,601,572
Additions	3,977,950	13,493,335
Transfers	(10,586,112)	(5,339,043)
At December 31	95,147,702	₱101,755,864
Allowance for decline in value		
At January	706,693	706,693
Provision during the year (Note 22)	572,001	—
At December 31	1,278,694	706,693
	₱93,869,008	₱101,049,171



Transactions affecting “Land and Improvements” account for the year 2017 include the following:

Interest capitalized amounted to ₱15.31 million in 2017. The capitalization rate ranges from 2.50%-4.75%.

In December 2017, ALI acquired land in San Jose del Monte, Bulacan amounting to ₱185.3 million.

On December 15, 2017, Amaia Land Co. (Amaia), a wholly-owned subsidiary of ALI, sold a parcel of land in Bicutan amounting to ₱285.8 million.

On October 25, 2017, Ayala Hotels, Inc. transferred parcels of land to inventories for its PCT North Project amounting to ₱402.48 million.

On September 14, 2017, Amorsedia Development Corporation, a wholly-owned subsidiary of ALI, acquired parcels of land amounting to ₱193.85 million for its Phase 7c project. There is also a transfer of land to investment property amounting to ₱1.89 billion.

On September 5, 2017, Southgateway Development Corp., a wholly-owned subsidiary of ALI, purchased 193,232 sq. m. of land in Cavite amounting to ₱364.35 million.

In September 2017, the Ayala Hotels and Resorts Corporation purchased a parcel of land situated in Sicogon Island, Cales, Iloilo from Sicogon Development Corporation (SIDEKO) for a total amount of ₱278.11 million.

In June 2017, ALI acquired properties in Laguna for its ALP Cerilio Project amounting to ₱2.96 billion and is subsequently transferred to its inventory account.

On May 24, 2017, Bellavita Land Corporation acquired lot for Naga Project amounting to ₱91.03 million.

In 2017, ALI Group recorded provision amounting to ₱572.0 million, net of the ₱49.0 million reversal of impairment on its properties located in Las Piñas City (see Note 22).

Transactions affecting “Land and Improvements” account for the year 2016 include the following:

On July 3, 2016, the Parent Company and Crans Montana Property Holding Corporation (Crans Montana), a wholly-owned subsidiary of ALI, entered into a lease contract of a land in Amorsolo-Dela Rosa, Makati City. The lease is for a period of 25 years commencing on the start of commercial operations of the apartment building to be built by Crans Montana. As of December 31, 2017 and 2016, the building has not yet started its commercial operation and no rental income and expense were recognized in relation to the transaction.

In 2016, Alveo Land Corporation (Alveo), a subsidiary of ALI, acquired properties located in Las Piñas City and Makati City for a total amount of ₱3,640.8 million.

On November 24, 2016, BellaVita Land Corporation (BellaVita), a subsidiary of ALI, acquired a property located in Lian, Batangas with a total area of 43,020 sqm for a total value of ₱20.4 million.

On September 8, 2016, Accendo Commercial Corporation, a subsidiary of ALI acquired parcels of land located in Toril, Davao City with an aggregate area of 682,195 sqm for a total acquisition cost of ₱511.7 million.

On August 17, 2016, BellaVita executed the Deed of Absolute Sale (DOAS) for the purchase of property located in Brgy. San Jose, San Miguel, Iloilo with total land area of 10,975 sqm for a total acquisition cost of ₱5.5 million.



On August 3, 2016, ALI Group acquired control of PHI wherein part of the acquisition are various parcels of land located in Porac, Pampanga held by ALI for future use and improvements amounting to ₱2,748.0 million.

On June 24, 2016, Avida Land Corporation, a subsidiary of ALI, executed the DOAS with Wyeth Philippines, Inc. for the acquisition of 11,000 sqm parcel of land located along Chino Roces Avenue, Makati City amounting to ₱1,981.4 million.

On April 11, 2016, Aviana Development Corporation, a subsidiary of ALI, reclassified advances from landowners to land and improvements upon execution of DOAS amounting to ₱1,205.4 million comprising 252,410 sqm in total. This land is for the development of Azuela Cove, a high-end horizontal residential project, located at Lanang, Davao City.

On February 9, 2016, Cebu Holdings, Inc. (CHI), a subsidiary of ALI, purchased Tiam property located in Sacrim Road, Mandaue City, Cebu amounting to ₱266.8 million consisting of 8,261 sqm.

11. Investments in Associates and Joint Ventures

This account consists of the following:

	2017	2016
	(In Thousands)	
Acquisition cost	₱156,291,517	₱142,724,598
Accumulated equity in earnings	50,009,202	40,217,528
Other comprehensive loss	(3,651,419)	(2,628,383)
	₱202,649,300	₱180,313,743

Details of the Group's investments in associates and joint ventures and the related percentages of ownership are shown below:

	Percentage of Ownership		Carrying Amounts	
	2017	2016	2017	2016
	(In Millions)			
<i>Domestic:</i>				
Bank of the Philippine Islands (BPI)	32.5%	32.5%	₱77,495	₱72,532
Liontide Holdings, Inc. (LHI)*	78.1	73.8	41,855	39,418
Globe Telecom, Inc. (Globe)*	31.0	31.0	21,194	20,143
GNPower Mariveles Coal Plant Ltd. Co (GMCP)	20.4	17.1	8,006	8,790
OCLP Holdings, Inc. (OHI)	21.0	21.0	7,738	7,321
Emerging City Holdings, Inc. (ECHI)*	50.0	50.0	3,916	4,159
South Luzon Thermal Energy Corp. (SLTEC)*	35.0	35.0	2,704	2,785
GNPower Dinginin Ltd. Co. (GNP Dinginin)	50.0	50.0	2,266	1,158
Berkshires Holdings, Inc. (BHI)*	50.0	50.0	1,910	1,834
Light Rail Manila Holdings, Inc. (LRMHI)	50.0	50.0	1,825	1,647
Cebu District Property Enterprise, Inc. (CDPEI)*	42.0	42.0	1,476	1,487
Bonifacio Land Corporation (BLC)	10.0	10.0	1,395	1,370
Asiacom Philippines, Inc. (Asiacom)*	60.0	60.0	1,302	1,253
Philippine Wind Holdings Corporation (PWHC)*	42.9	42.9	1,006	993
BF Jade E-Services Philippines, Inc. (BF Jade)	44.2	—	1,051	—
Rize-Ayalaland (Kingsway) GP Inc. (Rize-Ayalaland)	49.0	49.0	674	624
Alveo-Federal Land Communities, Inc.*	50.0	50.0	661	605
ALI-ETON Property Development Corporation*	50.0	50.0	604	14
Generika Group*	50.0	50.0	500	443
Globe Fintech Innovations, Inc. (Mynt)	10.0	—	461	—

(Forward)



	Percentage of Ownership		Carrying Amounts	
	2017	2016	2017	2016
	(In Millions)			
Foreign:				
Star Energy Salak-Darajat B.V. (incorporated in Indonesia)	19.8	—	₱9,045	₱—
Modular Construction Technology (MCT) Bhd. (incorporated in Malaysia)	33.0	33.0	7,471	6,400
Thu Duc Water B.O.O. Corporation (TDW) (incorporated in Vietnam)	49.0	49.0	2,725	2,586
Kenh Dong Water Supply Joint Stock Company (KDW) (incorporated in Vietnam)	47.4	47.4	2,574	2,417
UPC Renewables Asia III Ltd* (incorporated in Indonesia)	51.0	—	1,180	—
Saigon Water Infrastructure Joint Stock Company (Saigon Water) (incorporated in Vietnam)	38.0	31.5	1,151	852
VinaPhil Technical Infrastructure Investment Joint Stock Company (VinaPhil) (incorporated in Vietnam)*	—	49.0	—	502
Others	Various	Various	464	981
			₱202,649	₱180,314

*Joint ventures

Unless otherwise indicated, the principal place of business and country of incorporation of the Group's investments in associates and joint ventures is the Philippines.

Except as discussed in subsequent notes, the voting rights held by the Group in its investments in associates and joint ventures are in proportion to their ownership interest.

Financial information on significant associates follows:

BPI	2017	2016
	(In Millions, except earnings per share)	
Total resources	₱1,903,905	₱1,725,696
Total liabilities	1,720,354	1,558,012
Equity	183,551	167,684
Less: non-controlling interest	2,863	2,550
Equity attributable the equity holders of BPI	180,688	165,134
Net interest income and other income	71,020	66,551
Total expenses	48,284	44,276
Net income	22,736	22,275
Net income attributable to:		
Equity holders of BPI	22,416	22,050
Non-controlling interests	320	225
Group's share in net income for the year	7,238	7,174
Other comprehensive loss	(17)	(354)
Group's share in other comprehensive loss	(2)	(100)
Total comprehensive income	22,719	21,921
Total comprehensive income attributable to:		
Equity holders of BPI	22,406	21,736
Non-controlling interests	313	185
Group's share in total comprehensive income	7,236	7,074
Earnings per share:		
Basic and diluted	5.69	5.60
Dividends received from BPI	₱2,306	₱2,306



GMCP	2017	2016
	(In Millions)	
Current assets	US\$173	US\$169
Noncurrent assets	679	721
Current liabilities	63	119
Noncurrent liabilities	578	463
Equity	211	308
Revenue	US\$433	US\$373
Cost and expenses	370	292
Net income	64	82
Group's share in net income for the year	13	14
Total comprehensive income	64	82
Group's share in total comprehensive income for the year	13	14
Dividends received	US\$-	US\$-

OHI	2017	2016
	(In Millions)	
Current assets	₱14,886	₱12,591
Noncurrent assets	11,733	9,426
Current liabilities	6,816	5,134
Noncurrent liabilities	14,351	12,732
Equity	5,452	4,151
Revenue	6,738	5,610
Cost and expenses	5,283	4,861
Net income	1,455	749
Group's share in net income for the year	306	130
Total comprehensive income	1,455	749
Group's share in total comprehensive income for the year	306	130
Dividends received	₱35	₱100

Salak Darajat	2017
	(In Millions)
Current assets	US\$208
Noncurrent assets	2,484
Current liabilities	130
Noncurrent liabilities	1,675
Equity	887
Revenue	241
Cost and expenses	190
Net income	51
Group's share in net income for the year	10
Total comprehensive income	51
Group's share in total comprehensive income for the year	10
Dividends received	US\$-



MCT	2017	2016
	(In Millions)	
Current assets	₱9,465	₱7,817
Noncurrent assets	8,752	6,935
Current liabilities	5,690	4,131
Noncurrent liabilities	2,634	2,204
Equity	9,893	8,417
Revenue	5,989	6,979
Cost and expenses	5,288	6,077
Net income (continuing operations)	701	902
Group's share in net income for the year	231	297
Total comprehensive income	701	902
Group's share in total comprehensive income for the year	231	297
Dividends received	₱-	₱-

TDW	2017	2016
	(In Millions)	
Current assets	₱157	₱135
Noncurrent assets	3,221	3,248
Current liabilities	263	356
Noncurrent liabilities	439	634
Equity	2,676	2,393
Revenue	808	783
Net income	494	467
Group's share in net income for the year	242	229
Total comprehensive income	494	467
Group's share in total comprehensive income for the year	242	229
Dividends received from TDW	₱111	₱117

The conversion rate used was ₱0.0022 to VND1 as of December 31, 2017 and 2016.

KDW	2017	2016
	(In Millions)	
Current assets	₱407	₱69
Noncurrent assets	3,737	3,724
Current liabilities	411	406
Noncurrent liabilities	1,208	1,194
Equity	2,525	2,193
Revenue	489	486
Net income	313	269
Group's share in net income for the year	148	127
Total comprehensive income	313	269
Group's share in total comprehensive income for the year	148	127
Dividends received from KDW	₱74	₱42

The conversion rate used was ₱0.0022 to VND1 as of December 31, 2017 and 2016.



Financial information on significant joint ventures (amounts in millions, except earnings per share figures) follows:

LHI	2017	2016
	(In Millions)	
Current assets, including cash and cash equivalents amounting to ₱9.8 million in 2017 and ₱7.7 million in 2016	₱723	₱762
Noncurrent assets	36,229	35,008
Current liabilities	—	—
Noncurrent liabilities	—	—
Equity	36,952	35,770
Revenue	7,156	4,691
Interest income	2	—
Costs and expenses		
Depreciation and amortization	—	—
Interest expense	—	—
Provision for income tax	—	—
Net income	7,158	4,691
Group's share in net income for the year	3,534	3,463
Other comprehensive income (loss)	54	(70)
Group's share in other comprehensive income (loss)	(1)	(48)
Total comprehensive income	7,212	4,621
Group's share in total comprehensive income	3,533	3,415
Dividends received from LHI	₱1,113	₱1,112
Globe	2017	2016
	(In Millions)	
Current assets, including cash and cash equivalents amounting to ₱11.2 billion in 2017 and ₱8.6 billion in 2016	₱57,515	₱53,023
Noncurrent assets	220,251	196,840
Current liabilities including financial liabilities* amounting to ₱8.3 billion in 2017 and ₱10.3 billion in 2016	79,457	82,402
Noncurrent liabilities, including financial liabilities* amounting to ₱123.2 billion in 2017 and ₱95.4 billion in 2016	131,751	103,985
Equity	66,558	63,476
Less: non-controlling interest	43	37
Equity attributable the equity holders of the Parent	66,515	63,439
Revenue	135,281	126,782
Interest income	140	151
Costs and expenses		
Depreciation and amortization	(27,513)	(23,849)
Interest expense	(5,252)	(4,097)
Provision for income tax	(6,457)	(6,049)
Net income	15,084	15,888
Net income attributable to:		
Equity holders of the Parent	15,066	15,878
Non-controlling interests	18	10
Share in net income for the year	4,508	4,712
Other comprehensive income	542	139
Share in other comprehensive income (loss) for the year	228	(24)
Total comprehensive income	15,626	16,027
Share in total comprehensive income for the year	4,736	4,688
Earnings per share:		
Basic	109.22	115.45
Diluted	109.01	115.27
Dividends received from Globe	₱3,745	₱3,575

*excluding trade and other payables and provisions



ECHI	2017	2016
	(In Millions)	
Current assets	₱13,980	₱12,588
Noncurrent assets	30,806	32,069
Current liabilities	4,313	3,902
Noncurrent liabilities	7,396	8,237
Equity	33,077	32,518
Revenue	₱6,167	₱4,405
Interest income	148	134
Cost and expenses	3,807	2,995
Net income (continuing operations)	2,361	1,410
Net income attributable to:		
Parent	1,730	1,027
Non-controlling interest	631	383
Group's share in net income for the year	315	191
Total comprehensive income attributable to parent	630	383
Group's share in total comprehensive income for the year	315	191
Dividends received	₱350	₱140
SLTEC	2017	2016
	(In Millions)	
Current assets	₱5,391	₱5,809
Noncurrent assets	16,872	18,177
Current liabilities	2,895	2,817
Noncurrent liabilities	11,665	13,231
Equity	7,703	7,938
Revenue	8,248	5,983
Cost and expenses	6,132	4,318
Net income	2,116	1,664
Group's share in net income for the year	741	832
Total comprehensive income	2,116	1,664
Group's share in total comprehensive income for the year	741	832
Dividends received	₱821	₱645

In addition to the interest in associates and joint ventures discussed above, the Group also has interest in a number of individually immaterial associates and joint ventures. Below is a summary of certain financial information concerning these immaterial associates and joint ventures:

	2017	2016
	(In Millions)	
Carrying amount	₱17,926	₱13,763
Share in net income	188	247
Share in other comprehensive income (loss)	4	(129)
Share in total comprehensive income	192	118



The following significant transactions affected the Group's investments in associates and joint ventures:

Investment in BPI

BPI spun-off its BPI Asset Management and Trust Group (BPI AMTG) to a newly-established Stand-Alone Trust Corporation (SATC) named BPI Asset Management and Trust Corp. (BPI AMTC). BPI AMTC officially commenced its operations on February 1, 2017.

On August 23, 2016, BPI acquired 10% ownership interest in Rizal Bank, Inc., a microfinance-oriented rural bank.

The fair value of the BPI shares held by the Group amounted to ₱138.5 billion and ₱113.7 billion as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the notional goodwill resulting from the difference between the share in the net assets in BPI and its carrying value amounted to ₱19.2 billion.

Investment in LHI

As of December 31, 2017 and 2016, LHI owns 618,338,612 common shares of BPI representing a direct ownership interest in BPI of 20.1% and 21.3%, respectively. The Parent Company and GIC Special Investments Pte. Ltd. (GICSI), as joint venture partners, agreed to vote their BPI shares based on the common position reached jointly by them as shareholders. In January 2017, the SEC approved the reclassification of 48,574,200 of LHI's Common B shares into redeemable preferred shares (RPS). In March 2017, Arran Investment Pte Ltd, the holder of these RPS, issued a notice to LHI for a redemption in-kind involving 10,913,830 RPS shares for 45,627,477 shares of BPI held by LHI. The redemption in-kind has a total consideration of US\$90.9 million (₱4.6 billion) worth of BPI shares. The cross at the PSE was executed on May 5, 2017.

As of December 31, 2017 and 2016, LHI owns 792.0 million and 837.6 million common shares of BPI representing a direct ownership interest in BPI of 20.1% and 21.3%, respectively. The Parent Company and GIC Special Investments (GICSI) Pte Ltd., the entity controlling Arran Investments Pte. Ltd., as joint venture partners, agreed to vote its BPI shares based on the common position reached jointly by them as shareholders.

The fair value of BPI shares held by LHI amounted to ₱85.6 billion and ₱74.3 billion as of December 31, 2017 and 2016 respectively.

As of December 31, 2017 and 2016, the notional goodwill resulting from the difference between the share in the net assets in LHI and its carrying value amounted to ₱12.9 billion.

Investment in Globe

On May 30, 2016, the BOD of Globe, through its Executive Committee, approved the signing of a Sale and Purchase Agreement (SPA) and other related definitive agreements for the acquisition of 50% equity interest in Vega Telecom, Inc. (VTI), Bow Arken Holdings Company, Inc. (BAHCI) and Brightside Holdings Corporation (BHC) (collectively the Vega Group). The remaining 50% equity stake in the Vega Group was acquired by Philippine Long Distance Telephone Company (PLDT) under similar definitive agreements.

The total consideration for the transaction amounted to ₱52.8 billion for the purchase of the equity interest and advances of the Vega Group, which translated to an agreed consideration of ₱26.4 billion for Globe's 50% ownership interest. The Sale and Purchase Agreements (SPA) also provided for the assumption of total liabilities of ₱17.2 billion by Globe and PLDT from May 30, 2016 and a price adjustment mechanism based on the variance in the amount of assumed liabilities from April 30, 2016 to be agreed upon by Globe, PLDT and the previous owners of the Vega Group at the end of the confirmatory due diligence period. Total price adjustment amounted to ₱2.6 billion resulting to



adjusted total consideration of ₱55.4 billion. As of December 31, 2016, the negotiated amount of ₱10.8 billion, of which, ₱5.4 billion was attributed to Globe's share. Acquisition-related costs amounting to ₱298.5 million were carried as part of the investment cost. The confirmatory due diligence was finalized on June 30, 2017. The assumption of liabilities of the Vega Group by Globe and PLDT may give rise to claims that may not have been contemplated and agreed upon during the period set for confirmatory due diligence. The SPA provides for various indemnity claims expiring between 2 to 5 years from the end of the confirmatory due diligence period.

The acquisition provided Globe with access to certain frequencies assigned to the Vega Group through a co-use arrangement approved by the National Telecommunication Commission.

The net assets recognized in the December 31, 2016 consolidated financial statements of Globe were based on a provisional assessment of their fair values. On May 31, 2017, the management completed the assessment of the fair values of the identifiable assets and liabilities of Vega Group and determined a net increase in identifiable net assets of Vega Group amounting to ₱1.5 billion. Globe recognized the adjustment to the provisional values as an adjustment to goodwill upon determining the final fair values of identifiable assets and liabilities within 12 months from the acquisition date, as allowed by PFRS 3. Goodwill from acquisition based on final fair values amounted to ₱18.0 billion as of December 31, 2017.

Based on the finalized purchase price allocation, the book value of net liabilities amounted to ₱7,243.2 million and the purchase consideration transferred by Globe amounted to ₱28,122.8 million. The final fair values of the identifiable intangible assets and property and equipment were determined as follows: ₱39,420.9 million for the spectrum; ₱378.3 million for the trademark; ₱297.0 million for the customer contracts; ₱1,160.0 million for the property and equipment; and ₱12,376.9 million for deferred tax liabilities

The fair value amounts of spectrum, trademark, customer contracts and property and equipment were determined by an independent appraiser using acceptable valuation techniques for the industry. However, these techniques make use of inputs which are not based on observable data. The fair values of intangible assets reflect the market participants' expectations at the acquisition date about the probability that the expected future economic benefits embodied in the assets will flow to the entity. The major market participants for the industry are Globe and PLDT.

Spectrum was valued using the greenfield approach where Globe is deemed to have started with nothing but the spectrum and licenses, paid for all other assets and incurred the startup costs and losses during the ramp up period. The relief of royalty approach was applied for the valuation of trademark using a royalty charge derived from comparable transactions and applied against projected revenues. Customer contracts were valued using the multi-period excess earnings method (MEEM) which is the difference between after-tax operating cash flows attributable to the customer contracts following a certain percentage of attrition and the required cost of invested capital on contributory assets.

The goodwill comprises the fair value of the expected synergies arising from the acquisition. For goodwill impairment assessment, the cash generating unit is the mobile communications segment of Globe.

Globe management estimated the useful life of the spectrum to be 50 years, after considering the market forces and technological trends which will determine the economic life of the asset, over which period Globe can continue generating optimum level of future cash flows.



On February 28, 2017, Globe and PLDT each subscribed to 2,760,000 new preferred shares to be issued out of the unissued portion of the existing authorized capital stock of VTI, at a subscription price of ₱4,000 per subscribed shares (inclusive of a premium over par of ₱3,000 per subscribed share) or a total subscription price of ₱11,040 million (inclusive of a premium over par of ₱8,280 million). Globe and PLDT's assigned advances from SMC, which amounted to ₱11,040 million, were treated as deposit on future stock subscription by VTI and applied subsequently as full payment of the subscription price.

Also, on the same date, Globe and PLDT each subscribed to 800,000 new preferred shares to be issued out of the unissued portion of the existing authorized capital stock of VTI, at a subscription price of ₱4,000 per subscribed share (inclusive of a premium over par of ₱3,000 per subscribed share), or a total subscription price of ₱3,200 million (inclusive of a premium over par of ₱2,400 million). Globe and PLDT each paid ₱148 million in cash for the subscribed shares. The remaining balance of the subscription price shall be paid by Globe and PLDT upon call of the VTI Board of Directors.

On February 17, 2017, Globe Telecom and its wholly-owned subsidiaries, GFI/Mynt and Globe Capital Venture Holdings, Inc. (GCVHI) entered into an investment agreement with Alipay and the Parent Company, for Alipay and the Parent Company to invest in the unissued common shares of GFI/Mynt.

On September 27, 2017, following the approval from PCC, GFI/Mynt received the capital infusion from Alipay and the Parent Company through AVHC amounting to ₱2,784.60 million in exchange for GFI/Mynt's 513 million common shares. The issuance of shares to Alipay and AVHC diluted GCVHI's ownership interest to 45% and resulted in a loss of control over GFI/Mynt. Thereafter, investment in GFI/Mynt was accounted for as a joint venture under equity method since no single party controls the arrangement and approvals of all parties are required for business decisions. The transaction resulted in a gain on fair value of retained interest in Globe's consolidated financial statements amounting to ₱1,889.9 million in 2017.

On various dates in 2016, the Parent Company purchased a total of 812,685 common shares of Globe for a total price of ₱1.3 billion. This increased the Parent Company's ownership interest over Globe by 0.6%.

The fair value of Globe shares held by the Parent Company amounted to ₱78.2 billion and ₱62.1 billion as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the notional goodwill resulting from the difference of the share in the net assets in Globe and its carrying value amounted to ₱3.9 billion.

The Parent Company also holds 60% ownership interest in Asiacom, which owns 158.5 million Globe preferred shares and 460.0 million AC preferred shares as of December 31, 2017 and 2016. The Parent Company does not exercise control over Asiacom and Globe since it is a joint venture with Singapore Telecommunications Limited (SingTel).

Investment in GMCP

On May 30, 2014, ACEHI through its wholly owned subsidiary, ACE Mariveles Power Ltd. Co (AMPLC), signed a sale and purchase agreement with Arlington Mariveles Netherlands Holding B.V. (AMNHB) to purchase the 17.02% limited partnership interest and 0.08% General Partnership interest in GMCP for a consideration amounting to US\$163.9 million (₱7.2 billion).

On June 17, 2014, AMPLC and AMNHB closed the acquisition of the GMCP interests and entered into Deeds of Assignment to assign the GMCP Interests to the AMPLC, subject to fulfillment of certain post-closing conditions as required by the GMCP financing agreements. AMNHB and AMPLC agreed that until the issuance of Bureau of Internal Revenue (BIR) of tax clearance certificate authorizing the transfer of registration of the ownership interests from the seller to the buyer, AMNHB remains to be the legal and registered owner of the limited partnership interest.



On August 29, 2017, GMCP signed a Notes Facility Agreement with certain lenders for an aggregate principal amount of US\$800.0 million (the NFA). Financial Closing under the NFA was successfully achieved on September 29, 2017 with the proceeds of the loan being used to refinance its existing loan obligations, return of capital to the partners, and for other general corporate purposes.

GMCP recognized loan breakage costs and accounting mark-to-market losses amounting to US\$45.8 million due to refinancing, which in turn reduced the equity earnings of ACEHI by ₱396.0 million as of December 31, 2017.

Following the return of capital to the project sponsors and owners last October 12, 2017, the sharing percentage of ACEHI (through its limited partnership interest) increased from 17.0246% to 20.3372%, pursuant to the terms of the Second Amended and Restated Limited Partnership Agreement for GMCP.

As of December 31, 2017 and 2016, the notional goodwill resulting from the difference of the share in net assets in GMCP and the carrying value amounted to US\$117.2 million and US\$124.2 million, respectively.

Investment in OHI

OHI owns 99.5% interest in Ortigas & Company Limited Partnership (OCLP), an entity engaged in real estate development and leasing businesses. In 2016, ALI acquired a 21.1% stake in OHI consistent with its thrust of expanding its operations to other areas within and outside of Metro Manila through partnerships. The acquisition was made possible via the purchase of shares from existing OHI shareholders, and this was recorded under "Investments in associates and joint ventures" account for ₱7,320.7 million. In 2017, the Group finalized the purchase price allocation of its acquisition of OHI through business combination in March 2016. The final purchase price allocation resulted in gain from bargain purchase of ₱148.0 million included under "Other income" (see Note 22).

Investment in ECHI, BHI and BLC

ALI's 5.32% direct investment in BLC and 4.78% through Regent Time International, Limited (Regent Time) are accounted for using the equity method because ALI has significant influence over BLC.

On April 17, 2003, the following transactions were consummated pursuant to the terms and conditions of the Assignment Agreement (Agreement), dated February 8, 2003, among ALI, Evergreen Holdings, Inc. (EHI), Greenfield Development Corporation and Larouge, B.V. (Larouge), as amended, and the Agreement, dated November 23, 2002, among ALI, EHI and Neo Oracle Holdings, Inc. ([formerly Metro Pacific Corporation (MPC)]) as amended:

- (a) The assignment to ALI and EHI of the rights and obligations of Larouge under the loan agreement between Larouge and MPC, pursuant to which, Larouge extended MPC a loan in the principal amount of US\$90.0 million, together with all the rights, title and interests of Larouge in the pledge constituted on 50.38% of the outstanding shares in BLC. The consideration paid by ALI and EHI for such assignment was approximately US\$90.0 million, subject in part to foreign exchange adjustment.
- (b) The assignment to ALI and EHI [acting in this instance through the joint venture corporation, Columbus Holdings, Inc. (Columbus)] of the controlling interests in BLC representing 50.38% of BLC's outstanding capital stock. The assignment was effected by MPC under a dacion en pago arrangement, and included an assignment of payables of BLC in the principal amount of ₱655.0 million together with its underlying security in the form of shares in Fort Bonifacio Development Corporation (FBDC) representing 5.6% of its outstanding capital stock.

The Agreement, as amended, also provides for the constitution of a pledge over 5% of BLC's unencumbered shares as security for contingent liabilities and breach of representation and warranties. The pledge lien over the 5% BLC shares shall continue to subsist until the third anniversary of the closing date.



ALI and EHI jointly hold the 50.38% equity interest in BLC through ECHI and BHI. ALI and EHI assigned the notes receivable from MPC to ECHI and BHI, which acquired the shares of stock of Columbus. Columbus directly owns the 50.38% interest in BLC. BLC owns 55% interest in FBDC, the primary developer of certain areas in Fort Bonifacio Global City for residential, commercial and business development.

Columbus accounted for the acquisition of the 50.38% interest in BLC using the purchase method, resulting in a negative goodwill of ₱1.4 billion.

Subsequent to this, ALI and EHI acquired additional shares of BLC through a combination of direct acquisition and through its associates at varying dates as follows:

On July 31, 2008, the Group acquired, through ALI, Regent and Columbus, additional 4,360,178 shares of BLC from FBDC amounting to ₱689.0 million, equivalent to 7.66% ownership in BLC. In January and October 2009, a total of 2,295,207 BLC shares were acquired from Development Bank of the Philippines and MPC, pertaining to the pledged shares, through Columbus amounting to ₱362.6 million. This resulted in an increase in the Group's effective interest in BLC to 45.05% as of December 31, 2009.

In 2011, BLC redeemed its 3,485,050 preferred shares with an aggregate redemption price of ₱500.0 million.

Investment in SLTEC

SLTEC is a 50-50 joint venture between ACEHI and PHINMA Energy Corporation (PEC) incorporated for the construction and operation of the 135 MW power plant in Calaca, Batangas. The power plant employs the environment-friendly Circulating Fluidized Bed boiler technology. SLTEC will operate as a base load plant to serve the anticipated demand for power in the Luzon grid. On April 24, 2015 and February 26, 2016, Unit 1 and 2 have achieved Commercial Operations Date (COD), respectively. Upon COD, PEC entered into a 15-year power purchase agreement to purchase all of the generated output of SLTEC.

On December 20, 2016, ACEHI sold 5,374,537 common shares and 5,374,537 preferred shares in SLTEC to Axia Power Holdings Philippines Corp. (Axia Power), a subsidiary of Marubeni Corporation, which resulted in a net gain of ₱1.2 billion. The transaction resulted in the decrease in ownership interest of ACEHI in SLTEC from 50% to 35%.

Investment in GNP Dinginin

On May 21, 2014, ACEHI, through its subsidiary Dinginin Power Holdings Ltd. Co. (DPHLC), acquired 50.0% interest in GNP Dinginin. GNP Dinginin was registered primarily to develop, construct, operate and own an approximately 2x600 MW (net) supercritical coal-fired power plant located in Mariveles, Bataan.

GNP Dinginin achieved financial close for its first 2x600 MW plant and its second unit for 2x668 MW super-critical coal fired power plant, in Dinginin, Bataan on September 2, 2016 and December 12, 2017, respectively. The estimated project cost of the GNP Dinginin Project is US\$1.7 billion with the debt component to be provided by Philippine banks. The GNP Dinginin Project will support the increasing electricity demand of Luzon and Visayas. Construction of the first unit is well underway, and is targeted for commercial operations by 2019, with the second unit scheduled for completion by 2020.



As of December 31, 2017 and 2016, ACEHI's remaining total capital commitment on its investment in GNP Dinginin amounted to US\$122.2 million and US\$146.2 million, respectively.

Investment in Light Rail Manila Holdings, Inc. (LRMHI)

LRMHI was incorporated on June 23, 2014, as a holding company for the LRT 1 Cavite extension project. LRMHI holds 70% of the total equity of Light Rail Manila Corporation (LRMC), the project company established for the construction, operation and maintenance of the LRT 1 Cavite extension project. AC Infra owns 50% of the shares of LRMHI that ultimately resulted to a 35% interest in LRMC.

On September 12, 2015, LRMC took over the operations of LRT Line 1. In December 2015, LRMC started its rehabilitation of certain LRT 1 stations. Construction of the Cavite extension is expected to commence once right of way is delivered by the Grantors and all construction issues have been ironed out. Targeted completion will be four years after commencement of the construction. As of December 31, 2017, Cavite extension is on its design phase.

As of December 31, 2017 and 2016, AC Infra's total equity investment commitment for the LRT 1 project amounted to ₱6.6 billion.

Investment in AFPI

AFPI was incorporated on February 10, 2014 and is engaged in the design, construction, installation and operation and maintenance of a contactless automated fare collection system for public utility transport facilities. AC Infra, Globe and BPI owns 10%, 20% and 20%, respectively of the total shares and voting interest of AFPI.

AFPI is the project company that will develop and operate the ₱1.7 billion contactless Automated Fare Collection Systems (AFCS) project awarded by the Department of Transportation and Communications (DOTC) to the AF consortium last January 30, 2014. On March 31, 2014, the Concession and Accession Agreements were signed and executed.

On November 17, 2015, the BOD of AFPI approved the increase of its authorized capital stock from ₱2,550.0 million, divided into 2,550.0 million shares with ₱1.00 par value per share, to ₱5,000.0 million, divided into 5,000.0 million shares with ₱1.00 par value per share. AC Infra subscribed to 61.25 million shares amounting to ₱61.3 million. On February 26, 2016, AC Infra made a ₱65.0 million equity infusion to AFPI where ₱21.6 million was used to fully settle the previous subscription and ₱43.4 million for the partial payment of the ₱61.3 million subscription.

In 2016, AFPI deployed its top-up services with the Bayad Centers and rolled out the use of beep cards in Bonifacio Global City buses. AFPI also forged a partnership with FamilyMart for card reloading and payment of goods purchased.

On December 13, 2017, the SEC has approved the reclassification of the authorized capital stock (ACS) of AFPI from 5,000.00 million common shares with ₱1.00 par value per share to 4,000.00 million common shares with ₱1.00 par value per share and 1,000.00 million preferred shares with ₱1.00 par value per share. The preferred shares have the following features;

- i. Non-voting;
- ii. Non-participating;
- iii. Entitled to receive dividends at the rate of 5% per annum; non-cumulative;
- iv. Redeemable at the option of the Corporation, and under such terms and conditions as may be determined by the BOD;

During 2017, AC Infra made a ₱50.0 million equity infusion for the subscription and full payment of 50 million preferred shares. As of December 31, 2017 and 2016, the remaining subscription payable of AC Infra to AFPI is ₱17.9 million for infusion on the first quarter of 2018.



AFPI has incurred operating losses since the launch of its contactless smartcard for the stored value ridership and contactless medium technology as replacement of the old-magnetic-based ticketing system. The target growth turned significantly lower than actual and expectation has also been tempered by AFPI's revenue generation forecast performed this year. On this basis and following the key requirements of PAS 36 wherein assets can be carried at no more than their recoverable amount, management has recognized an impairment provision of ₱64.9 million in 2017.

As of December 31, 2017 and 2016, AC Infra's total equity investment commitment for the project amounted to ₱500.0 million.

Investment in CDPEI

CDPEI was incorporated on February 20, 2014 and is a 50-50 joint venture between ALI and Aboitiz Land, Inc. CDPEI's main purpose is to create a mixed-use commercial and residential district with the 15.4 hectare property in Subangdaku, Mandaue. On April 11, 2014, ALI assigned 10% and 5% of its equity interest in CDPEI to CHI and Cebu Property Ventures Development Corporation (CPVDC), respectively. CHI and CPVDC are subsidiaries of ALI.

Investment in PWHC

On July 12, 2013, ACEHI, through PWHC, signed an Investment Framework Agreement and Shareholders' Agreement with UPC Philippines Wind Holdco I B.V. (UPC), a wholly-owned company of UPC Renewable Partners and the Philippine Investment Alliance for Infrastructure fund (PINAI), comprised of the Government Service Insurance System, Langoer Investments Holding B.V. and Macquarie Infrastructure Holdings (Philippines) Pte. Limited, to develop wind power projects in Ilocos Norte through North Luzon Renewable Energy Corp. (NLREC) as their joint venture company. An initial equity investment has been agreed for the first 81 MW project with an investment value of approximately US\$220 million with ACEHI funding 64% of equity, PINAI 32% and UPC 4%.

The 81MW wind power project received a declaration of commerciality on June 17, 2013 from the Department of Energy (DOE).

In 2014, the DOE issued a Certificate of Endorsement for FIT for the wind power project after it was commissioned and started commercial operations (see Note 38).

On April 13, 2015, the wind power project received their Feed-in-Tariff Certificate of Compliance (FIT COC) from the Energy Regulatory Commission (ERC). This entitled the wind power project to a feed-in-tariff (FIT) of ₱8.53 per kilowatt hour for a period of 20 years from November 11, 2014 to November 10, 2034.

On various dates in 2015, PWHC redeemed its outstanding preferred shares from ACEHI and Luzon Wind Energy Holdings B.V. (Luzon Wind), a wholly-owned subsidiary of BHL through Ayala International Holdings, Ltd. (AIHL), at par for a total redemption price of ₱1.5 billion and ₱1.1 billion, respectively.

On September 2, 2015, ACEHI sold 172,419 PWHC common shares to Luzon Wind for a total selling price of US\$44.1 million. Subsequent to the transaction, AIHL sold its investment in Luzon Wind to Diamond Generating Asia, Limited (DGA) for US\$58.3 million. The transaction resulted to a recognition of a net gain on sale of investments amounting to ₱1.5 billion (see Note 23). Following the transaction, ACEHI's ownership interest in PWHC decreased from 75% to 42.9%.

Investment in BF Jade

On February 23, 2017, the Parent Company, ALI, BPI Capital Corporation (BPI Capital), and Kickstart Ventures Inc. (Kickstart) signed an investment agreement to acquire ownership stakes in BF Jade, subject to the fulfillment of certain closing conditions, including the approval of the acquisition by the PCC. BF Jade is the owner and operator of online fashion platform Zalora Philippines (Zalora). BPI Capital and Kickstart are wholly owned subsidiaries of BPI and Globe,



respectively. The transaction would result in the following ownership interest by new investors over BF Jade: Parent Company at 43.28%, while the rest at 1.91% each for a total of 49% for the Ayala Group.

On August 14, 2017, certain conditions precedent to closing the transaction have been complied with, including the approval (or deemed approval) from the PCC.

On August 31, 2017, the parties completed the closing of the transaction and the new investors subscribed to shares of BF Jade. The Parent Company and ALI assigned their rights to subscribe to their wholly owned subsidiaries AVHC and AMSI, Inc., respectively.

The valuation of BF Jade was based on enterprise value/sales multiples of similar e-commerce fashion companies.

The purchase price allocation (PPA) for the above acquisition has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. These include, among others, information based on appraisal reports for property, plant and equipment (including the system that supports the on-line customer transactions) and information necessary for the valuation of identified intangible assets (processes, customer relationships, etc.). Reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are property, plant and equipment, intangible assets and goodwill. The PPA will be finalized within one year from the closure date of the transaction.

AVHC's total investment amounted to ₱1,114.0 million. The provisional values of the identifiable assets and liabilities acquired and goodwill arising from the transaction follows: BF Jade's assets and liabilities valued at ₱1,295.0 million and ₱1,172.0 million, respectively. AVHC's corresponding notional goodwill on this investment amounted to ₱1,062.0 million and is part of the carrying amount of the investment as of December 31, 2017.

Investment in Rize-Ayalaland

Rize-Ayalaland (Kingsway) GP, Inc. was incorporated on January 25, 2013 under the laws of British Columbia, Canada. ALI's effective ownership is 49% through its Vancouver-based subsidiary, AyalaLand Real Estate Investments Inc.

Investment in Alveo-Federal Land Communities, Inc. (AFLCI)

Alveo signed a Joint Venture Agreement (JVA) with Federal Land, Inc. last April 29, 2015 for equal ownership over AFLCI. The JV is for the development of project Lexus located in Laguna near Nuvali.

ALI-ETON Property Development Corporation (ALI-ETON)

ALI-ETON Property Development Corporation was incorporated on March 13, 2016. ALI-ETON is a joint venture between ALI and LT Group, Inc. The ALI and LT Group, Inc. entered into an agreement on January 21, 2016 to jointly develop a project along the C5 corridor. The project is envisioned to be a township development that spans portions of Pasig City and Quezon City.

Investment in Generika Group of Companies

On July 15, 2015, AHCHI acquired a 50% ownership interest in the Generika Group for a total consideration of ₱400.0 million. In 2016, AHCHI paid the final installment of the purchase price. Generika drugstores were established to address the need for quality and affordable medicines, and promote the use of generic drugs in the context of high prices of medicines in the Philippines.

On July 11, 2017, AHCHI infused additional capital of ₱30.0 million to Pharm Gen Ventures Corporation. In 2016, AHCHI infused additional capital to Novelis Solutions, Inc. and Pharm Gen Ventures Corporation amounting to ₱13.5 million and ₱25.0 million, respectively.



Investment in Wellbridge Health, Inc.

In February 2017, AHHI entered into a Shareholders' Agreement to hold interest in the equity of Wellbridge Health, Inc., owner and operator of MedGrocer, an FDA-licensed ePharmacy and medicine benefits management service. AHHI purchased its 17% stake for ₱13.2 million, of which ₱6.6 million was paid in cash and ₱6.6 million payable upon SEC approval of issuance of new class B shares.

Investment in Globe Fintech Innovations, Inc. (Mynt)

On February 17, 2017, the Parent Company and Ant Financial Services Group (Ant Financial) signed an investment agreement, with closing conditions, to subscribe to new shares of Mynt, a holding company for financial technology businesses operating under Globe Capital Venture Holdings, Inc. (GCVHI), a wholly owned subsidiary of Globe. Through this transaction, the Parent Company will own 10% of Mynt.

The PCC approved the transaction on August 23, 2017 paving the way for the deal closing where the Parent Company (through AVHC) and Ant Financial will subscribe to new shares of Mynt. On September 27, 2017, parties completed the closing of this transaction.

Standard valuation methodologies such as the use of comparable company multiples and discounted cash flows were used to determine fair values computation and in preparing the purchase price allocation.

The purchase price allocation for the above acquisition has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. These include, among others, information based on appraisal reports for property, plant and equipment and information necessary for the valuation of identified intangible assets (software, subscriber base, etc.). Reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are property, plant and equipment, intangible assets and goodwill. The provisional purchase price allocation will be finalized within one year from the date of closure of this acquisition transaction.

AVHC's investment amounted to ₱506.0 million. With Mynt's assets and liabilities valued at ₱4,976.0 million and ₱1,805.0 million, respectively. AVHC's corresponding notional goodwill on this investment amounted to ₱189.0 million is included as part of the carrying amount of the investment as of December 31, 2017.

Investment in Star Energy Salak-Darajat B.V. (Salak-Darajat)

On March 31, 2017, ACEHI, as part of an Indonesian consortium, completed the purchase and acquisition of Chevron's geothermal assets and operations in Indonesia. The Indonesia consortium consists of ACEHI (with significant influence as a result of its 19.8% economic stake), Star Energy Group Holdings Pte. Ltd., Star Energy Geothermal Pte. Ltd., and Electricity Generating Public Company Ltd. and the acquisition was made through their joint venture company, Star Energy Geothermal (Salak-Darajat) B.V. The Indonesia assets and operations include the Darajat and Salak geothermal fields in West Java, Indonesia, with a combined capacity of 637MW of steam and power.

On July 24, 2017, ACEHI together with Star Energy Geothermal Holdings, Pte. Ltd. entered into definitive agreements for the transfer of 99% of their consortium interests in ACEHI-Star Holdings, Inc. (ACEHI-Star) to AllFirst Equity Holdings, Inc. ACEHI-Star is the special purpose company that signed a share sale and purchase agreement with Chevron in December 2016 to acquire Chevron's Philippine geothermal assets subject to the satisfaction of certain conditions precedent, including the approval of the Philippine Competition Commission.

As of December 31, 2017, ACEHI's investment in Salak-Darajat amounted to US\$168.5 million. The provisional values of the identifiable assets and liabilities acquired and goodwill arising from the transaction follows: Salak-Darajat's assets and liabilities amounting to US\$2,677.2 million and US\$1,826.7 million, respectively. Assets include developed and undeveloped geothermal intangible



assets amounting to US\$44.3 million and US\$1,196.2 million, respectively, which will not be amortized but will be subjected to impairment assessment. ACEHI's corresponding notional goodwill on this investment amounted to US\$0.09 million is included as part of the carrying value of the investment as of December 31, 2017.

The valuation of Salak-Darajat was based on the existing enterprise value and value of future development.

The purchase price allocation for the above acquisition has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. These include, among others, information based on appraisal reports for certain assets such as property, plant and equipment and information necessary for the valuation of identified intangible assets (developed and undeveloped geothermal resources). Reasonable changes are expected as additional information becomes available. The mentioned assets plus goodwill are subject to provisional accounting. The PPA will be finalized within one year from the closure date of the transaction.

Investment in MCT

On April 6, 2015, ALI, through its wholly-owned subsidiary, Regent Wise Investments Limited (RWIL), acquired 9.16% of the shares of MCT through a private placement for a total amount of US\$43.0 million (P1.9 billion). MCT is a property development company specializing in mixed-use projects which include retail, offices, hotels, and mid-to-affordable residences.

On May 12, 2015, Regent Wise entered into call option agreements with the founders and majority shareholders of MCT that will give ALI the opportunity to increase its shareholdings in MCT up to a maximum of 32.95%. The call options are exercisable for one month beginning October 7, 2015.

On October 15, 2015, Regent Wise exercised its option to acquire additional shares of MCT for a total consideration of US\$92.0 million. The transaction increased the ownership interest in MCT from 9.16% to 32.95%. The increase in stake will provide ALI with the opportunity to establish a stronger foothold in the Real Estate sector in Malaysia. RWIL received dividends from MCT on October 19, 2015 which amounted to US\$0.58 million or P26.6 million.

Investment in Thu Duc Water B.O.O. Corporation (TDW)

On October 12, 2011, Thu Duc Water Holdings Pte. Ltd. (TDWH) (a subsidiary of MWC) and CII entered into a share sale and purchase agreement whereby CII sold to TDWH its 49% interest (2.45 million common shares) in TDW. On December 8, 2011, TDWH completed the acquisition of CII's interest in the common shares of TDW after which TDWH obtained significant influence in TDW.

The acquisition cost of the investment amounted to P1.8 billion (VND858.0 billion). The investment in TDW include notional goodwill amounting to P1.4 billion.

Investment in Kenh Dong Water Supply Joint Stock Company (KDW)

On May 17, 2012, Kenh Dong Water Holdings Pte. Ltd. (KDWH), a subsidiary of MWC, entered into a Share Purchase Agreement with CII for the purchase of 47.35% of CII's interest in KDW. The payment for the shares will be done in two tranches, with additional contingent considerations subject to the fulfillment of certain conditions precedent for a total purchase price of P1.7 billion.

The consideration paid by MWC for its investment in KDW amounted to P1.6 billion (VND785.2 billion). Contingent consideration included in the purchase price allocation amounted to P95.9 million (VND44.5 billion). The share purchase transaction was completed on July 20, 2012 and KDWH obtained significant influence in KDW.

In 2013, KDW finalized its purchase price allocation which resulted in a notional goodwill amounting to P1.4 billion.



Investment in Saigon Water Infrastructure Joint Stock Company (SWI)

On October 8, 2013, Manila Water South Asia Holdings Pte. Ltd (MWSAH), a subsidiary of MWC, entered into an Investment Agreement with SWI to acquire a 31.47% ownership interest. The acquisition cost of the investment amounted to ₱642.8 million (VND310.5 billion). The share subscription transaction was completed on October 8, 2013 and MWSAH obtained significant influence in SWI.

In 2014, MWSAH finalized the notional goodwill amounting to ₱288.84 million arising from the acquisition of shares of stock in SWI by MWC Group as of December 31, 2013. There were no adjustments made to the fair values of the net assets as of acquisition date.

On June 21, 2017, MWSAH subscribed to an additional 6.15 million primary shares of SWI for ₱229.16 million (VND103.87 billion) which increased MWSAH's holding in SWI to 37.99% from 31.47%. The notional goodwill arising from the additional subscription amounted to ₱39.4 million.

Investment in VinaPhil

CII and the Group have entered into an agreement to jointly invest in VinaPhil Technical Infrastructure Investment Joint Stock Company ("VinaPhil"), a corporation established under Vietnamese law to invest in infrastructure projects in Vietnam. VinaPhil is 49%-owned by the Group with the remainder owned by CII and other Vietnamese investors. VinaPhil has an initial charter capital of VND900 billion (US\$43 million). On January 16, 2017, the Group disposed its 49% shareholding in joint venture VinaPhil for a consideration of VND 339,570 million (US\$14.9 million). The transaction resulted in a gain of VND 78.6 billion (US\$4.8 million).

Investment in UPC Renewables Asia III Ltd.

On January 21, 2017, ACEHI signed investment agreements with UPC Renewables Indonesia Ltd. for the development, construction, and operation of a wind farm project in Sidrap, South Sulawesi, Indonesia (the Sidrap Project). The project will be developed through PT UPC Sidrap Bayu Energi (UPC Sidrap), a special purpose company based in Indonesia and 72%-owned by UPC Renewables Asia III Ltd.. The Sidrap Project, with generating capacity of 75 MW, is projected to start commercial operations in the first quarter of 2018, and will be the first utility-scale wind farm project in Indonesia once completed. In 2017, ACEHI SG infused a total of US\$23.7 million to UPC Renewables Asia III Ltd. representing 51% ownership interest.

The provisional values of the identifiable assets and liabilities acquired and goodwill arising from the transaction follows: net assets and liabilities amounting US\$0.2 million. Assets include certain project development assets. ACEHI's corresponding notional goodwill on this investment amounted to US\$23.5 million is included as part of the carrying amount of the investment as of December 31, 2017.

The valuation of UPC Renewables Asia III Ltd. was based on the value of future development of the Sidrap Project.

The purchase price allocation (PPA) for the above acquisition has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. These include, among others, information necessary for the valuation of identified intangible assets (wind farm process and undeveloped resources). Reasonable changes are expected as additional information becomes available. The mentioned assets plus goodwill are subject to provisional accounting. The PPA will be finalized within one year from the closure date of the transaction.

Investment in Integreon, Inc. (Integreon)

AIVPL, through its subsidiary Liveit, finalized the sale of its investment in Integreon on September 2, 2016. Integreon was sold through a merger with a BVI company, Anchorage Merger Sub Ltd., a wholly owned company of another BVI company, IGL Services Ltd., wherein Integreon, Inc. will be the surviving entity.



As a result of the transaction, Livelt exercised its right to exchange all of its shares of stock in Integreon for a consideration of US\$19.2 million, which significantly represents collection of loan principals and interests. The consideration will be received in tranches with the following terms: US\$7.9 million was received at the date of the closing of the sale; US\$10.5 million will be due on the fourth year anniversary of the transaction; and US\$0.75 million was placed in escrow. The Group recognized losses totaling to US\$3.81 million, US\$2.76 million from impairment of value of the investment, US\$1.05 million relates to the difference between the nominal value and present value of the US\$10.5 million notes receivable (see Note 23).

On June 29, 2017, Livelt received the final closing statement pursuant to Merger Agreement and received additional US\$0.9 million proceeds from the sale.

Investment in APEC Schools

In 2014, AEI entered into a joint venture agreement with UK-based Pearson Affordable Learning Fund Limited (PALF), an affiliate of Pearson PLC, the world's leading learning company, to roll out a chain of affordable private high schools under APEC Schools. AEI owns 60% of APEC Schools and Pearson owns the balance of 40% share.

AEI's capital infusion to APEC in 2017 and in 2016 amounted to ₱123.6 million and ₱139.4 million, respectively. This capital was used by APEC Schools to fund additional school sites and its operations.

Others

Investment in BPI Globe BankO (BankO)

On August 27, 2015, the Parent Company, Globe and BPI agreed to turn over full ownership of BankO to BPI. In July 2016, the Bangko Sentral ng Pilipinas (BSP) Monetary Board has approved the sale of BankO shares to BPI. In September 2016, the Parent Company sold its 20% interest in BankO for a total consideration of ₱13.1 million which resulted to a loss on sale of ₱7.6 million (see Note 23).

The rollforward of accumulated equity in net earnings follow:

	2017	2016
Balance at beginning of year	₱40,217,528	₱30,518,014
Equity in net earnings during the year	18,494,458	18,153,893
Dividend income	(8,224,602)	(8,004,270)
Provisions and others	(478,182)	(450,109)
Balance at end of year	₱50,009,202	₱40,217,528

As of December 31, 2017 and 2016, the Group had total commitments relating to the Group's interests in its associates and joint ventures amounting to ₱14,858.0 million and ₱8,379.0 million, respectively (see Note 34).

As of December 31, 2017 and 2016, the Group has no contingent liabilities in relation to its investments in associates and joint ventures.

On certain investments in associates and joint ventures, the Group entered into shareholders' agreements with fellow shareholders. Such shareholders' agreements include, among others, restriction as to declaration and payment of dividends, incurrence of debt and transactions with related parties.



12. Investment Properties

The movements in investment properties follow:

2017

	Land	Building	Construction-in-Progress	Total
	(In Thousands)			
Cost				
Balance at beginning of the year	₱15,900,437	₱86,371,631	₱32,813,912	₱135,085,980
Additions	845,919	7,084,526	20,502,732	28,433,177
Transfers	3,859,921	1,599,240	(3,655,941)	1,803,220
Exchange differences	—	8,012	—	8,012
Disposals	—	(5,019)	—	(5,019)
Retirement	—	(51)	—	(51)
Balance at end of the year	20,606,277	95,058,339	49,660,703	165,325,319
Accumulated depreciation and amortization and impairment loss				
Balance at beginning of the year	26,616	24,142,720	—	24,169,336
Depreciation and amortization (Note 22)	—	3,500,802	—	3,500,802
Disposals	—	(4,905)	—	(4,905)
Transfers	—	2,453	—	2,453
Balance at end of the year	26,616	27,641,070	—	27,667,686
Net book value	₱20,579,661	₱67,417,269	₱49,660,703	₱137,657,633

2016

	Land	Building	Construction-in-Progress	Total
	(In Thousands)			
Cost				
Balance at beginning of the year	₱13,171,871	₱81,399,102	₱9,854,403	₱104,425,376
Additions	1,459,876	2,821,214	24,167,927	28,449,017
Additions through business combination (see Note 23)	801,288	760,810	—	1,562,098
Transfers	687,867	1,967,691	(1,208,418)	1,447,140
Disposals	(220,465)	(556,640)	—	(777,105)
Retirement	—	(20,546)	—	(20,546)
Balance at end of the year	15,900,437	86,371,631	32,813,912	135,085,980
Accumulated depreciation and amortization and impairment loss				
Balance at beginning of the year	₱26,616	₱20,729,268	₱—	₱20,755,884
Depreciation and amortization (Note 22)	—	2,837,160	—	2,837,160
Disposals	—	(1,896)	—	(1,896)
Transfers	—	(45,495)	—	(45,495)
Retirement	—	(3,144)	—	(3,144)
Impairment losses	—	12,834	—	12,834
Others	—	613,993	—	613,993
Balance at end of the year	26,616	24,142,720	—	24,169,336
Net book value	₱15,873,821	₱62,228,911	₱32,813,912	₱110,916,644

Certain parcels of land are leased to several individuals and corporations. Some of the lease contracts provide, among others, that within a certain period from the expiration of the contracts, the lessee will have to demolish and remove all improvements (such as buildings) introduced or built within the leased properties. Otherwise, the lessor will cause the demolition and removal thereof and charge the cost to the lessee unless the lessor occupies and appropriates the same for its own use and benefit.

Construction in progress pertain to buildings under construction to be leased as retail and office spaces upon completion.

The aggregate fair value of the Group's investment properties amounted to ₱334.4 billion in 2017 and ₱295.5 billion in 2016. The fair values of the investment properties were arrived at using the Market Data Approach and Cost Approach for land and building, respectively, and were determined by independent professionally qualified appraisers.



The values of the land and buildings were arrived at using the market data approach and cost approach. Market data approach provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available. This approach was used for the land and condominium unit as it is commonly used in the property market since inputs and data for this approach are available. Cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction. The valuation used cost approach using the depreciated replacement cost method. This was used by computing for the replacement cost of the assets and applying appropriate adjustments for physical deterioration, functional obsolescence and economic obsolescence.

For market data approach, the higher the price per sqm., the higher the fair value. For cost approach, whose unobservable inputs include price information on construction materials, labor and installation and indirect costs, the higher these costs, the higher the fair value.

The significant unobservable inputs to valuation of investment properties ranges from ₱5,100-₱250,000 per sqm.

Interest capitalized amounted to ₱17.7 million, ₱129.5 million and ₱39.2 million in 2017, 2016 and 2015, respectively. The capitalization rates are 2.50-4.75%, 3.20-4.75% and 4.75-5.32% in 2017, 2016 and 2015, respectively.

Consolidated rental income from investment properties amounted to ₱28.1 billion in 2017, ₱21.3 billion in 2016 and ₱18.9 billion in 2015. Consolidated direct operating expenses arising from the investment properties amounted to ₱5.0 billion in 2017, ₱4.4 billion in 2016 and ₱4.2 billion in 2015, respectively.

Depreciation and amortization expense pertaining to investment properties amounted to ₱3.5 billion in 2017 and ₱2.8 billion in 2016 and 2015 (see Note 22).

13. Property, Plant and Equipment

The movements in property, plant and equipment follow:

	2017						
	Land, Buildings and Improvements (Note 18)	Machinery and Equipment	Hotel Property and Equipment (Note 18)	Furniture, Fixtures and Equipment	Transportation Equipment	Construction- in-Progress	Total
	(In Thousands)						
Cost							
At January 1	₱16,409,853	₱24,282,520	₱12,017,829	₱10,700,460	₱4,191,564	₱21,924,238	₱89,526,464
Additions	1,341,422	4,378,438	526,608	797,019	2,512,536	15,633,957	25,189,980
Additions through business combination (Note 23)	954,697	667,618	–	16,774	11,703	22,766	1,673,558
Disposals	(759,108)	(2,794,885)	–	(153,161)	(635,862)	(73,009)	(4,416,025)
Transfers	(386,665)	160,842	1,549,288	68,727	765	(816,588)	576,369
Exchange differences	18,782	410,639	–	(23,706)	(18,336)	15,642	403,021
At December 31	17,578,981	27,105,172	14,093,725	11,406,113	6,062,370	36,707,006	112,953,367
Accumulated depreciation and amortization and impairment loss							
At January 1	5,692,258	9,369,138	2,063,261	6,566,459	1,672,124	88,753	25,451,993
Depreciation and amortization for the year (Note 22)	706,221	3,075,447	424,000	589,598	561,469	–	5,356,735
Impairment loss	(40,538)	(5,657)	–	3	–	–	(46,192)
Disposals	(418,528)	(2,532,616)	–	(133,543)	(314,790)	–	(3,399,477)
Exchange differences	18,349	146,653	–	977	(3,429)	–	162,550
Transfers	(2,924)	649	–	(848)	250	–	(2,873)
At December 31	5,954,838	10,053,614	2,487,261	7,022,646	1,915,624	88,753	27,522,736
Net book value	₱11,624,143	₱17,051,558	₱11,606,464	₱4,383,467	₱4,146,746	₱36,618,253	₱85,430,631



	2016						
	Land, Buildings and Improvements (Note 19)	Machinery and Equipment	Hotel Property and Equipment (Note 19)	Furniture, Fixtures and Equipment	Transportation Equipment	Construction- in-Progress	Total
	(In Thousands)						
Cost							
At January 1	₱13,207,591	₱16,103,455	₱15,267,877	₱7,757,467	₱3,652,428	₱6,546,162	₱62,534,980
Additions	2,679,708	4,402,234	434,557	1,342,119	810,659	15,740,862	25,410,139
Additions through consolidation of club shares (Note 8)	319,880	—	—	1,498,349	—	—	1,818,229
Additions through business combination (Note 23)	143,778	4,136,289	—	53,485	9,237	39,310	4,382,099
Disposals	(42,275)	(776,111)	(1,578,554)	(125,604)	(252,416)	(3,249)	(2,778,209)
Transfers	(149,365)	200,727	(2,106,051)	101,295	(29,719)	(1,368,756)	(3,351,869)
Exchange differences	228,678	192,579	—	75,916	3,476	12,559	513,208
Others	21,858	23,347	—	(2,567)	(2,101)	957,350	997,887
At December 31	16,409,853	24,282,520	12,017,829	10,700,460	4,191,564	21,924,238	89,526,464
Accumulated depreciation and amortization and impairment loss							
At January 1	4,645,590	7,470,763	3,718,224	5,515,726	1,451,435	88,753	22,890,491
Depreciation and amortization for the year (Note 22)	1,228,953	2,446,723	376,433	934,327	408,473	—	5,394,909
Impairment loss	3,079	82,507	—	46,880	—	—	132,466
Disposals	(314,007)	(718,771)	(1,415,303)	(14,194)	(187,883)	—	(2,650,158)
Exchange differences	128,643	86,664	—	40,450	99	—	255,856
Transfers	—	1,252	(616,093)	43,270	—	—	(571,571)
At December 31	5,692,258	9,369,138	2,063,261	6,566,459	1,672,124	88,753	25,451,993
Net book value	₱10,717,595	₱14,913,382	₱9,954,568	₱4,134,001	₱2,519,440	₱21,835,485	₱64,074,471

Construction in progress pertains to the construction and development of the 4x135 MW (net) coal-fired power generating facility and private port facility of Kauswagan Power Holdings Ltd. Co. (KPHLC), a subsidiary of ACEHI, located in the Barangays of Tacub, Libertad in the Municipality of Kauswagan, Province of Lanao del Norte.

As of December 31, 2017 and 2016, the carrying value of IMI Group's pledged equipment with BNP Paribas amounted to US\$1.4 million (₱67.4 million) and US\$1.4 million (₱65.9 million), respectively.

Consolidated depreciation and amortization expense on property, plant and equipment amounted to ₱5.4 billion in 2017, ₱5.4 billion in 2016 and ₱4.1 billion in 2015 (see Note 22).

In 2016, Speedy-Tech Electronics (Jiaxing) Co., Ltd. (STJX), a subsidiary of IMI, claimed and collected in full the insurance amounting to US\$0.41 million as proceeds for the fixed assets damaged by a fire in January 2016. The net book value of the affected assets amounted to US\$0.26 million.

14. Service Concession Assets and Obligations

Service Concession Assets (SCA)

The movements in this account follow:

	2017	2016
	(In Thousands)	
Cost		
At January 1	₱110,490,224	₱103,499,840
Additions during the year		
Construction and rehabilitation works	11,560,964	6,849,813
Transfers	3,952	20,836
Concession fees	91,419	—
Adjustments	—	116,816
Local component cost	4,449	2,919
At December 31	122,151,008	110,490,224

(Forward)



	2017	2016
	(In Thousands)	
Accumulated amortization		
At January 1	₱28,067,975	₱24,671,000
Amortization (Note 22)	3,033,043	3,396,003
Transfers	420	972
At December 31	31,101,438	28,067,975
Net book value	₱91,049,570	₱82,422,249

SCA consists of the present value of total estimated concession fee payments, including regulatory costs and local component costs, pursuant to the Group's concession agreements and the revenue from rehabilitation works which is equivalent to the related cost for the rehabilitation works covered by the service concession arrangements.

The Parent Company has a concession agreement with the DPWH while the MWC Group has concession agreements with MWSS, PGL, TIEZA, CDC, OWD, and CWD. These concession agreements set forth the rights and obligations of the Parent Company and MWC Group throughout the concession period (see Note 35).

Total interest and other borrowing costs capitalized as part of SCA amounted to ₱713.3 million and ₱654.3 million in 2017 and 2016, respectively. The capitalization rates used range from 5.12% to 9.15% in 2017 and 2.62% to 9.15% in 2016.

Beginning May 1, 2017, MWC, BIWC, CWC, and LAWC shifted to the UOP method of amortizing its SCA over the expected total billable volume for the remaining concession period.

Variation Order

On February 25, 2013, the DPWH sent a Variation Notice to Perconsult International, the Project's Independent Consultant (IC), instructing the IC to advise the Parent Company to submit a request for Prior Clearance and Variation Proposal in connection with TRB's directive to include in the Project's design a provision for future expansion of SLEX to accommodate possible fifth lane for both directions at the Filinvest to Susana Heights Section. IC, in its letter to the Project's Management Consultant dated March 4, 2013, effectively directed the Parent Company to comply with the DPWH letter dated February 25, 2013.

Such proposal was made in accordance with the Concession Agreement which provides that in the event the DPWH initiates a variation, the Parent Company as concessionaires shall prepare a proposal setting out the necessary details and additional cost estimates.

On April 10, 2014, the Parent Company submitted a variation proposal to the DPWH and sought for approval of (1) Direct payment of the construction cost for the works related to the provisioning of the SLEX future expansion amounting to ₱251.2 million inclusive of VAT and (2) Extension of the concession period by 3 ½ years due to the delays encountered as a result of the variation order.

DPWH, in its letter to IC dated February 6, 2015, advised the same that it has issued the approved Prior Clearance/Authority to Issue Variation Order No. 1 with a cap of ₱223.0 million.

On May 27, 2015, the DPWH approved the adjusted cost of the variation order in the amount of ₱223.0 million (which was rectified by the Bureau of Construction) variation proposal and endorsed it to the National Economic and Development Authority (NEDA) for information and appropriate action. Accordingly, the Parent Company reclassified the amount of ₱223.0 million from service concession account to receivables from the Government upon DPWH's approval of the variation order.

NEDA in its meeting held on July 15, 2015 confirmed the recommendation of the variation order.



On May 31, 2016, variation order for the project amounting to ₱16.6 million was reclassified to service concession assets under investment in toll road. Also, various reimbursement for expenses incurred during the acquisition of the right of way amounting to ₱1.1 million was received from the DPWH under the Reimbursement Agreement.

On November 21, 2016, the IC recommended to the DPWH that a Certificate of Final Completion be issued for the project. Subsequently, DPWH, on its letter dated December 21, 2016, issued the certificate of completion. As of December 31, 2017 and 2016, total outstanding receivable balance from DPWH is ₱215.9 million (see Notes 9 and 16).

Service Concession Obligation

Provision for maintenance obligation of MCX

Provision for maintenance obligation pertains to the present value of the estimated contractual obligations of the Parent Company to undertake the financing of the Project's periodic maintenance, which includes renewal and restoration of toll roads and toll road facilities prior to turnover of the asset to DPWH, the grantor.

Under the Minimum Performance Standards and Specifications (MPSS), the Parent Company has the obligation to perform routine and periodic maintenance. Routine maintenance pertains to day-to-day activities to maintain the road infrastructures while periodic maintenance comprises of preventive activities against major defects and reconstruction. Moreover, the Parent Company is required to perform maintenance and repair work in a manner that complies with the MPSS once it hands the asset back to the DPWH. The provision is a product of the best estimate of the expenditure required to settle the obligation based on the usage of the road during the operating phase. The amount is reduced by the actual obligations paid for heavy maintenance of the service concession asset.

MWSS Concession Fees

The aggregate concession fees of MWC pursuant to the concession agreement are equal to the sum of the following:

- a. 10% of the aggregate peso equivalent due under any MWSS loan which has been disbursed prior to the Commencement Date, including MWSS loans for existing projects and the Umiray Angat Transbasin Project (UATP), on the prescribed payment date;
- b. 10% of the aggregate peso equivalent due under any MWSS loan designated for the UATP which has not been disbursed prior to the Commencement Date, on the prescribed payment date;
- c. 10% of the local component costs and cost overruns related to the UATP;
- d. 100% of the aggregate peso equivalent due under MWSS loans designated for existing projects, which have not been disbursed prior to the Commencement Date and have been either awarded to third party bidders or elected by MWC for continuation; and
- e. 100% of the local component costs and cost overruns related to existing projects;
- f. MWC's share in the repayment of MWSS loan for the financing of new projects; and
- g. One-half of MWSS annual corporate budget.

In March 2010, MWSS entered into a loan agreement with The Export-Import Bank of China to finance the Angat Water Utilization and Aqueduct Improvement Project Phase II (the Angat Project). Total loan facility amounted to US\$116.6 million with maturity of twenty (20) years including a 5-year grace period. Interest rate is 3% per annum.

MWSS subsequently entered into a Memorandum of Agreement (MOA) with MWC and Maynilad to equally shoulder the repayment of the loan with such repayment to be part of the concession fees.

In 2016, MWC paid MWSS ₱500.0 million as compensation for additional water allocation in the Angat reservoir. The payment made shall be part of the MWC's business plan and shall be considered in the next rate rebasing exercise.



The schedule of undiscounted future concession fee payments follows:

Year	Foreign Currency Denominated Loans (Translated to US\$)	Peso Loans/ Project Local Support	Total Peso Equivalent*
2018	US\$9,404,651	₱395,714,907	₱865,289,131
2019	9,268,167	395,714,907	858,474,485
2020	8,804,966	395,714,907	835,346,859
2021	6,176,543	395,714,907	704,109,699
2022 onwards	47,238,427	6,331,438,509	8,690,053,169
	US\$80,892,754	₱7,914,298,137	₱11,953,273,343

*Peso equivalent is translated using the PDEX closing rate as of December 31, 2017 amounting to ₱49.93 to US\$1.

Estimated concession fee payments on future concession projects, excluding MWC Group's share in current operating budget is still not determinable. It is only determinable upon either loan drawdown and actual construction of the related concession projects as a percentage of revenues or as a fixed amount.

PGL Concession Fees

Under Laguna AAA Water Corporation's (LAWC) concession agreement with PGL, LAWC is required to pay concession fees to PGL computed as a percentage of water sales as follows:

Operational Period	Percentage of Water Sales
Years 1 to 5	4%
Years 6 to 10	3%
Years 11 to 25	2%

Advance payment to PGL was made for the said concession fees and 70% of the annual concession fees is applied against the said advances. The remaining 30% of the annual concession fees is expensed in the period they are incurred. Advances as of December 31, 2017 and 2016 amounted to ₱84.4 million (see Notes 9 and 16).

TIEZA Concession Fees

The aggregate concession fee pursuant to BIWC's concession agreement with TIEZA is equal to the sum of the following:

- Servicing the aggregate peso equivalent of all liabilities of BWSS as of commencement date;
- 5% of the monthly gross revenue of BIWC, inclusive of all applicable taxes which are for the account of BIWC; and
- Payment of annual operating budget of the TIEZA Regulatory Office starting 2010. For 2010 and 2011, the amount shall not exceed ₱15.0 million. For the year 2012 and beyond, BIWC shall pay not more than ₱20.0 million, subject to annual CPI adjustments.

In addition, advance payment of ₱60.0 million was provided to BIWC which shall be offset against the annual concession fees amounting to 5% annual gross revenue of BIWC, within a period of 10 years from the signing of the concession agreement or until fully paid. Any amount payable after application of the advance payment will be expensed in the period this is incurred. The advances were fully amortized in 2015.

CDC Concession Fees

The aggregate concession fee pursuant to the CWC's concession agreement with CDC is equal to the sum of the following:

- Annual franchise fee of ₱1.5 million;
- Semi-annual rental fees of ₱2.8 million for leased facilities from CDC.



As a result of the extension of the Concession Agreement of CWC, payment of rental fees on the CDC existing facilities was extended by an additional 15 years from October 1, 2025 to October 1, 2040.

OWD Concession Fees

The aggregate concession fee pursuant to Obando Water's concession agreement with OWD is equal to the sum of the following:

- i. base concession fee which shall be used for operations of the OWD; and
- ii. additional concession fee composed of amounts representing amortization payments for the outstanding obligations of OWD and 2% of the gross annual receipts of Obando Water, representing franchise tax to be paid by the OWD.

CWD Concession Fees

Under Calasiao Water's concession agreement with CWD, concession fees are based on a fixed schedule of annual payments over the twenty five (25) year concession period.



15. Intangible Assets

The movements in intangible assets follow:

	2017									
	Goodwill	Customer Relationships	Order Backlog	Unpatented Technology	Developed Software	Licenses	Technical Service Agreement	Trademarks	Project Development Cost	Leasehold And Other Rights
	<i>(In Thousands)</i>									
Cost										
At January 1	₱7,320,980	₱1,882,598	₱4,128	₱32,159	₱439,320	₱421,782	₱84,733	₱57,811	₱1,266,098	₱3,611,808
Additions during the year	–	–	–	6,169	–	164,428	–	–	306,393	15,067
Additions through business combination (Note 23)	5,565,680	–	–	18,332	–	–	–	–	243	–
Exchange differences	8,321	4,130	–	18,698	1,421	21,181	–	–	1,068	–
Reclassification/Others	(217,511)	–	(4,128)	372,583	–	(2,359)	–	–	(739,366)	1,195,421
At December 31	12,677,470	1,886,728	–	447,941	440,741	605,032	84,733	57,811	834,436	4,822,296
Accumulated amortization and impairment loss										
At January 1	1,981,708	1,824,690	4,128	12,305	371,633	279,380	84,733	46,166	721,753	78,518
Amortization (Note 22)	–	1,252	–	105,508	–	79,805	–	–	41,480	179,235
Impairment Loss (Note 22)	–	–	–	–	–	–	–	–	26,112	–
Exchange differences	–	4,130	–	229	1,421	15,410	–	–	1,541	–
Reclassification/Others	–	–	(4,128)	(4,122)	–	(1,947)	–	–	(739,366)	40,614
At December 31	1,981,708	1,830,072	–	113,920	373,054	372,648	84,733	46,166	51,520	298,367
Net book value	₱10,695,762	₱56,656	₱–	₱334,093	₱67,687	₱232,384	₱–	₱11,645	₱782,844	₱4,523,929

	2016									
	Goodwill	Customer Relationships	Order Backlog	Unpatented Technology	Developed Software	Licenses	Technical Service Agreement	Trademarks	Project Development Cost	Leasehold Rights
	<i>(In Thousands)</i>									
Cost										
At January 1	₱5,657,998	₱1,236,134	₱4,128	₱4,105	₱367,859	₱306,673	₱84,733	₱66,604	₱457,312	₱–
Additions during the year	–	–	–	–	–	228,146	–	–	305,230	–
Additions through business combination (Note 23)	2,456,982	–	–	24,530	–	–	–	–	–	3,611,808
Retirement/Disposals	(918,691)	(12,923)	–	–	–	(367,781)	–	(8,793)	(143,791)	–
Exchange differences	124,691	52,313	–	3,524	–	1,364	–	–	–	–
Reclassification/Others	–	607,074	–	–	71,461	253,380	–	–	647,347	–
At December 31	7,320,980	1,882,598	4,128	32,159	439,320	421,782	84,733	57,811	1,266,098	3,611,808
Accumulated amortization and impairment loss										
At January 1	2,320,676	1,139,823	4,128	4,105	224,452	271,580	84,733	54,346	172,100	–
Amortization (Note 22)	–	40,503	–	3,370	–	58,585	–	–	–	78,518
Retirement/Disposals	(338,968)	(12,923)	–	–	–	(235,125)	–	(8,180)	(97,694)	–
Exchange differences	–	50,213	–	4,830	–	6,681	–	–	–	–
Reclassification/Others	–	607,074	–	–	147,181	177,659	–	–	647,347	–
At December 31	1,981,708	1,824,690	4,128	12,305	371,633	279,380	84,733	46,166	721,753	78,518
Net book value	₱5,339,272	₱57,908	₱–	₱19,854	₱67,687	₱142,402	₱–	₱11,645	₱544,345	₱3,533,290



Goodwill pertains to the excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group.

Impairment Testing of Goodwill for the Group

IMI Group

Goodwill acquired through business combinations have been allocated to the particular CGUs of IMI for impairment testing as follows (amounts in thousands):

	2017		2016	
	In US\$	In Php*	In US\$	In Php*
STI (Notes 2 and 23)	US\$55,955	₱2,793,833	US\$ –	₱–
Speedy Tech Electronics, Ltd. (STEL)	45,128	2,253,241	US\$45,128	₱2,243,764
VIA	44,540	2,201,612	49,168	2,444,633
IMI	1,098	54,823	1,098	54,593
IMI CZ	650	32,455	650	32,318
	US\$147,371	₱7,335,964	US\$96,044	₱4,775,308

*Translated using the PDEx closing exchange rate at the statement of financial position date (US\$1:₱49.93 in 2017 and US\$1:₱49.72 in 2016).

STI, VIA, STEL Group, IMI USA and IMI CZ

The recoverable amounts of these CGUs have been based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The post-tax discount rates applied to cash flow are as follows:

	2017	2016
STI	8.70%	–
STEL	14.21%	11.89%
VIA	13.40%	11.20%
IMI CZ	8.30%	9.56%

Cash flows beyond the five-year period are extrapolated using a steady growth rate of 1%, which does not exceed the compound annual growth rate (CAGR) for the global electronic manufacturing services (EMS) industry.

Key assumptions used in value in use calculations

The calculations of value in use for the CGUs are most sensitive to the following assumptions:

- Revenue - Revenue forecasts are management's best estimates considering factors such as industry CAGR, customer projections and other economic factors.
- Forecasted gross margins - Gross margins are based on the mix of business model arrangements with the customers.
- Pre-tax discount rates - Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. This is also the benchmark used by management to assess operating performance. The discount rate calculation is based on the specific circumstances of IMI Group and its operating segments and is derived from its weighted average cost of capital.

No impairment loss was assessed for STI, VIA, STEL and IMI CZ in 2017, 2016 and 2015.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use of STI, STEL, VIA and IMI CZ, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of these CGUs to exceed their recoverable amount.



IMI

The goodwill of IMI pertains to its acquisition of M. Hansson Consulting, Inc. (MHCI) in 2006 and IMI USA in 2005. MHCI was subsequently merged to IMI as testing and development department. IMI USA acts as direct support to IMI Group's customers by providing program management, customer service, engineering development and prototyping manufacturing services. IMI USA's expertise in product design and development particularly on the flip chip technology is being used across IMI Group in providing competitive solutions to customers. The recoverable amount was based on the market price of IMI's shares at valuation date less estimated costs to sell. The fair value of the IMI's shares represents the value of IMI Group.

The comparison of the recoverable amounts and the carrying amounts resulted to no impairment loss in 2017, 2016 and 2015.

MWC and Philwater

Goodwill from the acquisition of MWC and Philwater amounted to ₱393.8 million as of December 31, 2017 and 2016. The recoverable amount in 2017 and 2016 was based on the market price of MWC shares at valuation date less estimated cost to sell. The comparison of the recoverable amount and the carrying amount resulted in no impairment.

CWC

Goodwill from the acquisition of CWC amounted to ₱130.3 million as of December 31, 2017 and 2016. MWC's impairment tests for goodwill from the acquisition of CWC is based on value in use calculations using a discounted cash flow model. The 2017 cash flows are derived from the budget for the next twenty-two (22) years and assumes a steady growth rate. MWC used the remaining concession life of CWC. The recoverable amount is most sensitive to discount rate used for the discounted cash flow model. The post-tax discount rate applied to cash flows projections is 8.97% in 2017 and 8.09% in 2016.

The carrying value of goodwill on the acquisition of CWC in the consolidated statements of financial position amounted to ₱130.3 million as of December 31, 2017 and 2016. No impairment loss was recognized as a result of the impairment testing performed.

ACEHI Group

Goodwill acquired through business combinations pertaining to the Wind Power CGU of ACEHI for impairment testing aggregated to ₱33.5 million in 2017 and 2016 (see Note 23).

Goodwill arising from the Wind Power CGU resulted from the purchase of additional interest in Northwind in 2016 and goodwill arising from Hydro Power CGU resulted from the purchase of 70% ownership interest in Quadriver, Hydro Power and PhilnewRiver in 2011.

The recoverable amount of the Wind Power CGU is based on value in use calculations using cash flow projections from financial budgets approved by ACEHI management covering the period the CGU is expected to be operational. The post-tax discount rates applied to cash flow projections for the Wind Power CGU is 10% which is based on weighted average cost of capital of comparable entities. The value in use computation is most sensitive to the discount rate and growth rate applied to the cash flow projections.

ACEHI management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the Wind Power CGU to exceed its recoverable amount.



No impairment loss was assessed for the Wind Power CGU in 2017 and 2016 while the balance from Hydro Power CGU was impaired in 2015.

Customer relationships

Customer relationships pertain to STEL Group's and IMI BG's contractual agreements with certain customers which lay out the principal terms upon which the parties agree to undertake business. Customer relationship of STEL amounting to US\$12.9 million (₱576.9 million) is fully amortized as of December 31, 2017 and 2016.

Unpatented Technology

Unpatented technology of STEL Group pertains to products which are technologically feasible. These technologies are also unique, difficult to design around, and meet the separability criteria.

Licenses

This includes acquisitions of computer software, applications and modules.

Project development cost

Project development cost includes cost pertaining to easement right of way (ROW) which is the privilege granted to one person to pass across another's land. During the construction of Kauswagan Project and Mariveles Project, several ROW were acquired from local residents for the right to erect the transmission lines which will be used to connect to the National Grid Corporation of the Philippines. Easement right acquired from local residents is for an indefinite period of time.

As of December 31, 2017 and 2016, project development cost pertaining to easement ROW amounted to ₱263.0 million and ₱238.9 million, respectively.

Leasehold and other rights

Leasehold rights consist of the following:

- Through the acquisition of POPI, ALI acquired leasehold rights arising from their lease agreement with Philippine National Railways (PNR) (see Notes 25 and 33).
- TKPI's leasehold rights pertains to the right to use the property in Apulit Island located in Taytay, Palawan expiring on December 31, 2029.
- NTDCC's leasehold rights refer to development rights on an 8.3-hectare portion of the MRT Development Corporation, which is located on the North Triangle property, and enabled the Group to develop and construct a commercial center.

This account also includes MWC Group's water banking rights pertaining to the rights to draw water from the Luyang River, Pampanga River, Abacan River, and Pasig-Potrero River. On August 22, 2012, the National Water Resources Board (NWRB) approved the assignment of Water Permit No. 16241 from Central Equity Ventures Inc. (now Stateland Inc.) to MW Consortium. The NWRB likewise approved the change of the purpose of Water Permit No. 16241 from Domestic to Municipal. MW Consortium allows CMWDI to use the said water permit for its project. As of December 31, 2017 and 2016, CMWDI's water banking right amounted to ₱45.0 million. In 2017, Manila Water Philippine Ventures, Inc. (MWPVI) acquired a conditional water right from the NWRB amounting to ₱15.1 million. The conditional water permit is necessary prior to the issuance of the water permit by NWRB subject to submission of certain requirements, including plans and specifications for the diversion works, pump structure, water measuring device and water distribution system, and environmental compliance certification by the DENR, among others. MWC Group estimates the useful lives of its water banking rights to be indefinite considering that the water permits remain valid for as long as water is beneficially used.



16. Other Noncurrent Assets

This account consists of the following:

	2017	2016
	(In Thousands)	
Deferred charges	₱7,757,572	₱10,655,977
Investment in bonds and other securities	4,466,367	4,565,079
Deposits - others	4,239,797	6,578,972
Deferred FCDA	1,329,351	1,414,370
Concession financial receivable (Note 9)	1,187,508	1,005,561
Creditable withholding taxes	515,133	515,133
Leasehold rights – net	168,120	86,791
Pension assets (Note 26)	97,952	236,879
Others	291,968	788,716
	₱20,053,768	₱25,847,478

Deferred charges

Deferred charges pertain to project-related costs already paid but not yet consumed in the actual construction activities. These are costs as the related awarded project progresses.

Investments in Bonds and Other Securities

The Group's investments consist of the following:

	2017	2016
	(In Thousands)	
AFS financial assets		
Quoted equity investments	₱2,072,962	₱2,579,137
Unquoted equity investments	2,393,405	1,870,321
	4,466,367	4,449,458
Quoted debt investments	–	115,621
	₱4,466,367	₱4,565,079

Quoted Equity Investments

Quoted equity instruments consist mainly of investments in listed equity securities and golf club shares. It also includes the following quoted equity investments:

Ho Chi Minh City Infrastructure Investment Joint Stock Co. (CII)

The Group, through BHL, has acquired a 10% ownership interest in CII for US\$15.9 million in 2012. CII is listed on the Ho Chi Minh City Stock Exchange and is a leading player in the infrastructure sector in Vietnam. CII has a portfolio of strategic infrastructure assets, including water treatment plants and toll roads serving Ho Chi Minh City and surrounding areas.

In 2017, BHL converted 11,229,765 units of bonds to 3,977,329 shares at a ratio of 1:0.4 which increased the value of the investment by US\$4.8 million (₱173.9 million). In 2017, an increase in fair value of the investments amounting to US\$4.9 million (₱355.2 million) was recognized directly in equity. BHL disposed 17,569,840 shares resulting in a gain of US\$7.9 million (₱394.4 million) in 2017 (see Note 22).

In 2016, BHL converted 69,235 units of bonds to 6,293,461 shares at a ratio of 1:90.9 which increased the value of the investment by US\$7.3 million (₱363.0 million). In 2016, an increase in fair value of the investments amounting to US\$3.8 million (₱189.0 million) was recognized directly in equity.

The carrying amount of the investment in CII amounted to US\$6.2 million (₱308.6 million) and US\$22.2 million (₱1,103.8 million) as of December 31, 2017 and 2016, respectively.



Unquoted Equity Investments

Unquoted equity investments include unlisted preferred shares in public utility companies which the Group will continue to carry as part of the infrastructure that it provides for its real estate development projects, water utilities projects, and to its other operations. It also includes the following unquoted equity investments:

TRG Global Opportunity Fund (GOF) and TRG Special Opportunity Fund (SOF)

The GOF is a multi-strategy hedge fund which invests primarily in emerging markets securities. The SOF focuses on less liquid assets in emerging markets (Latin America, Asia, Emerging Europe, Middle East and Africa) such as distressed debt, NPLs, corporate high yield, mid and small cap stocks, real estate (debt and equity) and private equity. In 2017, the Group received return of capital and realized loss amounting to US\$0.13 million (P6.8 million) and US\$0.03 million (P1.4 million), respectively (see Note 22). In 2016, the Group received return of capital and realized loss amounting to US\$0.5 million (P23.9 million) and US\$0.01 million (P2.4 million), respectively (see Note 22).

The aggregate carrying amount of GOF and SOF amounted to US\$1.6 million (P79.4 million) and US\$3.6 million (P178.2 million) as of December 31, 2017 and 2016, respectively.

Red River Holdings (Red River)

Red River is a fund that seeks to achieve a balanced and diversified portfolio of Vietnamese companies. On February 27, 2017, Red River was closed and the Group fully redeemed their capital contribution in the prior years. Following the closure, the fair value gain recognized in equity previously was recycled to profit or loss. The transaction resulted in a gain of US\$3.6 million (177.6 million) (see Note 22).

The carrying amount of the investment in Red River amounted to nil and US\$1.7 million (P84.5 million) as of December 31, 2017 and 2016, respectively. In 2017 and 2016, Red River returned capital amounting to nil and US\$5.0 million (P248.6 million), respectively.

Glory High

Glory High is a property development company with projects in Macau. The carrying amount of the investment in Glory High amounted to US\$0.6 million (P30.0 million) and US\$0.6 million (P29.8 million) as of December 31, 2017 and 2016, respectively. The Group has a direct interest of 2.975% in The Concordia through Glory High. Income from investment amounting to US\$1.9 million (P94.9 million) and US\$9.4 million (P467.4 million) was recorded in 2017 and 2016, respectively, arising from distributions from Glory High. Proceeds from the distribution received came from the sale of Phase 1 to 3 of The Concordia (see Note 22).

Sares-Regis Multifamily Value-added Fund II LLP (Sares Regis)

Sares Regis is a real estate private equity fund managed by the Sares-Regis Group (SRG) based in California, USA. In 2017, the Group co-invested with the Sares Regis for the acquisition of a 319-unit apartment community in Rancho Cucamonga, California, USA amounting to US\$4.8 million (P239.7 million).

In 2017 and 2016, Sares Regis returned capital amounting to US\$0.3 million (P15.2 million) and US\$9.8 million (P487.3 million), respectively. As of December 31, 2017 and 2016, the carrying amount of the investment in Sares Regis amounted to US\$19.0 million (P947.2 million) and US\$10.5 million (P522.1 million), respectively.

ACI Solar Holdings NA (ACI Solar)

In 2016, ACIFL invested US\$4.6 million (P228.7 million) in ACI Solar Holdings NA (ACI Solar), a Delaware company, which serves as the offshore vehicle of AITHI for solar technology. ACI Solar, in turn, acquired an 8.2% stake in Merlin Solar Technology Inc. (MSI) for US\$4.6 million (P228.7 million). In 2017, ACI Solar provided a loan to MSI amounting to US\$2.2 million (P109.8 million) to support operating requirements. MSI is a US-based company that specializes in developing technology that is used for solar panels.



Investment in UPC Renewables Asia I Limited

In 2017, ACEHI's wholly-owned subsidiary, AC Energy International Holdings Pte Ltd. (ACEHI SG), acquired 11% stake in UPC Renewables Asia I Limited amounting to ₱449.4 million. On July 24, 2017, ACEHI SG entered into a development funding arrangement with UPC Renewables Asia Pacific Holdings Ltd. and UPC Renewables Asia I Limited (see Note 34).

Quoted Debt Investments

Quoted debt investments pertain to CII convertible bonds amounting to nil in 2017 and US\$5.0 million (₱115.6 million) in 2016. The bonds bear interest rate of 12% per annum and will mature 5 years from issue date. The bonds are convertible at the option of the bond holder. In 2017 and 2016, BHL converted 43,755 bonds and 69,235 bonds, respectively, into 3,977,329 shares and 6,293,461 shares, respectively as part of the bond conversion exercise resulting to a decrease in the investment by US\$5.0 million (₱249.7 million) and US\$6.3 million (₱313.2 million) (see Note 32).

In 2017 and 2016, BHL recognized a gain on the conversion exercise amounting to VND91.3 million (US\$4.0 million) and VND 37.9 million (US\$1.0 million), respectively (see Note 22).

In 2015, BHL recorded a gain on the option component of CII convertible bonds amounting to VND 490.0 billion (₱1.0 million).

The net unrealized gain (loss) on AFS financial assets as reflected in the equity section is broken down as follows:

	2017	2016
	(In thousands)	
Net unrealized gain on AFS financial assets of the Parent Company and its consolidated subsidiaries	₱96,215	₱803,323
Share in the net unrealized loss on AFS financial assets of associates and joint ventures	(1,204,177)	(1,269,999)
	(₱1,107,962)	(₱466,676)

The rollforward of unrealized gain (loss) on AFS financial assets of the Parent Company and its consolidated subsidiaries is as follows:

	2017	2016
	(In thousands)	
At January 1	₱803,323	₱914,004
Changes in fair value recognized in equity	424,415	247,180
Recognized in profit and loss (see Note 22)	(1,129,306)	(298,234)
Others	(2,216)	(59,627)
At December 31	₱96,216	₱803,323

Deposits - others

This includes deposits and advances for projects which include escrow deposits and security deposits on land leases, electric and water meter deposits. This account also includes advance rental payments, noncurrent prepaid management fees, commissions and advertising and promotions. Deposits also include earnest money and bid deposits by ACEHI amounting to ₱100.0 million and ₱2.6 billion, respectively, for the acquisition of certain subsidiaries of Bronzeoak Philippines, Inc. (Bronzeoak) and geothermal operations of Chevron Global Energy, Inc., Union Oil Company of California, and their relevant affiliates (collectively referred to as the Chevron Group) in 2016 (see Note 34). In 2017, this amount formed part of ACEHI Group's investment in associates and joint ventures (see Note 11).



In 2012, ACEHI deposited in an escrow account for potential earn-out amounting to ₱167.7 million in relation to the Achieved Capacity Factor Adjustment, payment of which is dependent on the final resolution of the Arbitration Committee and the final Feed-in Tariff (FiT) rate to be awarded to Northwind in 2013 (see Note 37). ACEHI management decided not to reverse the FiT contingent consideration on the grounds that the previous owners of Northwind may still decide to pursue the transaction. In February 2014, the previous owners of Northwind signed the arbitration procedures. On July 20, 2016, the earn-out payments to Northwind founders that was deposited in an escrow account, was released to ACEHI amounting to ₱179.1 million. Consequently, ACEHI reversed the contingent liability of ₱219.3 million initially recorded for the potential earn-out payments and recognized a gain on reversal in 2016 (see Note 22).

Deferred FCDA

Deferred FCDA refers to the net unrecovered amounts from (amounts for refund to) customers of MWC Group for realized losses (gains) from payments of foreign loans based on the difference between the drawdown or rebased rate versus the closing rate at payment date. This account also covers the unrealized gains or losses from loan valuations.

Leasehold rights

Leasehold rights pertain to the assigned rights of Solienda, Inc. to the contracts of lease of San Julio Realty, Inc. (SJRI) with San Carlos Sun Power, Inc. (SACASUN), San Carlos Solar Energy, Inc. (SACASOL) and San Carlos Biopower Inc. (SCBP) (see Note 23). The Assignment Agreements were amended on December 26, 2016 to clarify that SJRI irrevocably assigns, transfers and conveys absolutely unto Solienda, Inc. all its rights, ownership and/or interest in 50% of the total rental payments due under the Contracts of Lease. The parties undertake to provide continuing support for the full implementation of the Agreements and shall perform in good faith any and all facts necessary to implement the Agreements and its amendments. Total consideration for these assignments amounted to ₱168.1 million as of December 31, 2017.

Others

Others pertain to prepayments for expenses that is amortized for more than one year and long-term miscellaneous accounts.

17. Accounts Payable and Accrued Expenses

This account consists of the following:

	2017	2016
	(In Thousands)	
Accounts payable	₱90,750,983	₱90,791,680
Accrued expenses		
Project costs	15,946,912	16,721,212
Personnel costs	8,368,005	8,056,866
Professional and management fees	5,820,306	3,395,027
Rental and utilities	3,799,693	3,423,595
Repairs and maintenance	2,074,653	2,122,203
Advertising and promotions	1,120,738	1,581,847
Various operating expenses	3,024,200	1,319,177
Taxes payable	20,706,997	16,841,094
Retentions payable (Note 20)	4,924,173	4,306,272
Liability for purchased land	3,710,462	6,257,097
Interest payable (Note 30)	3,682,835	2,615,731
Dividends payable	3,618,606	3,503,405
Related parties (Note 30)	1,873,861	3,441,971
DRP obligation	230,103	223,401
	₱169,652,527	₱164,600,578



Accounts payable and accrued expenses are non-interest bearing and are normally settled on 15- to 60-day terms. Other payables are non-interest bearing and are normally settled within one year.

Accrued operating expenses include accruals for utilities, postal and communication, supplies, commissions, royalty, transportation and travel, subcontractual costs, security, insurance, and representation.

Project costs represent accrual for direct costs associated with the commercial, residential and industrial project development and construction like engineering, design works, contract cost of labor and direct materials.

Taxes payable consists of net output VAT, withholding taxes, business taxes, capital gains tax and other statutory payables, which are due within one year.

Liability for purchased land pertains to the current portion of unpaid unsubdivided land acquired payable during the year. These are normally payable in quarterly or annual installment payments or upon demand.

Development Rights Payment (DRP) obligation pertains to the current portion of the liability arising from the assignment agreement between ALI and MRTDC of the latter's development rights. In consideration of the lease, ALI will be charged an annual rent related to the original DRP obligation on the MRTDC and 5% of the rental income from ALI's commercial center business. Of the 5% variable amount due, 2.42% shall be directly paid by ALI to the minority shareholders of Monumento Rail Transit Corporation, 28.47% shall be paid directly to Metro Global Holdings Corporation and the remaining 69.11% shall be applied against receivables.

18. Other Current Liabilities

This account consists of:

	2017	2016
	(In Thousands)	
Customers' deposits	₱23,722,969	₱16,849,188
Financial liabilities on put option (Notes 23 and 32)	1,094,079	563,541
Liabilities attributable to a disposal group (Note 23)	585,849	—
Nontrade payables	575,974	100,338
Installment payable	3,418	4,108
Derivative liability (Note 32)	1,505	5,809
	₱25,983,794	₱17,522,984

Customers' deposits consist of collections from real estate customers which have not reached the 10% threshold to qualify for revenue recognition and excess of collections over the recognized receivables based on percentage of completion. These also include security deposits equivalent to one (1) to three (3) months' rent of tenants with cancellable lease contracts and whose lease term will end in the succeeding year. This will be refunded to the lessees at the end of the lease term or be applied to the last months' rentals on the related contracts.

Financial liabilities on put option relate to the acquisition of VIA and STI and pertain to the right of the non-controlling shareholders of VIA and STI to sell their shares in the aquiree to IMI Group.

Nontrade payables pertain mainly to non-interest bearing real estate-related payables to contractors and various non-trade suppliers which are due within one year.



19. Short-term and Long-term Debt

Short-term debt consists of:

	2017	2016
	(In Thousands)	
Philippine peso debt - with interest rates ranging from 2.64% to 7.00% per annum in 2017 and 2.30% to 7.00% per annum in 2016	₱22,925,600	₱28,137,450
Foreign currency debt - with interest rates ranging from 1.82% to 4.31% in 2017 and 1.23% to 3.16% in 2016	6,979,123	2,720,687
	₱29,904,723	₱30,858,137

ALI Group

The short-term debt of ALI Group amounting to ₱17.6 billion and ₱24.2 billion as of December 31, 2017 and 2016, respectively, represents peso-denominated bank loans with various interest rates. In compliance with BSP rules on directors, officers, stockholders and related interests, certain short-term and long-term debt with a carrying value of ₱17,697.5 million and ₱18,254.1 million as of December 31, 2017 and 2016 are secured by real estate mortgages dated September 2, 2014 and March 14, 2016 covering both land and building of the Greenbelt Mall. Net book value of the property amounted to ₱3,121.3 million and ₱2,982.4 million as of December 31, 2017 and 2016, respectively which is accounted as part of the "Investment properties" account. Peso-denominated short term loans had a weighted average cost of 2.64% and 2.62% per annum in 2017 and 2016.

AITHI Group

The Philippine peso debt of AITHI Group pertains to short-term loans with various banks and institutions amounting to ₱5.2 billion and ₱3.8 billion as of December 31, 2017 and 2016, respectively. These loans are unsecured and bear interest rate of 2.7% to 4.0% per annum in 2017 and 2.6% to 3.1% per annum in 2016.

AIVPL Group

The peso-denominated and dollar-denominated debt of AIVPL Group through its subsidiary, Affinity Express India Private Limited (AEIPL), pertains to short-term loans with various banks amounting to ₱243.0 million and ₱253.0 million as of December 31, 2017 and 2016, respectively. These loans are unsecured and bear interest rates ranging from 5.5% to 7.0% in 2017 and 2016.

IMI Group

As of December 31, 2017 and 2016, IMI Group has short-term loans aggregating to US\$135.1 million (₱6,743.4 million) and US\$51.4 million (₱2,557.8 million), respectively. These short-term loans have maturities ranging from 30-180 days and bear fixed interest rates ranging from 1.82% to 2.34% in 2017 and 1.23% to 3.16% in 2016.



Long-term debt consists of:

	2017	2016
	(In Thousands)	
The Parent Company:		
Bank loans - with interest rates ranging from 2.00% to 5.30% per annum in 2017 and 2016 and varying maturity dates up to 2022	₱9,198,822	₱10,835,726
Bonds	39,719,659	39,780,649
	48,918,481	50,616,375
Subsidiaries:		
Loans from banks and other institutions:		
Foreign currency - with interest rates ranging from 2.15% to 3-month EURIBOR plus 2.90% in 2017 and 1.23% to 1-month EURIBOR plus 1.20% in 2016	58,680,020	47,693,785
Philippine peso - with interest rates ranging from 1.86% to 9.00% in 2017 and 1.80% to 9.00% in 2016 (Note 22)	66,976,028	54,689,899
Bonds:		
Fixed for life notes	19,843,316	—
Exchangeable bonds due 2019	14,551,428	14,198,775
Due 2019	12,299,234	12,286,298
Due 2020	3,984,041	3,978,794
Due 2021	5,000,000	—
Due 2022	12,591,034	12,576,988
Due 2023	6,943,949	6,935,625
Due 2024	14,910,133	14,874,523
Due 2025	14,882,298	14,857,292
Due 2026	7,932,643	7,926,123
Due 2027	6,966,801	—
Due 2033	1,983,990	1,983,403
	247,544,915	192,001,505
Fixed Rate Corporate Notes (FXCNs)	17,180,464	22,377,934
Short-dated notes	7,063,369	—
	320,707,229	264,995,814
Less current portion	13,731,967	19,792,669
	₱306,975,262	₱245,203,145

Reconciliation of carrying amount against nominal amount follows:

	2017	2016
	(In Thousands)	
Nominal amount	₱322,180,330	₱267,269,402
Unamortized discount	(1,473,101)	(2,273,588)
	₱320,707,229	₱264,995,814

The Parent Company

Generally, the Parent Company's long-term loans are unsecured. Due to certain regulatory constraints in the local banking system regarding loans to directors, officers, stockholders and related interest, some of the Parent Company's credit facilities with a local bank are secured by shares of stock of a subsidiary with a fair value of ₱11.6 billion and ₱12.6 billion as of December 31, 2017 and 2016, respectively, in accordance with BSP regulations. All credit facilities of the Parent Company outside of this local bank are unsecured, and their respective credit agreements provide for this exception.



The Parent Company positions its deals across various currencies, maturities and product types to provide utmost flexibility in its financing transactions.

Bank loans - with interest rates ranging from 2.0% to 5.3% per annum in 2017 and 2016 and varying maturity dates up to 2022

In October 2012, the Parent Company availed ₱2.0 billion loan from a local bank to mature in 2017. The ₱2.0 billion loan shall have interest rate per annum equal to the 3-month PDST-R2 plus a spread of seventy five basis points (0.75%) per annum, or BSP reverse repurchase (RRP) rate, whichever is higher. The second principal payment for the ₱2.0 billion loan amounting to ₱100.0 million was paid in October 2016. The Parent Company paid the final principal payment which amounted to ₱1.8 billion in October 2017.

In November and December 2013, the Parent Company availed ₱2.0 billion and ₱4.3 billion loan from various banks to mature in 2018 and 2020, respectively. The ₱2.0 billion loan shall have interest rate per annum equal to the 3-month PDST-R2 plus a spread of 100 basis points (1%) per annum, or BSP overnight reverse repurchase (RRP) rate plus a spread of 25 basis points (0.25%), whichever is higher. The ₱4.3 billion loan shall have interest rate per annum equal to the 6-month PDST-R1 plus a spread of thirty basis points (0.30%) for the first six months and 3-month PDST-R1 plus a spread of sixty basis points (0.60%) thereafter. In December 2016 and 2017, the Parent Company paid the second and third principal payment for the ₱4.3 billion which amounted to ₱42.5 million each. In November 2017, the Parent Company paid the second principal payment for the ₱2.0 billion which amounted to ₱100.0 million.

On August 17, 2015, the Parent Company availed a 7-year loan from a local bank amounting to ₱3.0 billion which bears fixed interest rate of 5.2883% per annum. Principal repayments amounting to ₱30.0 million shall be made at the end of the third year until the sixth year and payment of remaining principal balance amounting to ₱2.9 billion at maturity date.

In December 2016, the Parent Company entered into a 5-year loan agreement amounting to ₱10.0 billion. The first drawdown of the loan amounted to ₱300.0 million in 2017. The ₱300.0 million shall have interest rate equivalent to (i) the Benchmark Rate-Floating plus a margin of seventy basis points (0.70%) per annum or (ii) the 28-day BSP Deposit Facility Rate plus a margin of forty-five basis points (0.45%) per annum, whichever is higher.

Bonds

Below is the summary of the outstanding Peso bonds issued by the Parent Company:

Year Issued	Term	Interest rate	Principal Amount (In thousands)	Carrying Value (In thousands)		Features
				2017	2016	
2010	7 years	7.20%	₱10,000,000	₱—	₱9,994,372	Puttable on the 20th coupon payment date
						20% balance puttable on the 5th anniversary of the issue date; balance puttable on the 8th anniversary issue date
2011	10 years	6.80%	10,000,000	9,959,350	9,948,974	Callable from the 10th anniversary issue until every year thereafter until the 14th anniversary issue date
2012	15 years	6.875%	10,000,000	9,939,791	9,933,361	Callable from the 5.5th anniversary issue until every year thereafter until the 7th anniversary issue date
2016	7 years	3.92%	10,000,000	9,913,730	9,903,942	Callable from the 6.5th anniversary issue until every year thereafter
2017	8 years	4.82%	10,000,000	9,906,788	—	
			₱50,000,000	₱39,719,659	₱39,780,649	



The outstanding Peso bonds of the Parent Company have been rated “PRS Aaa” by PhilRatings.

Bonds due 2017

In April 2017, the Parent Company paid the ₱10.0 billion bonds issued in April 2010.

Bonds due 2019

On November 11, 2016, there was an early redemption of the bonds issued in November 2012. The bonds were redeemed at a rate of 7.45%, which reflects the 5.45% nominal rate and the additional 0.5% of the redemption amount at a total cash outlay of ₱10.2 billion, inclusive of interest of ₱136.3 million.

Bonds due 2025

On February 10, 2017, the Parent Company issued ₱10.0 billion, 4.82% bonds due in 2025. This pertains to the second and final tranche of the ₱20.0 billion fixed rate bonds program approved by the BOD of the Parent Company on March 10, 2016.

Subsidiaries

Foreign Currency Debt

AYCFL

On November 28, 2013, AYCFL, entered into a 5-year syndicated term loan with a foreign bank, with the Parent Company as guarantor, for US\$225.0 million. On January 14, 2014, AYCFL drew the full amount of the term loan at a rate of 135 basis points over the 1-, 3- or 6-month LIBOR at the option of AYCFL. In 2017, AYCFL made full prepayment on the loan.

In March 2016, AYCFL increased the existing Bilateral Term Loan Facility with The Bank of Tokyo-Mitsubishi UFJ, Ltd from up to US\$100.0 million to up to US\$200.0 million with interest rates at certain basis points over LIBOR and maturing in September 2022. The Bilateral Term Loan Facility has an availability period of 5 years which offers the same flexibility as a Revolving Credit Facility. Furthermore, AYCFL undertook the conversion of the US\$200.0 million Club Term Loan facility into Revolving Credit facility with Mizuho Bank, Ltd. and Sumitomo Mitsui Banking Corporation with interest rates at certain basis points over LIBOR and maturing in March 2020. The loan facility is guaranteed by the Parent Company. As of December 31, 2017, the loan facilities are still undrawn.

IMI Group

IMI

In October and November 2017, IMI obtained two 5-year term loan aggregating to US\$30.0 million from a Singapore-based bank subject to interest rates ranging from 2.85% to 2.86%.

On October 10, 2016, IMI drew a US\$40.00 million 5-year term loan subject to a fixed interest rate of 2.70% and drawn additional loan of US\$10.00 million in 2017 subject to an interest rate of 2.96%. Subsequently, 10% of the loan or equivalent of US\$0.50 million was repaid in 2017.

On October 6, 2016, IMI obtained a US\$40.00 million 3-year term loan from a Singapore-based bank subject to a fixed interest rate of 2.15%.

On September 29, 2016, IMI obtained a US\$15.00 million 3-year term loan from a local bank subject to a fixed interest rate of 2.99%.

On August 12, 2015, IMI obtained a US\$20.00 million 5-year term loan from a local bank payable at the end of the loan term subject to a fixed interest rate per annum of 2.8%. Interests are payable quarterly in arrears on each interest payment date.

On February 29, 2012, IMI obtained a €5.00 million (US\$5.22 million), 5-year term clean loan from a local bank payable in a single balloon payment at the end of the loan term. Interest is payable semi-annually at the rate of 1.28%. The loan was paid on February 2017.



Cooperatief

Cooperatief's long-term debt aggregating to €14.25 million (US\$20.4 million) as at July 29, 2011 relates primarily to the acquisition of EPIQ shares and receivables of EPIQ NV from IMI EU/MX subsidiaries. Based on the payment schedule in the SPA, this long-term debt will be settled from 2013 to 2018, subject to interest rate of 1.60% plus 1.50%.

Cooperatief had already paid an aggregate amount of €10.00 million from 2013 to 2017 with an annual payment of €2.00 million every July of each year. The balance of €4.25 million (\$4.94 million) will be due on July 29, 2018.

IMI CZ

IMI CZ has term loan facility from Czech-based bank aggregating to €4.23 million (US\$5.07million). The principal shall be paid in 60 regular monthly installments and bears interest of 3-month EURIBOR plus spread ranging from 0.9% to 2.70% but is not to exceed 15% per annum. Outstanding balance as of December 31, 2017 amounted to €4.23 million (US\$5.07 million).

IMI BG

IMI BG has a long-term debt from BNP Paribas amounting to US\$0.42 million that relates to the term loan facility for financing the construction of a new warehouse with a term of five years and bears interest based on 3-month EURIBOR plus 2.90%. The warehouse was completed in 2013.

The credit facility with the bank is subject to the following collateral: Security of Transfer of Ownership Title relating to office and factory equipment with a carrying value of US\$1.4 million (₱67.4 million).

VIA

VIA has a long-term debt from a Germany-based bank amounting to €0.16 million (US\$0.20 million). The debt bears annual interest of 5.35% and matures on June 30, 2019.

MWC Group

MWC International Finance Corporation (IFC) Loan

On March 28, 2003, MWC entered into a loan agreement with IFC (the First IFC Loan) to partially finance MWC's investment program from 2002-2005 to expand water supply and sanitation services, improvement on the existing facilities of MWC, and concession fee payments. The First IFC Loan will be made available in Japanese Yen (JPY) in the aggregate principal amount of JPY3,591.6 million equivalent to US\$30.0 million and shall be payable in 25 semi-annual installments, within 12 years starting on July 15, 2006. As of December 31, 2017 and 2016, the carrying value of the loan amounted to JPY143.2 million (₱63.0 million) and JPY428.1 million (₱182.0 million), respectively.

Land Bank of the Philippines (LBP) Loan

On October 20, 2005, MWC entered into a Subsidiary Loan Agreement with LBP to finance the improvement of the sewerage and sanitation conditions in the East Zone. The loan has a term of 17 years, and was made available in Japanese Yen in the aggregate principal amount of JPY6.6 billion payable via semi-annual installments after the 5-year grace period. MWC made its last drawdown on October 26, 2012.

The total drawn amount for the loan is JPY4.0 billion. As of December 31, 2017 and 2016, outstanding balance of the LBP loan amounted to JPY1,521.0 million (₱669.2 million) and JPY1,857.3 million (₱789.5 million), respectively.

On September 25, 2012, MWC entered into a Subsidiary Loan Agreement with LBP under the Metro Manila Wastewater Management Project (MWMP) with the World Bank. The MWMP aims to improve used water services in Metro Manila through increased wastewater collection and treatment. The loan has a term of 25 years, and was made available in US Dollars in the aggregated principal amount of US\$137.5 million via semiannual installments after the 7-year grace period. MWC made four drawdowns in 2015 aggregating to US\$22.6 million (₱1,123.7 million) and three drawdowns in



2016 aggregating to US\$17.5 million (₱868.1 million). In 2017, MWC made an additional three drawdowns with a total amount of US\$22.4 million (₱1,118.4 million). The carrying value of the MWMP loan as of December 31, 2017 and 2016 is US\$62.0 million (₱3,097.2 million) and US\$39.78 million (₱1,977.9 million), respectively.

NEXI Loan

On October 21, 2010, MWC entered into a term loan agreement (NEXI Loan) amounting to US\$150.0 million to partially finance capital expenditures within the East Zone. The loan has a tenor of 10 years and is financed by a syndicate of four banks - ING N.V Tokyo, Mizuho Corporate Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ Ltd. and Sumitomo Mitsui Banking Corporation and is insured by Nippon Export and Investment Insurance. First, second and third drawdowns of the loan amounted to US\$84.0 million, US\$30.0 million and US\$36.0 million, respectively. The carrying value of this loan as of December 31, 2017 and 2016 amounted to US\$55.1 million (₱2,751.1 million) and US\$73.0 million (₱3,629.6 million), respectively.

JPY40.0 billion loan

On September 30, 2015, MWC signed a 7-year JPY40.0 billion term loan facility with three international banks: The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Bank, Ltd., and Sumitomo Mitsui Banking Corporation to finance MWC's capital expenditures. MWC made its first drawdown on March 9, 2016 amounting to JPY13.4 billion (₱5.7 billion). In 2017, MWC made two additional drawdowns totaling JPY 26.6 billion (₱11.7 billion). The loan's carrying value as of December 31, 2017 and 2016 is JPY33.9 billion (₱14.9 billion) and JPY12.2 billion (₱5.2 billion), respectively.

ALI Group

In October 2012, ALI executed and fully drawn a US\$58.5 million long-term facility. The loan bears a floating interest rate based on a credit spread over the three-month US Dollar London Interbank Offered Rate (LIBOR), repriced quarterly. The loan will mature on the third month succeeding the tenth anniversary of the initial drawdown date. In January 2014 and October 2015, ALI made partial prepayments on the loan in the amount of US\$5.8 million (₱272.9 million) and US\$12.8 million (₱572.4 million), respectively. Subsequently in March 2016, a US\$30.0 million long-term facility was assigned by ALI Makati Hotel Property, Inc. (AMHPI) to ALI. The assigned loan bears a floating interest rate based on a credit spread over the three-month US Dollar London Interbank Offered Rate (LIBOR), repriced quarterly and had a remaining term of 3 years and 4 months from the time of assignment.

GNPK

The peso-denominated and dollar-denominated debt of GNPK pertains to a construction and term loan facility having an aggregate principal amount of ₱1,700.0 million and US\$605.0 million, respectively, with interests ranging from 6.88% to variable at LIBOR plus a margin of three and one-quarter of one percent (3.25%). The dollar-denominated debt is composed of the following:

- Tranche A Loan US\$375 million;
- Tranche B Loan US\$60 million; and
- Tranche C Loan US\$170 million.

As of December 31, 2017 and 2016, the assets of GNPK amounting to US\$820.7 million and US\$470.8 million, respectively, are pledged as collateral. The carrying value of the loans amounted to US\$579.0 million and US\$342.3 million as of December 31, 2017 and 2016, respectively.

Philippine Peso Debt

MWC Group

MWC Parent Company

On April 8, 2011, MWC issued ₱10.0 billion FXCN with ₱5.0 billion having a term of five (5) years (Five-Year FXCN Note) from the issue date and the other ₱5.0 billion with a term of ten (10) years (Ten-Year FXCN Note) from the issue date which is both payable quarterly. MWC may repay the whole and not a part only of the Ten-Year FXCN Notes on the 7th anniversary of the drawdown date



of such FXCN Note or on any FXCN interest payment date thereafter. The amount payable in respect to such prepayment shall be calculated as 102.00% of the principal amount being prepaid and accrued interest on the prepayment date.

On April 8, 2016, MWC prepaid the outstanding balance of the Five-Year FXCN Note. The carrying value of the FXCN as of December 31, 2017 and 2016 amounted to ₱4,862.9 million and ₱4,883.6 million, respectively.

On August 16, 2013, MWC entered into a Credit Facility Agreement with a local bank having a fixed nominal rate of 4.42% and with a term of 7 year from the issue date which is payable annually. MWC may repay the whole and not a part only of the loan starting on the 3rd anniversary of the drawdown date of such loan or on any interest payment date thereafter. The amount payable in respect to such prepayment shall be calculated as 102% of the principal amount being prepaid and accrued interest if such prepayment occurs on or after the 3rd anniversary but before the 4th anniversary of the drawdown date. The amount payable in respect to such prepayment shall be calculated as 101.5% of the principal amount being prepaid and accrued interest if such prepayment occurs on or after the 4th anniversary but before the 5th anniversary of the drawdown date. The amount payable in respect to such prepayment shall be calculated as 101% of the principal amount being prepaid and accrued interest if such prepayment occurs on or after the 5th anniversary but before the 6th anniversary of the drawdown date. The amount payable in respect to such prepayment shall be calculated as 100.5% of the principal amount being prepaid and accrued interest if such prepayment occurs on or after the 6th anniversary but before the 7th anniversary of the drawdown date. The carrying value of the loan as of December 31, 2017 and 2016 amounted to ₱4.9 billion.

On July 17, 2008, MWC, together with all of its Lenders signed an Omnibus Amendment Agreement and Intercreditor Agreement and these agreements became effective on September 30, 2008.

Prior to the execution of the Omnibus Amendment Agreement, the obligation of MWC to pay amounts due and owing committed to be repaid to the lenders under the existing facility agreements were secured by Assignment of Interest by Way of Security executed by MWC in favor of a trustee acting on behalf of the lenders. The Assignments were also subject to the provisions of the Amended and Restated Intercreditor Agreement dated March 1, 2004 and its Amendatory Agreement dated December 15, 2005 executed by MWC, the lenders and their appointed trustee.

Under the Omnibus Amendment Agreement, the lenders effectively released MWC from the assignment of its present and future fixed assets, receivables and present and future bank accounts, all the Project Documents (except for the Agreement, Technical Corrections Agreement and the Department of Finance Undertaking Letter), all insurance policies where MWC is the beneficiary and performance bonds posted in its favor by contractors or suppliers.

In consideration for the release of the assignment of the above-mentioned assets, MWC agreed not to create, assume, incur, permit or suffer to exist, any mortgage, lien, pledge, security interest, charge, encumbrance or other preferential arrangement of any kind, upon or with respect to any of its properties or assets, whether now owned or hereafter acquired, or upon or with respect to any right to receive income, subject only to some legal exceptions. The lenders shall continue to enjoy their rights and privileges as Concessionaire Lenders (as defined under the Agreement), which include the right to appoint a qualified replacement operator and the right to receive payments and/or other consideration pursuant to the Agreement in case of a default of either MWC or MWSS. Currently, all lenders of MWC (including the bondholders) are considered Concessionaire Lenders and are on *pari passu* status with one another.

In November and December 2014, MWC signed the Amendment Agreements to its loan agreements with its existing lenders. This effectively relaxed certain provisions in the loan agreements providing MWC more operational and financial flexibility.



CWC

On April 10, 2015, CWC entered into a loan agreement with a domestic bank, whereby the bank extended credit to CWC for up to ₱1.2 billion to partially finance its concession capital expenditures program. Under the agreement, the loan bears interest at a rate of 6.179% and principal payments will be made in forty eight (48) consecutive equal quarterly installments starting July 2018.

The first and second drawdowns on the loan were made in September and December 2015, amounting to ₱800.0 million and ₱200.0 million, respectively. The third drawdown was made on August 2016 for ₱150.0 million. The carrying value of the loan amounted to ₱1,141.7 million and ₱1,140.6 million as of December 31, 2017 and 2016, respectively.

LAWC

On September 7, 2010, LAWC, entered into a loan agreement with two local banks for the financing of its construction, operation, maintenance and expansion of facilities in its servicing area. Pursuant to the loan agreement, the lenders have agreed to provide loans to LAWC up to ₱500.0 million, principal payments of which will be made in 30 consecutive equal quarterly installments starting August 2013. First and second drawdowns from the loan were made in November 2010 and July 2011 amounting to ₱250.0 million each. The carrying value of this loan amounted to ₱199.1 million and ₱265.1 million as of December 31, 2017 and 2016, respectively.

On April 29, 2013, LAWC entered into a loan agreement with Development Bank of the Philippines (DBP) to partially finance the modernization and expansion of the water network system and water supply facilities in Biñan, Sta. Rosa and Cabuyao, Laguna. Under the loan agreement, the lender has agreed to provide loans to the borrowers through the Philippine Water Revolving Fund (PWRP) in the aggregate principal amount of up to ₱500.0 million bearing an effective interest rate of 7.25%. First and second drawdowns were made in July and December 2013 amounting to ₱250.0 million each. The carrying value of this loan as of December 31, 2017 and 2016 amounted to ₱462.3 million and ₱491.6 million, respectively.

On January 9, 2014, LAWC exercised its option to avail of the second tranche of its loan agreement with DBP to finance its water network and supply projects, including the development of a well-field network on the Biñan, Sta. Rosa area of Laguna. Under the expanded facility agreement, DBP provided additional loans to LAWC in the aggregate principal amount of ₱833.0 million. The first and second drawdowns were made in January 2014 and May 2014, respectively, amounting to ₱416.5 million each. The carrying value of the loans amounted to ₱793.4 million and ₱831.1 million as of December 31, 2017 and 2016, respectively.

On October 23, 2015, LAWC entered into a loan agreement with Security Bank Corporation (SBC) to finance the modernization and expansion of its water network system and water supply facilities throughout the province of Laguna. Under the loan agreement, the lender agreed to provide a loan to the borrower in the aggregate principal amount of up to ₱2.5 billion for an applicable fixed interest rate, as determined in respect of each drawdown. The first drawdown was made in December 2015, amounting to ₱600.0 million bearing an effective interest rate of 6.03%. The second drawdown was made in two tranches in April 2016 amounting to ₱150.0 million and ₱300.0 million bearing effective interest rates of 5.98% and 6.39%, respectively. The third drawdown was made in September 2016 amounting to ₱400.0 million bearing an effective interest rate of 5.53%. The fourth drawdown was made in three tranches, the first tranche in March amounting to ₱100.00 million bearing an effective interest rate of 6.21% and the second and third tranches in April 2017 amounting to ₱50.00 million and ₱350.00 million bearing an effective interest rate of 6.37% and 6.40%, respectively. The fifth drawdown was made in two tranches in September 2017 amounting to ₱150.0 million and ₱400.0 million bearing an effective interest rate of 6.17% and 6.28%, respectively. The carrying value of the loan amounted to ₱2,483.7 million and ₱1,439.9 million as of December 31, 2017 and 2016, respectively.



On March 29, 2017, Laguna Water entered into a loan agreement with Grand Challenges Canada to fund the project during the period beginning on the effective date of the loan agreement and ending on the project end date of November 30, 2017 for up to an aggregate principal amount of CA\$0.87 million (₱34.7 million). The project supported by the loan is the “Bundling water and sanitation services for the poor in informal urban communities.” As of December 31, 2017, the carrying value of the loan amounted to CA\$0.83 million (₱32.8 million).

BIWC

On July 29, 2011, BIWC, entered into an omnibus loan and security agreement with DBP and SBC to finance the construction, operation, maintenance and expansion of facilities for the fulfillment of certain service targets for water supply and waste water services for the Service Area under the Concession Agreement, as well as the operation and maintenance of the completed drainage system. The loan shall not exceed the principal amount of ₱500.0 million and is payable in twenty (20) years inclusive of a three (3)-year grace period.

The loan shall be available in three sub-tranches, as follows:

- Sub-tranche 1A, the loan in the amount of ₱250.0 million to be provided by DBP and funded through PWRP;
- Sub-tranche 1B, the loan in the amount of ₱125.0 million to be provided by SBC and funded through PWRP; and
- Sub-tranche 1C, the loan in the amount of ₱125.0 million to be provided by SBC and funded through its internally-generated funds.

The first loan draw down made on August 25, 2011 amounted to ₱150.0 million, second draw down on August 25, 2012 amounted ₱155.0 million and final draw down on August 23, 2013 amounted to ₱195.0 million. The carrying value of the loan as of December 31, 2017 and 2016 amounted to ₱413.6 million and ₱443.4 million, respectively.

The Agreement provided BIWC the option to borrow additional loans from the lenders. On November 14, 2012, BIWC entered into the second omnibus loan and security agreement with DBP and SBC. The agreed aggregate principal of the loan amounted to ₱500.0 million which is available in three sub-tranches:

- Sub-tranche 2A, the loan in the amount of ₱250.0 million to be provided by DBP and funded through PWRP
- Sub-tranche 2B, the loan in the amount of ₱125.0 million to be provided by SBC and funded through PWRP
- Sub-tranche 2C, the loan in the amount of ₱125.0 million to be provided by SBC and funded through BIWC's internally-generated funds.

The first loan drawdown made on November 23, 2012 amounted to ₱75.0 million, second loan drawdown on August 26, 2014 amounted to ₱200.0 million and final drawdown on November 25, 2015 amounted to ₱225.0 million. The carrying value of the loan as of December 31, 2017 and 2016 amounted to ₱415.8 million and ₱445.9 million, respectively.

On October 9, 2014, BIWC signed a Third Omnibus Loan and Security Agreement in the amount of ₱650.0 million with SBC to fund capital expenditures related to water and sewerage services in the concession area of BIWC. BIWC made its first drawdown on this loan on November 25, 2016 amounting to ₱200.0 million. The second drawdown was made on May 25, 2017 in the amount of ₱250.0 million. The third drawdown was made on September 25, 2017 for ₱200.0 million. The carrying value of loan as of December 31, 2017 and 2016 amounted to ₱641.8 million and ₱200.0 million, respectively.



CMWD

On December 19, 2013, the CMWD entered into an omnibus loan and security agreement (the Agreement) with DBP to partially finance the construction works in relation to its bulk water supply project in Cebu, Philippines. The lender has agreed to extend a loan facility in the aggregate principal amount of ₱800.0 million or up to 70% of the total project cost whichever is lower. Principal payments will be made in twenty (20) equal quarterly installments starting December 2017.

The first, second and final drawdowns on the loan facility amounted to ₱541.1 million on December 20, 2013, ₱195.6 million on May 20, 2014 and ₱14.2 million on November 14, 2014, respectively. The carrying value of the loan as of December 31, 2017 and 2016 amounted to ₱699.3 million and ₱742.6 million, respectively.

Zamboanga Water Company, Inc. (ZWC)

On June 30, 2016, ZWC, a 70% joint venture company of MWC, signed a term loan agreement in the amount of ₱85.00 million with DBP. The proceeds of the loan will be used to partially finance ZWC's capital expenditures in relation to its NRW reduction and management program in Zamboanga City. The first, second, and third loan drawdowns were made on July 30 and September 2, 2016 and September 27, 2017 amounting to ₱30.0 million for the first and second drawdowns and ₱25.0 million for the third drawdown. The carrying value of the loan as of December 31, 2017 and 2016 amounted to ₱84.7 million and ₱60.0 million, respectively.

MWPVI

On October 5, 2016, MWPVI signed a 15-year fixed rate term loan facility amounting to ₱4.0 billion with various domestic banks. The terms of the loan include an option to increase the size of the facility to a maximum of ₱7.0 billion. The proceeds of the loan will be used to finance MWPVI's capital expenditures, future acquisitions and other general corporate requirements. On November 9, 2017, MWPVI made its first drawdown amounting to ₱450.0 million from each bank. The carrying value of the loan as of December 31, 2017 amounted to ₱894.4 million.

TWC

On October 7, 2016, TWC signed a term loan agreement for ₱450.0 million. The proceeds of the loan will be used to partially finance the development, construction, operation and maintenance of bulk water supply facilities, including the delivery and sale of treated bulk water exclusively to the TWD. TWC made its first drawdown on September 25, 2017 amounting to ₱130.0 million. The carrying value of the loan as of December 31, 2017 amounted to ₱129.3 million.

ALI Group

In August to September 2015, ALI assumed an aggregate of ₱15,442.3 million various long-term facilities of some subsidiaries from various banks. The loans bear fixed interest rates ranging from 4.5% to 4.7% p.a. and terms ranging from 4.4 years to 10.5 years. In 2016, ALI paid ₱251.6 million. During 2017, ALI also paid ₱317.6 million for its current portion Peso-denominated loans. In March 2017, ALI executed a ₱10,000.0 million long-term facility with a domestic bank, of which ALI had simultaneously drawn an initial ₱5,000.0 million. The loan carries a fixed interest rate of 4.949% p.a. and a term of 10 years. The balance of facility of ₱5,000.0 million was drawn in April 2017. As of December 31, 2017 and 2016, remaining balance of the Peso-denominated long-term loans amounted to ₱24,873.1 million and ₱15,190.7 million, respectively.

Subsidiaries

The Philippine Peso bank loans include ALI subsidiaries' loans that will mature on various dates up to 2025. Peso-denominated loans bear various floating interest rates at 60 bps to 80 bps spread over the benchmark 91-day PDST-R1/R2 or and fixed interest rates ranging from 3.56% to 5.75% p.a. Certain loans which are subject to floating interest rates are subject to floor floating interest rates equivalent to (i) 95.0% or par of the Overnight Reverse Repurchase Agreement Rate of the Bangko Sentral ng Pilipinas (BSP Overnight Rate) or (ii) the BSP Overnight Rate plus a spread of 20 bps to



75 bps p.a. or (iii) the average of the Bangko Sentral ng Pilipinas Overnight Deposit Rate and Term Deposit Facility with a term closed to the 90-day interest period. The total outstanding balance of the subsidiaries' loans as of December 31, 2017 and 2016 amounted to ₱26,853.2 million and ₱28,920.7 million, respectively.

ACEHI Group

ACEHI Parent Company

On February 20, 2017, ACEHI entered into a 10-year Term Loan Agreement with The Philippine American Life and General Insurance Company (PHILAM) amounting to ₱1.0 billion at a fixed rate equivalent to 6.0% p.a. to finance investments in power, power-related projects and general corporate needs. On February 23, 2017, the full amount of the loan was drawn.

On April 27, 2017, ACEHI availed ₱250.0 million from its 7-year term loan facility with Philippine National Bank aggregating to ₱7.0 billion at a fixed rate of 5.75% per annum for all drawdowns until May 5, 2017. Beyond this date, the relevant PDST-R2 benchmark rate will apply +1% per annum spread, with a floor of 5.25% per annum.

On June 22, 2017, ACEHI availed ₱100.0 million from its 7-year term loan facility with Security Bank Corporation aggregating to ₱5.0 billion at a fixed rate of 5.75% per annum for all drawdowns from June 2017 to June 2018. Beyond this date, the relevant Peso Benchmark Rate PDST-R2 rate plus Credit Spread. The fixed interest shall have a floor of 5.00%. The Peso Benchmark rate shall be equal to the 3-day Business Day moving average of the applicable Treasury securities.

On various dates in 2016, ACEHI entered into a Revolving Credit Facility and an Omnibus Line with various domestic banks amounting to ₱1.0 billion each with a term of 180-days at the prevailing market lending rate to finance its operating and financing requirements. As of December 31, 2017, no drawdowns were made on both facilities.

Bonds

AYCFL US\$400.0 Million Senior Unsecured and Guaranteed Fixed For Life Perpetual Notes (Fixed For Life)

On September 7, 2017, the Parent Company announced that AYCFL had successfully set the terms of a US dollar-denominated fixed-for-life (non-deferrable) senior perpetual issuance at an aggregate principal amount of US\$400 million with an annual coupon of 5.125% for life with no step-up. The issuance is the first corporate fixed-for-life with no coupon step-up in Southeast Asia and the first fixed-for-life with no step-up (and reset) deal in the Philippines. The issuer, AYCFL, may redeem the Notes in whole but not in part on September 13, 2022 (first redemption date) or any interest payment date falling after the first redemption date at 100% of the principal amount of the Notes plus any accrued but unpaid interest. The proceeds of the issuance will be used to refinance the issuer's US Dollar maturing obligations and to fund investments of the Guarantor (the Parent Company) or its offshore subsidiaries.

The pricing of the Notes reflected a 50-basis point compression from initial price guidance. The offering was more than five times oversubscribed, with investors' confidence reflecting the high quality of the Ayala signature. 19% of the order book for the Notes was allocated to investors from the Philippines, 10% from Europe with the remaining 71% from rest of Asia. By investor type, the split was 67% to fund/asset managers, 12% to banks, 7% to insurance and pension funds, and the remaining 14% to private banks and other investors. The Notes was settled on September 13, 2017 and was listed in the Singapore Exchange Securities Trading Limited on September 14, 2017.

The Group will account for this as liability, and, thus shown forming part of long-term debt as of December 31, 2017. The cost of issuance is at US\$2.7 million resulting in net proceeds of US\$397.3 million.



AYCFL Exchangeable Bonds

On May 2, 2014, AYCFL issued at face US\$300.0 million Exchangeable Bonds (the Bonds) due on May 2, 2019 with a fixed coupon rate of 0.50% per annum, payable semi-annually. The Bonds are guaranteed by the Parent Company and constitute direct, unsubordinated, unconditional and unsecured obligations of AYCFL, ranking pari passu and without any preference or priority among themselves. The Bonds are listed in the Singapore Stock Exchange and include features such as exchange option, put option and early redemption options. The Bondholders have the right to exchange their Bonds for shares at any time during the exchange period. AYCFL shall lodge sufficient shares in its securities account to service Exchange Rights. In consideration for the reservation of the shares and by way of deposit for the exercise by the Bondholders of the Exchange Right, AYCFL shall remit to the Parent Company from time to time such amount as may be agreed between them, as defined in the Exchange Protocol agreed between AC and AYCFL. The exchange price per principal amount to be exchanged, translated into at the fixed exchange rate of ₱44.31/US\$1.00, is equal to 36.48, subject to anti-dilutive adjustments contingent on certain events. The exchange option was assessed to be an equity component of the Bonds at the consolidated financial statements as the Bonds are denominated in the functional currency of AYCFL and to be settled by the Parent Company through issuance of a fixed number of ALI's common shares.

The put option entitles the bondholders to require AYCFL to redeem, in whole or in part, the Bonds on May 2, 2017 (put option date) at 100% of the principal amount together with accrued and unpaid interest. Moreover, if a change of control event occurs (the change of control put) or in the event that the common shares of ALI are delisted or suspended from trading for a period of more than 20 consecutive trading days (the delisting put), the bondholders may require AYCFL to redeem the Bonds, in whole but not in part, at 100% of the principal amount together with accrued and unpaid interest.

The early redemption option gives the right to AYCFL to redeem the Bonds, in whole but not in part, at any time after May 2, 2017 at 100% of the principal amount on the date fixed for such redemption, provided, however, that no such redemption may be made unless the closing price of the common shares of ALI (translated into US\$ at the prevailing average to US\$ exchange rate as published by the BSP) for any 30 consecutive trading days was at least 130% of the exchange price then in effect (translated into US\$ at the fixed exchange rate of ₱44.31/US\$1.00). In addition, if at any time the aggregate principal amount of the Bonds outstanding is less than 10% of the aggregate principal amount originally issued or if a tax event occurs, AYCFL may redeem the Bonds, in whole but not in part, at 100% of principal amount together with accrued and unpaid interest.

The put and early redemption options were assessed to be embedded derivatives that are clearly and closely related to the host contract, therefore, not required to be bifurcated. As the Bonds were determined to be a compound instrument at the consolidated level, (i.e., it has a liability and an equity component which pertains to the exchange option), the Group applied split accounting. The value allocated to the equity component at issue date amounted ₱1.1 billion, being the residual amount after deducting the fair value of the liability component amounting to ₱11.9 billion from the issue proceeds of the Bonds.



ALI Group

Below is the summary of the outstanding Peso bonds issued by ALI Group:

Year Issued	Term (Years)	Interest rate	Principal Amount (In thousands)	Carrying Value (In thousands)		Features
				2017	2016	
2012	7.0	5.6250%	₱9,350,000	₱9,330,126	₱9,319,055	Fixed rate bond due 2019
2012	10.0	6.0000%	5,650,000	5,637,991	5,631,301	Fixed rate bond due 2022
2013	7.0	4.6250%	4,000,000	3,984,041	3,978,794	Fixed rate bond due 2020
2013	20.0	6.0000%	2,000,000	1,983,990	1,983,403	Fixed rate bond due 2033
2013	10.5	5.0000%	15,000,000	14,910,133	14,874,523	Fixed rate bond due 2024
2014	11.0	5.6250%	8,000,000	7,938,923	7,919,679	Fixed rate bond due 2025
2015	7.0	4.5000%	7,000,000	6,953,043	6,945,687	Fixed rate bond due 2022
2016	9.5	4.7500%	7,000,000	6,943,375	6,937,613	Fixed rate bond due 2025
2016	10.0	4.8500%	8,000,000	7,932,643	7,926,123	Fixed rate bond due 2026
2016	3.0	3.0000%	2,990,950	2,969,108	2,967,243	Homestarter Bond due 2019
2016	7.0	3.8915%	7,000,000	6,943,949	6,935,625	Fixed rate bond due 2023
2017	10.0	5.2624%	7,000,000	6,966,801	—	Fixed rate bond due 2027
Total				₱82,494,123	₱75,419,046	

Philippine Rating Services Corporation (PhilRatings) rated the ALI's 2017 bond issue "PRS Aaa" with a stable outlook, and maintained the "PRS Aaa" rating with a stable outlook for all other outstanding bonds.

Philippine Peso 21-month Note due 2019

In July 2017, ALI issued and listed on the Philippine Dealing & Exchange Corp. a ₱4,300.0 million Corporate Note. This Note issue is an SEC-registration exempt transaction under Section 10.1(l) of the Securities Regulation Code (SRC) and Section 10.1.3 of the 2015 Implementing Rules and Regulations of the SRC. Thus, the Note was offered on a limited basis to juridical persons or entities who, at the point of offer or sale, were Qualified Buyers. The Notes bear a fixed interest rate of 2.75% p.a. The Corporate Notes will mature in April 2019.

Philippine Peso 15-month Note due 2019

In November 2017, ALI issued and listed on the Philippine Dealing & Exchange Corp. a ₱3.1 billion Corporate Note. This Note issue is an SEC-registration exempt transaction under Section 10.1(l) of the Securities Regulation Code (SRC) and Section 10.1.3 of the 2015 Implementing Rules and Regulations of the SRC. Thus, the Note was offered on a limited basis to juridical persons or entities who, at the point of offer or sale, were Qualified Buyers. The Notes bear a fixed interest rate of 3.25% p.a. The Corporate Notes will mature in February 2019.

Philippine Peso 5-, 10-, 15-Year FXCN due on 2016, 2021 and 2026

In January 2011, ALI issued ₱10.0 billion FXCNs to various financial institutions and retail investors that will mature on various dates up to 2026. The FXCNs bear fixed interest rates ranging from 5.62% to 7.50% p.a. depending on the term of the notes. ₱1.95 billion note due in 2016 was prepaid on January 19, 2013. In 2014, ALI paid ₱50.8 million for the matured portion of the loan. In January 2016, ALI paid ₱3.8 billion notes for the matured portion of the loan. In 2017, ALI paid ₱43.0 million for the matured portion of the loan. As of December 31, 2017 and 2016, the remaining balance of the FXCN amounted to ₱4.2 billion and ₱4.3 billion, respectively.

Philippine Peso 10-year Note due 2022

In December 2012, ALI executed a ₱5.0 billion committed Corporate Note facility with a local bank, of which an initial ₱3.5 billion was drawn in 2012. The balance of ₱1.5 billion was subsequently drawn in January 2013. The Corporate Notes currently bear a fixed interest rate of 4.50% and will mature on the third month succeeding the tenth anniversary of the initial drawdown date. In 2015, the ₱50.0 million was prepaid by ALI. In 2016, another ₱50.0 million was prepaid by ALI. In 2017, ALI paid another ₱50.0 million. As of December 31, 2017 and 2016, the remaining balance of the note amounted to ₱4,850.0 million and ₱4,900.0 million, respectively.



Philippine Peso 5.0 Billion Fixed Rate Bonds due 2021

In June 2014, CHI issued a total of ₱5.0 billion bonds due 2021 at a fixed rate equivalent to 5.32% p.a. The Bonds have been rated PRS “AAA” by PhilRatings.

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

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

Total interest paid amounted to ₱14.0 billion in 2017 and 2016 and ₱13.3 billion in 2015.

Interest capitalized by subsidiaries amounted to ₱775.1 million in 2017, ₱1,680.9 million in 2016 and ₱629.9 million in 2015. The average capitalization rate is 5.82% in 2017, 4.57% in 2016 and 7.02% in 2015.

20. Other Noncurrent Liabilities

This account consists of the following:

	2017	2016
	(In Thousands)	
Deposits and deferred credits	₱21,250,665	₱20,943,757
Retentions payable	8,374,661	6,485,226
Contractors payable	7,955,096	9,266,399
Liability for purchased land	2,303,140	2,099,051
DRP obligation	728,390	656,638
Subscriptions payable	516,695	516,695
Provisions (Note 35)	501,099	501,099
Others	1,604,070	401,657
	₱43,233,816	₱40,870,522

Deposits and deferred credits

Deposits include security deposits from tenants of retail and office spaces and deferred credits arising from sale of real estate properties. Security deposits are equivalent to one (1) to three (3) months' rent of long-term tenants with noncancellable leases. This will be refunded to the lessees at the end of the lease term or be applied to the last months' rentals on the related contracts. Deferred credits pertains to advances from buyers of real estate properties to cover various processing fees including, but not limited to, fees related to transfer of title such as registration fees, documentary taxes and transfer taxes. Payments made by ALI Group for the processing of title are charged to this account.

Retentions payable

Retentions payable pertains to amount withheld by the Group from the contractors' progress billings which will be later released after the guarantee period, usually one year after the completion of the project. The retention serves as a security from the contractor should there be defects in the project.

Liability for purchased land

Liability for purchased land pertains to the portion of unpaid unsubdivided land acquired during the year. These are normally payable in quarterly or annual installment payments within three (3) or five (5) years.



DRP obligation

DRP obligation pertains to the liability arising from the assignment agreement between North Triangle Depot Commercial Corporation (NTDCC), a subsidiary of ALI, and MRTDC of the latter's development rights (see Note 33). In consideration of the lease, NTDCC will be charged an annual rent related to the original DRP obligation on the MRTDC and 5% of the rental income from the NTDCC's commercial center business.

Subscriptions payable

Subscription payable mainly pertains to POPI's investment in Cyber Bay.

On April 25, 1995, Central Bay, a wholly-owned subsidiary of Cyber Bay, entered into a Joint Venture Agreement with the Philippine Reclamation Authority (PRA; formerly Public Estates Authority) for the complete and entire reclamation and horizontal development of a portion of the Manila-Cavite Coastal Road and Reclamation Project (the Project) consisting of three partially reclaimed and substantially eroded islands (the Three Islands) along Emilio Aguinaldo Boulevard in Parañaque and Las Piñas, Metro Manila with a combined total area of 157.8 hectares, another area of 242.2 hectares contiguous to the Three Islands and, at Central Bay's option as approved by the PRA, an additional 350 hectares more or less to regularize the configuration of the reclaimed area.

On March 30, 1999, the PRA and Central Bay executed an Amended Joint Venture Agreement (AJVA) to enhance the Philippine Government's share and benefits from the Project which was approved by the Office of the President of the Philippines on May 28, 1999.

On July 9, 2002, the Supreme Court (SC) (in the case entitled "Francisco Chavez vs. Amari Coastal Bay and Reclamation Corp.") issued a ruling declaring the AJVA null and void. Accordingly, PRA and Central Bay were permanently enjoined from implementing the AJVA.

On July 26, 2002, Central Bay filed a Motion for Reconsideration (MR) of said SC decision. On May 6, 2003, the SC En Banc denied with finality Central Bay's MR. On May 15, 2003, Central Bay filed a Motion for Leave to Admit Second MR. In an En Banc Resolution of the SC dated July 8, 2003, the SC resolved to admit the Second MR of Central Bay.

On November 11, 2003, the SC rendered a 7-7 split decision on Central Bay's Second MR. Because of the new issues raised in the SC's latest resolution that were never tried or heard in the case, Central Bay was constrained to file on December 5, 2003 a Motion for Re-deliberation of the SC's latest resolution which motion was denied with finality by the SC.

With the nullification of the AJVA, Central Bay has suspended all Project operations. On August 10, 2007, in view of the failure by the PRA to comply with its obligations and representations under the AJVA, Cyber Bay and Central Bay have filed their claims for reimbursement of Project expenses in the amount of ₱10,200.0 million with the PRA. Cyber Bay and Central Bay provided the PRA with the summary and details of their claims on September 5, 2007.

On July 15, 2008, Cyber Bay sent a follow-up letter to the PRA. The PRA, in its letter dated July 18, 2008, informed Cyber Bay that its claim is still being evaluated by the PRA. As at October 3, 2013, the claim is still being evaluated by the PRA.

On November 13, 2012, the SEC approved the conversion of debt to equity of Cyber Bay resulting to a change in percentage ownership of POPI from 22.3% to 10.5%. The management assessed that POPI ceased to have significant influence over Cyber Bay. As a result of the debt to equity conversion, the investment in Cyber Bay was reclassified to AFS financial asset.

As at December 31, 2017 and 2016, ALI Group has unpaid subscription in Cyber Bay amounting to ₱481.7 million. The investment in Cyber Bay under "Investment in bonds and other securities" amounted to ₱777.3 million as of December 31, 2017 and 2016 (see Note 16).



Provisions

Provisions relate to pending unresolved claims and assessments. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these claims and assessments (see Note 35).

Others

In 2017, others include IMI Group's contingent consideration arising from the acquisition of STI amounting to US\$24.6 million (P1.2 billion) (see Notes 23 and 32). Others also include nontrade payables and warranty payables.

21. Equity

The details of the Parent Company's preferred and common shares follow:

	Preferred A shares		Preferred B shares		Preferred C shares		Voting Preferred shares		Common shares	
	2017	2016	2017	2016	2017	2016	2017	2015	2017	2016
	<i>(In Thousands, except par value per share)</i>									
Authorized shares	12,000	12,000	58,000	58,000	40,000	40,000	200,000	200,000	900,000	900,000
Par value per share	P100	P100	P100	P100	P100	P100	P1	P1	P50	P50
Issued and subscribed shares	-	-	47,000	47,000	-	-	200,000	200,000	621,292	620,224
Outstanding shares										
At beginning of year	-	-	47,000	47,000	-	-	200,000	200,000	620,224	619,611
Issued shares on exercise of share options	-	-	-	-	-	-	-	-	110	82
Subscribed shares	-	-	-	-	-	-	-	-	958	531
At end of year	-	-	47,000	47,000	-	-	200,000	200,000	621,292	620,224

Details of Preferred B shares as follows:

	Series 1		Series 2	
Preferred B	2017	2016	2017	2016
Par value per share	P100	P100	P100	P100
Issued and subscribed shares	20,000	20,000	27,000	27,000
Outstanding shares	20,000	20,000	27,000	27,000

Preferred Shares

Preferred A shares

On November 11, 2008, the Parent Company filed a primary offer in the Philippines of its Preferred A shares at an offer price of P500.00 per share to be listed and traded on the PSE.

Preferred A shares are cumulative, nonvoting and redeemable at the option of the Parent Company under such terms that the BOD may approve at the time of the issuance of shares and with a dividend rate of 8.88% per annum. The Preferred A shares may be redeemed at the option of the Parent Company starting on the fifth year.

On June 28, 2013, the BOD approved and authorized the exercise of call option on Preferred A shares effective November 25, 2013 based on the dividend rate of 8.88% per annum. The redemption of Preferred A shares is presented as part of treasury stock.

Preferred B shares

In July 2006, the Parent Company filed a primary offer in the Philippines of its Preferred B shares at an offer price of P100.00 per share to be listed and traded in the PSE. The Preferred B shares are cumulative, nonvoting and redeemable at the option of the Parent Company under such terms that the BOD may approve at the time of the issuance of shares and with dividend rate of 9.4578% per annum. The Preferred B shares may be redeemed at the option of the Parent Company starting on the fifth year from the date of issuance.



On March 14, 2011, the BOD approved and authorized the exercise of call option on its Preferred B shares effective July 21, 2011 based on the dividend rate of 9.5% per annum. The redemption of Preferred B shares is presented as part of treasury stock.

Preferred B Series 1 shares

In September 2013, the BOD approved and authorized the re-issuance and offering of 20.0 million Preferred B Series 1 shares from its 58.0 million authorized Class “B” preferred treasury share capital for an aggregate amount of ₱10.0 billion. The Preferred B Series 1 shares were offered at a price of ₱500.00 per share with a fixed quarterly dividend rate of 5.25% per annum.

Preferred B Series 2 shares

On August 22, 2014, the BOD approved and authorized the re-issuance and offering of 27.0 million Preferred B Series 2 shares, which comprise a second and separate series from the Parent Company's outstanding 5.25% Preferred B Series 1 shares, from its 58.0 million authorized Class “B” preferred treasury share capital, for an aggregate amount of ₱13.5 billion. The Preferred B Series 2 shares were offered at a price of ₱500.00 per share with a fixed quarterly dividend rate of 5.575%. The reissuance resulted to the Parent Company recognizing ₱10.7 billion additional paid-in capital net of direct expenses from re-issuance.

Preferred C shares

Preferred C shares are cumulative, non-participating, non-voting and redeemable at the option of the Parent Company under such terms that the BOD may approve at the time of the issuance of the shares.

Voting Preferred shares

On March 15, 2010, the BOD approved the reclassification of 4.0 million unissued common shares with a par value of ₱50.00 per share into 200.0 million Voting Preferred shares with a par value of ₱1.00 per share and the amendment of the Parent Company's amended Articles of Incorporation to reflect the reclassification of the unissued common shares into new Voting Preferred shares.

On April 16, 2010, the Parent Company's stockholders ratified the reclassification.

On April 22, 2010, the SEC approved the amendments to the Parent Company's Articles of Incorporation embodying the reclassification of the unissued common shares to new Voting Preferred shares.

The Voting Preferred shares are cumulative, voting and redeemable at the option of the Parent Company under such terms that the BOD of the Parent Company may approve at the time of the issuance of shares and with a dividend rate of 5.3% per annum. In 2013, the dividend rate was repriced to 1.875%.

Common Shares

The common shares may be owned or subscribed by or transferred to any person, partnership, association or corporation regardless of nationality, provided that at any time at least 60% of the outstanding capital stock shall be owned by citizens of the Philippines or by partnerships, associations or corporations with 60% of the voting stock or voting power of which is owned and controlled by citizens of the Philippines.

In July 2013, the SEC approved the amendments to the Parent Company's Articles of Incorporation for the exemption of 100 million common shares from the exercise of pre-emptive rights of holders of common shares. These shares are allocated to support the financing activities of the Parent Company.

Treasury shares

As of December 31, 2017 and 2016, treasury shares include 12.0 million Preferred A shares and 12.0 million Preferred B shares amounting to ₱1.2 billion and ₱1.1 billion, respectively.



The details of the Parent Company's paid-in capital follow:

2017

	Preferred Stock - A	Preferred Stock - B	Voting Preferred	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital
				(In Thousands)				
At beginning of year	₱1,200,000	₱5,800,000	₱200,000	₱30,839,021	₱172,209	₱36,928,326	(₱759,796)	₱74,379,760
Exercise/Cancellation/ Subscription of ESOP/ESOWN	-	-	-	5,479	47,893	1,001,601	(808,044)	246,929
Collection of subscription receivables	-	-	-	55,377	(55,377)	-	374,485	374,485
At end of year	₱1,200,000	₱5,800,000	₱200,000	₱30,899,877	₱164,725	₱37,929,927	(₱1,193,355)	₱75,001,174

2016

	Preferred Stock - A	Preferred Stock - B	Voting Preferred	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital
				(In Thousands)				
At beginning of year	₱1,200,000	₱5,800,000	₱200,000	₱30,808,747	₱171,810	₱36,316,709	(₱577,944)	₱73,919,322
Exercise/Cancellation/ Subscription of ESOP/ESOWN	-	-	-	4,116	26,557	611,617	(321,196)	321,094
Collection of subscription receivables	-	-	-	26,158	(26,158)	-	139,344	139,344
At end of year	₱1,200,000	₱5,800,000	₱200,000	₱30,839,021	₱172,209	₱36,928,326	(₱759,796)	₱74,379,760

2015

	Preferred Stock - A	Preferred Stock - B	Preferred Stock - Voting	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital
				(In Thousands)				
At January 1, 2015	₱1,200,000	₱5,800,000	₱200,000	₱30,799,997	₱171,810	₱36,115,565	(₱715,867)	₱73,571,505
Exercise/cancellation of ESOP/ESOWN	-	-	-	8,750	-	201,144	137,923	347,817
At December 31, 2015	₱1,200,000	₱5,800,000	₱200,000	₱30,808,747	₱171,810	₱36,316,709	(₱577,944)	₱73,919,322

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

	Number of shares registered	Issue/offer price	Date of approval	2017 Number of holders of securities as of December 31	2016 Number of holders of securities as of December 31
Common shares	200,000,000*	₱1.00 par value**; ₱4.21 issue price	July 1976	6,587	6,706
Preferred A shares***	12,000,000	₱100 par value; ₱500 issue price	November 2008	-	-
Preferred B shares	18,000,000	₱100 par value; ₱500 issue price	July 2006	-	-
Preferred B shares- Series 1****	20,000,000	₱100 par value; ₱500 issue price	October 2013	19	18
Preferred B shares- Series 2*****	27,000,000	₱100 par value; ₱500 issue price	October 2014	11	10
Voting preferred shares	200,000,000	₱1 par value; ₱1 issue price	March 2010	1,028	1,010

*Initial number of registered shares only.

**Par value now is ₱50.00

***The Preferred A shares were fully redeemed on November 25, 2013.

****The Preferred B- Series 1 shares were re-issued on November 15, 2013.

*****The Preferred B-Series 2 shares were re-issued on November 6, 2014.



Retained Earnings

Retained earnings include the accumulated equity in undistributed net earnings of consolidated subsidiaries and associates and joint ventures accounted for under the equity method amounting to ₱116,104.3 million, ₱93,176.0 million and ₱73,277.3 million as of December 31, 2017, 2016 and 2015, respectively, which are not available for dividend declaration by the Parent Company until these are declared by the investee companies.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury.

In accordance with the SRC Rule 68, as Amended (2011), Annex 68-C, the Parent Company's retained earnings available for dividend declaration as of December 31, 2017 and 2016 amounted to ₱33.2 billion and ₱30.5 billion, respectively.

Dividends consist of the following:

	2017	2016	2015
	(In Thousands, except dividends per share)		
Dividends to common shares			
Cash dividends declared during the year	₱4,299,109	₱3,572,400	₱3,568,930
Cash dividends per share	6.92	5.76	5.76
Dividends to equity preferred shares declared during the year			
Cash dividends to Preferred B shares	1,277,625	1,277,625	1,277,625
Cash dividends to Voting Preferred shares	7,390	7,390	3,750

Capital Management

The primary objective of the Parent Company's capital management policy is to ensure that it maintains a robust balance sheet in order to support its business and maximize shareholder value. The Parent Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Parent Company may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2017, 2016 and 2015.

The Parent Company monitors capital using a gearing ratio of debt to equity and net debt to equity. Debt consists of short-term and long-term debt of the Group. Net debt includes short-term and long-term debt less cash and cash equivalents, short-term investments and restricted cash of the Group. The Parent Company considers as capital the total equity.

	2017	2016
	(In Thousands)	
Short-term debt	₱29,904,723	₱30,858,137
Long-term debt	320,707,229	264,995,814
Total debt	350,611,952	295,853,951
Less:		
Cash and cash equivalents	64,259,279	60,223,324
Short-term investments	5,400,239	1,008,705
Net debt	₱280,952,434	₱234,621,922
Total equity	₱411,092,388	₱370,995,878
Debt to equity	85.3%	79.7%
Net debt to equity	68.3%	63.2%



The Parent Company also monitors capital through return-to-common equity ratio. For this ratio, the Parent Company considers as capital the average amount of equity with the exclusion of accounts pertaining to preferred shares and the non-controlling interests.

	2017	2016
	(In Thousands)	
Net income attributable to owners of the parent	₱30,263,842	₱26,011,263
Less:		
Dividends to equity preferred shares	1,285,015	1,285,015
Net debt	₱28,978,827	₱24,726,248
Average common equity attributable to owners of the parent	₱220,117,430	₱196,272,234
Return to common equity	13.2%	12.6%

The Parent Company is not subject to externally imposed capital requirements.

22. Costs and Expenses and Other Income (Charges)

Details of costs of sales and rendering services included in the consolidated statements of income are as follows:

	2017	2016	2015
	(In Thousands)		
Costs of sales (Notes 8 and 30)	₱132,793,134	₱105,752,969	₱89,487,870
Depreciation and amortization (Notes 12, 13, 14 and 15)	10,379,824	9,711,215	8,023,955
Rental, utilities and supplies	9,543,126	7,315,333	6,504,930
Personnel costs (Notes 26 and 29)	8,909,288	7,261,015	10,301,230
Professional and management fees	4,894,435	3,075,871	1,404,319
Taxes and licenses	2,961,788	2,508,810	2,272,950
Repairs and maintenance	2,722,452	3,276,559	2,032,569
Contract labor	1,309,488	692,791	1,890,244
Transportation and travel	342,524	388,431	290,891
Insurance	230,913	193,350	150,462
Others	1,587,497	1,174,056	701,695
	₱175,674,469	₱141,350,400	₱123,061,115

Cost of sales includes among others costs of real estate inventories amounting to ₱59.9 billion in 2017, ₱42.8 billion in 2016 and ₱34.5 billion in 2015; cost of electronics goods amounting to ₱44.2 billion in 2017, ₱31.0 billion in 2016 and ₱28.7 billion; and cost of vehicles, automotive parts and accessories amounting to ₱28.4 billion in 2017, ₱20.4 billion in 2016 and ₱16.0 billion in 2015. "Others" include various costs such as communication, dues and fees and miscellaneous overhead, among others.



General and administrative expenses included in the consolidated statements of income are as follows:

	2017	2016	2015
	(In Thousands)		
Personnel costs (Notes 26 and 30)	¥11,396,267	¥9,028,939	¥9,201,418
Professional fees	2,492,431	1,792,108	1,216,319
Depreciation and amortization (Notes 12, 13, 14 and 15)	1,918,036	1,849,256	1,419,134
Taxes and licenses	1,520,686	1,411,866	1,421,262
Rental and utilities	1,037,261	734,745	597,187
Contract labor	882,776	756,859	510,354
Advertising and promotions	831,679	845,082	794,388
Transportation and travel	661,883	459,175	408,002
Repairs and maintenance	661,737	526,265	282,804
Postal and communication	319,910	265,356	218,722
Provision for impairment / Losses on:			
Land and Improvements (Note 10)	572,001	—	196,568
Investments in associates and joint ventures (Note 11)	356,700	1,436,854	546,333
Receivables (Note 7)	828,933	812,997	261,066
Intangible assets (Notes 15 and 23)	26,112	—	182,298
Investments in bonds and other securities (Note 16)	18,813	—	61,701
Property, plant and equipment (Note 13)	—	45,737	88,753
Insurance	269,062	303,649	201,168
Donations and contributions	254,893	150,915	274,036
Entertainment, amusement and recreation	207,293	178,306	239,625
Research and development	181,018	54,315	28,534
Dues and fees	173,009	110,652	81,979
Supplies	172,293	123,698	144,136
Provision for (reversal of) inventory obsolescence (Note 8)	(13,674)	(127,976)	74,435
Others	443,981	173,911	486,961
	¥25,213,100	¥20,932,709	¥18,937,183

“Others” include various expenses such as plant relocation costs, management fees, marketing, collection charges, sales commission, bank service charge, periodicals and miscellaneous operating expenses. In 2017, the plant relocation costs pertaining to the transfer of one of IMI’s operations in China from Liantang, Luohu to Pingshan were also charged to certain general and administrative expenses. Such plant relocation is in line with the urban redevelopment projects of the Shenzhen City government.

Depreciation and amortization expense included in the consolidated statements of income follows:

	2017	2016	2015
	(In Thousands)		
Included in:			
Costs of sales and services	¥10,379,824	¥9,711,215	¥8,023,955
General and administrative expenses	1,918,036	1,849,256	1,419,134
	¥12,297,860	¥11,560,471	¥9,443,089



Personnel costs included in the consolidated statements of income follow:

	2017	2016	2015
	(In Thousands)		
Included in:			
Costs of sales and services	₱8,909,288	₱7,261,015	₱10,301,230
General and administrative expenses	11,396,267	9,028,939	9,201,418
	₱20,305,555	₱16,289,954	₱19,502,648

Other income consists of:

	2017	2016	2015
	(In Thousands)		
Revenue from rehabilitation works (Note 14)	₱11,672,137	₱6,804,908	₱5,085,532
Gain on sale of investments (Notes 2, 11 and 23)	1,394,560	2,138,620	2,377,381
Revenue from management contracts	960,851	224,818	437,442
Mark to market gain on financial assets at FVPL and derivatives (Notes 9 and 31)	779,553	473,855	243,452
Recoveries of accounts written off (Note 7)	775,087	1,603	—
Collateral income on automotive sales	588,045	624,396	₱552,249
Connection fees	299,103	529,674	622,013
Gain on sale of other assets	126,337	5,182	76,888
Insurance claim	45,877	39,727	46,034
Foreign exchange gain/(loss) (Note 31)	(126,365)	(56,035)	97,424
Others	4,423,089	1,788,858	1,529,160
	₱20,938,274	₱12,575,606	₱11,067,575

“Others” mainly includes income derived from ancillary services and miscellaneous income of consolidated subsidiaries. This include, among others, marketing fees, integrated used water and other water services (e.g., sale of packaged water, septic sludge disposal and bacteriological water analysis); and income from sale of scrap. In 2017, this account also includes AC Energy Cayman’s commission income amounting to ₱1.5 billion (see Note 34) and ALI’s reversal of allowance for impairment in inventories of ALI amounting to ₱1.3 billion (see Note 8). In 2017, ALI reversed its allowance for impairment in inventories due to higher fair value than its carrying amount.

Interest and other financing charges consist of:

	2017	2016	2015
	(In Thousands)		
Interest expense on:			
Short-term debt	₱659,044	₱1,039,030	₱882,759
Long-term debt	12,575,158	11,337,401	11,247,615
Amortization of service concession obligations and deposits	614,717	613,044	558,434
Amortization of discount on long-term debt	511,623	592,811	267,540
Others	80,792	675,903	320,066
	₱14,441,334	₱14,258,189	₱13,276,414

“Others” include, among others, various charges such as, pretermination costs, bond offering fees, and credit card charges.



Other charges consist of cost of rehabilitation works (see Note 14).

23. Business Combinations and Transactions with Non-controlling Interests

2017 Acquisitions

AC Energy DevCo Inc., Visayas Renewables Corp. and Manapla Sun Power Dev't. Corp.

On March 16, 2017, ACEHI signed definitive documents to acquire 100% ownership of Bronzeoak Clean Energy (BCE) and San Carlos Clean Energy (SCCE). With the acquisition, SCCE and BCE have been renamed as AC Energy DevCo Inc. (AEDCI) and Visayas Renewables Corp. (VRC), respectively. In March 2017, ACEHI Group also acquired 66.22% ownership interest in Manapla Sun Power Dev't. Corp. (MSPDC). MSPDC is the landowner of and lessor for Islasol's solar farm in Manapla, Negros Occidental.

The provisional values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows (in thousands):

	AEDCI	VRC	MSPDC
Assets			
Cash and cash equivalents	₱9,381	₱6,226	₱2,684
Receivables	5,224	—	28,817
Prepayments and other current assets	19,527	21	8,254
Property, plant and equipment	2,447	—	33,325
Investments	—	797	—
	36,579	7,044	73,080
Liabilities			
Accounts payable and accrued expenses	10,315	107	49,440
	10,315	107	49,440
Net Assets	₱26,265	₱6,937	₱23,640
Provisional goodwill	786,263	579,088	220,345
Non-controlling interest	—	—	(7,986)
Cost of acquisition	₱812,527	₱586,025	₱235,999
	AEDCI	VRC	MSPDC
Cash consideration	₱812,527	₱586,025	₱236,000
Less: Cash acquired from the subsidiary	9,381	6,226	2,684
Net cash flow (included in cash flows from investing activities)	₱803,146	₱579,799	₱233,316

The fair value of the receivables approximate their carrying amounts. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

The non-controlling interests have been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

The purchase price allocation (PPA) for the above acquisitions of AC Energy DevCo Inc., Visayas Renewables Corp. and Manapla Sun Power Dev't. Corp. have been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. These include, among others, information based on appraisal reports for property, plant and equipment and information necessary for the valuation of identified intangible assets (processes, project development costs, etc.). Reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are property, plant and equipment, intangible assets and goodwill. The provisional goodwill recognized on the acquisitions can be attributed to the following:



management team, land leases and ownership interests in other entities for AEDCI; ownership interests over various entities for VRC; and land leases and project sites for MSPDC. The provisional purchase price allocation will be finalized within one year from the dates of closure of the above acquisition transactions.

From March 16 to December 31, 2017, ACEHI's share in AEDCI's revenue and net income amounted to ₱119.9 million and ₱12.4 million, respectively. If the combination had taken place at the beginning of 2017, ACEHI's share in AEDCI's revenue and net income would have been ₱180.2 million and ₱31.8 million, respectively.

From March 16 to December 31, 2017, ACEHI's share in VRC's revenue and net income amounted to ₱11.6 million and ₱11.3 million, respectively. If the combination had taken place at the beginning of 2017, ACEHI's share in VRC's revenue and net income would have been ₱16.0 million and ₱15.6 million, respectively.

From March 16 to December 31, 2017, ACEHI's share in MSPDC's revenue and net income amounted to ₱46.0 million and ₱37.5 million, respectively. If the combination had taken place at the beginning of 2017, ACEHI's share in MSPDC's revenue and net income would have been ₱40.3 million and ₱36.6 million, respectively.

SCC Bulk Water Supply, Inc. (SCC)

On December 18, 2017, Presage Corp., a wholly-owned subsidiary of ACEHI, acquired 100% interest in SCC Bulk Water Supply, Inc.

The provisional values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows:

Assets	
Cash and cash equivalents	₱152
Prepayments and other current assets	77
Property, plant and equipment	18,281
Intangible assets	243
	18,753
Liabilities	
Accounts payable and accrued expenses	19,158
	19,158
Net Liabilities	(₱404)
Provisional goodwill	127,477
Cost of acquisition	₱127,073
Cash consideration	₱127,073
Less: Cash acquired from the subsidiary	152
Net cash flow (included in cash flows from investing activities)	₱126,921

From December 18 to 31, 2017, ACEHI's share in SSC's revenue and net loss amounted to nil. If the combination had taken place at the beginning of 2017, ACEHI's share in SSC's revenue and net loss would have been nil and US\$0.5 million, respectively.

The purchase price allocation (PPA) for the above acquisitions of SCC has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. These include, among others, information based on appraisal reports for property, plant and equipment and information necessary for the valuation of identified intangible assets (processes, project development costs, etc.). Reasonable changes are expected as additional information becomes



available. The accounts that are subject to provisional accounting are property, plant and equipment, intangible assets and goodwill. The provisional goodwill recognized on the acquisitions can be attributed to the water contracts. The provisional purchase price allocation will be finalized within one year from the dates of closure of the above acquisition transactions.

Solienda, Inc. (Solienda)

On December 28, 2017, ACEHI acquired 100% interest in Solienda, Inc.

The provisional values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows:

Assets	
Cash and cash equivalents	₱13,665
Receivables	6,112
Prepayments and other current assets	3
Deferred tax assets	6,143
Intangible assets	168,124
	<u>194,047</u>
Liabilities	
Accounts payable and accrued expenses	148,965
	<u>148,965</u>
Net Assets	₱45,082
Provisional goodwill	470,727
Cost of acquisition	515,809
Cash consideration	₱515,809
Less: Cash acquired from the subsidiary	13,664
Net cash flow (included in cash flows from investing activities)	₱502,145

The fair value of the receivables approximate their carrying amounts. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

The purchase price allocation (PPA) for the above acquisitions of Solienda has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. These include, among others, information necessary for the valuation of identified intangible assets (processes, project development costs, etc.). Reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are intangible assets and goodwill. The provisional goodwill recognized on the acquisitions can be attributed to the contracts of lease. The provisional purchase price allocation will be finalized within one year from the dates of closure of the above acquisition transactions.

From December 28 to 31, 2017, ACEHI's share in Solienda's revenue and net income amounted to nil. If the combination had taken place at the beginning of 2017, ACEHI's share in Solienda's revenue and net income would have been ₱68.4 million and ₱44.7 million, respectively.

Surface Technology International Enterprises Limited (STI)

On April 6, 2017, IMI, through its subsidiary IMI UK, entered into an agreement with the shareholders of STI for the acquisition of an 80% stake in STI, an electronics manufacturing services (EMS) company based in the United Kingdom, with factories in Hook and Poynton in the United Kingdom and Cebu, Philippines. The closing of the transaction transpired on May 16, 2017 upon completion of pre-closing conditions and regulatory approvals.



The provisional values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows (in thousands):

Assets	In US\$	In ₱*
Cash and cash equivalents	US\$4,045	₱200,956
Receivables - net	11,605	576,536
Inventories	13,897	690,403
Other current assets	3,952	196,335
Property, plant and equipment - net	5,984	297,285
Intangible assets	369	18,332
	US\$39,852	₱1,979,847
Liabilities		
Trade payable and other current liabilities	US\$24,442	₱1,214,279
Short and long term debt	15,108	750,565
Other noncurrent liabilities	1,838	91,312
	US\$41,388	2,056,156
Net Liabilities	(US\$1,536)	(₱76,309)
Non-controlling interest (20.00%)	307	15,252
Provisional goodwill	55,955	2,779,844
Cost of Acquisition	US\$54,726	₱2,718,787

*Translated using the exchange rate at the closing date of transaction (US\$1:₱49.68 on May 16, 2017).

The fair value of the receivables approximate their carrying amounts. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

The non-controlling interests have been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

The purchase price allocation for the acquisition of STI has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation, and reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are the property, plant and equipment, intangible assets and goodwill. The valuation had not been completed by the date the consolidated financial statements were approved for issue by the BOD. The provisional goodwill recognized on the acquisition can be attributed to STI's access to the UK market. Further, the partnership will allow IMI Group's entry into the aerospace, security and defense sectors.

From the date of acquisition, STI contributed US\$45.5 million of revenue and US\$0.3 million profit before tax to IMI Group. If the combination had taken place at the beginning of the year, STI would have contributed revenue amounting to US\$64.7 million and loss before tax amounting to US\$6.3 million.

Analysis of cash flows on acquisition:

	In US\$	In ₱*
Initial purchase consideration	US\$29,750	₱1,477,980
Contingent consideration	24,976	1,240,808
Cost of acquisition	US\$54,726	2,718,788
Cash consideration	US\$29,750	1,477,980
Less: Cash acquired from the subsidiary	4,045	200,956
Net cash flow (included in cash flows from investing activities)	US\$25,705	₱1,277,024

*Translated using the exchange rate at the reporting date (US\$1:₱49.68 on December 31, 2017).



The initial purchase consideration of £23.0 million (US\$29.8 million) was paid in cash upon signing of the agreement. The contingent consideration will depend on the actual normalized earnings before interest, taxes, depreciation and amortization (EBITDA) performance less adjustments in 2018 and 2019. The contingent consideration was recognized at its fair value as part of the consideration transferred using the probability-weighted average of payouts associated with each possible outcome which resulted to an initial estimate amounting to £19.3 million (US\$25.0 million).

The agreement also provided details regarding the sale of additional shares from the non-controlling interest through the grant of put and call options, as follows:

Options	Holder of the Right	Description	Option Period	Option / Exercise Price
Call Option	IMI	Right to require each of the Founders to sell to the Buyer all (but not some) of the interests held by that Founder by service of an Option Notice by the Buyer on the Founder at any time during the Call Option Period	Period commencing upon the earliest of: • an Event of Default¹ occurring in respect of that Founder; • a Leaver Event² occurring; • the aggregate relevant proportion of the Founders falling to less than 10%; and • the fifth anniversary of the Shareholders Agreement (SA).	Where the Call Option Period commenced: • on the fifth anniversary of this SA and where no Event of Default has occurred – 100% of the fair value³ of the relevant Option Interests • on the fifth anniversary of this SA but where an Event of Default has occurred – 90% • prior to the fifth anniversary of this SA as a result of a No Fault Leaver Event⁴ – 100% • prior to the fifth anniversary of this Agreement as a result of the aggregate relevant proportion of the Founders falling to less than 10% – 100% • prior to the fifth anniversary of this SA other than (iii) and (iv) above – 90%
Put option	Founders (Singly or Collectively)	Right to require the Buyers to buy from each Founder all (but not some) of the interests held by that Founder by service of an Option Notice by the relevant Founder on the Buyers at any time during the Put Option Period	Period commencing upon the earlier of: • a No Fault Leaver Event occurring in respect of a Founder; • the aggregate relevant proportion of the Founders falling to less than 5%; and • the fifth anniversary of the SA.	100% of the fair value of the relevant Option Interests

Management assessed that it does not have present access to the returns associated with the non-controlling interest.

¹ An Event of Default shall mean any of the following in respect of a Founder:

- (i) that Founder commits any material breach of the SA or his contract or service, employment or consultancy with the Company or any member of the Group; or
- (ii) that Founder is convicted of any criminal offense (other than minor motoring offences not punishable with imprisonment); or
- (iii) that Founder commits any fraud with respect to the business of the STI Group; or
- (iv) that Founder enters or proposes to enter into any composition or arrangement with his creditors generally; or
- (v) that Founder is declared bankrupt or otherwise unable to pay his debts as they fall due.

² A Leaver Event means that the First Founder ceases to be an employee of a member of the STI Group, dedicating not less than 50% of his working time to the business.

³ The fair value shall be determined in accordance with the following:

- promptly after the service of the Option Notice, the investors shall seek to agree the purchase price for the Option Interests which shall be the market value of the Option Interests on the date an Option Notice is served assuming a willing buyer and a willing seller and making no adjustment on account of any restrictions on the transfer of the Option Interests;
- if the investors agree the purchase price for such Option Interests it shall be binding on all investors and members of their respective investor groups; and
- in the event of any dispute as to the purchase price, the price in dispute shall be referred to a "Big Four" firm or an Expert.

⁴ A No Fault Leaver Event means occurring prior to the fifth anniversary of the SA other than in circumstances where (i) the First Founder tenders his resignation (other than as a result of his permanent disability or incapacity or in circumstances where he is found to have been constructively dismissed); or (ii) the employment of the First Founder is terminated by his employer in circumstances justifying summary dismissal.



The call option is accounted for as a derivative asset carried at fair value through profit or loss. Given that the call option is exercisable at the fair value of the shares at the exercise date, the value of the derivative asset is nil.

IMI Group accounted for the put option as a financial liability measured at the present value of the redemption amount, with a debit to "Additional paid-in capital" account, amounting to US\$12.9 million on initial valuation. Mark-to-market gain amounting to US\$2.6 million was recognized in the consolidated statements of income (see Note 22).

Acquisition-related costs, which consist of professional and legal fees, financing and transaction costs, taxes, representation and travel expenses amounting to US\$1.9 million were recognized as expense in the consolidated statements of income.

MT Technologies GmbH (MT)

On June 1, 2017, AITHI, through its subsidiary ACI Singapore, has entered into an agreement with the shareholders of MT for the acquisition by ACI Singapore of a 94.90% equity stake and various shareholder and other loans in MT, a supplier of models, tools and plastic parts based in Ingolstadt, Germany. The said agreement became effective on June 2, 2017. The closing of the transaction transpired on July 5, 2017 upon completion of pre-closing conditions and regulatory approval.

The provisional values of the identifiable assets and liabilities acquired as at the date of acquisition follows (in thousands):

	In EUR	In ₱*
Assets		
Cash	€2	₱120
Receivables	3,979	237,745
Inventories	11,236	671,351
Property, plant and equipment	21,880	1,307,330
	37,097	2,216,546
Liabilities		
Trade accounts payable	10,714	640,162
Long-term debt	1,758	105,040
Other noncurrent liabilities	1,552	92,732
	14,024	837,934
Net assets	€23,073	₱1,378,603
Non-controlling interest (5.10%)	€1,176	₱70,326
Provisional goodwill	€—	₱—
Cost of acquisition	€21,897	₱1,308,346

*Translated using the exchange rate at the date of the closing of the transaction (€1:₱59.75 on July 5, 2017).

The fair value of the receivables approximate their carrying amounts. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

The non-controlling interests have been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

The purchase price allocation for the acquisition of MT has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. This includes information necessary for the valuation of other intangible assets, if any. Reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are property, plant and equipment, intangible assets and goodwill or bargain purchase gain. The provisional purchase price allocation will be finalized within one year from the date of closure of this acquisition transaction.



Analysis of cash flows on acquisition (in thousands):

	In EUR	In ₪*
Cost of acquisition	€21,897	₪1,308,346
Less: Cash acquired with the subsidiary	2	120
Net cash flow (included in cash flows from investing activities)	€21,895	₪1,308,226

*Translated using the exchange rate at the date of the closing of the transaction (€1:₪59.75 on July 5, 2017).

The initial purchase consideration of €21.90 million upon signing of the agreement was paid in cash and also involves the assumption of debt and other liabilities.

The transaction also includes put and call options on the non-controlling interests in MT of 5.1%, the exercise of which are subject to certain conditions. The estimated fair value of the financial liability amounted to ₪68.5 million.

Acquisition-related costs, which consist of professional and legal fees, transaction costs, taxes, representation and travel expenses amounting to €1.19 million were recognized as expense in 2017.

From July 5 to December 31, 2017, AITHI's share in MT's revenue and net loss amounted to €19.3 million (₪1,147.3 million) and €3.2 million (₪190.3 million), respectively. If the combination had taken place at the beginning of 2017, the AITHI's share in MT's revenue and net loss would have been €32.7 million (₪1,919.8 million) and €4.4 million (₪265.8 million), respectively.

Renewable Energy Test Center, LLC (RETC)

On September 15, 2017, Al North America (AINA), a wholly-owned subsidiary of BHL, fully acquired RETC for a total consideration of US\$13.1 million. The closing of the transactions is subject to completion conditions and regulatory approval. BHL Group previously held 15.75% equity interest in RETC indirectly through the Series A Preferred Interests in PFIL North America, Inc. As a result of the transaction, RETC became a wholly-owned subsidiary of the BHL Group.

The provisional values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows (in thousands):

Assets	In US\$	In ₪*
Cash and cash equivalents	US\$3,526	₪ 180,408
Receivables - net	801	40,983
Other current assets	118	6,037
Property, plant and equipment - net	291	14,889
	4,736	242,317
Liabilities		
Trade payable and other current liabilities	162	8,289
Deferred revenue	350	17,908
	512	26,197
Net Assets	US\$4,224	₪216,121
Provisional goodwill	11,717	599,500
Fair value of previously held interest	(2,851)	(145,871)
Cost of Acquisition	US\$13,090	₪669,750

*Translated using the exchange rate at the date of the closing of the transaction (US\$1:₪51.165 on September 15, 2017).

The purchase price allocation for the acquisition of RETC has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation.



Analysis of cash flows on acquisition (in thousands):

	In US\$	In Php*
Cost of acquisition	US\$13,090	₱669,750
Less: Cash acquired with the subsidiary	3,526	180,408
Net cash flow (included in cash flows from investing activities)	US\$9,564	₱489,342

*Translated using the exchange rate at the date of the closing of the transaction (US\$1:₱51.165 on September 15, 2017).

The fair value of the receivables approximate their carrying amounts. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

The purchase price allocation for the acquisition of RETC has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation, and reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are property, plant and equipment and goodwill. The valuation had not been completed by the date the consolidated financial statements were approved for issue by the BOD. The provisional goodwill recognized on the acquisition can be attributed to RETC's current workforce and capabilities.

From September 15 to December 31, 2017, AINA's share in RETC's revenue and net income amounted to US\$2.4 million and US\$0.6 million, respectively. If the combination had taken place at the beginning of 2017, the AINA's share in RETC's revenue and net loss would have been US\$4.1 million and US\$0.3 million, respectively.

Asian Land Strategies Corporation (Asian Land)

On January 4, 2017, MWPVI entered into an Asset Purchase Agreement (APA) with Asian Land to acquire and operate the latter's assets used in the water business operations in Asian Land's developments in the province of Bulacan. The intention of MWPVI was to assign the rights under the APA to Bulacan MWPV Development Corp. (BMDC), its wholly owned subsidiary.

On July 31, 2017, MWPVI assigned all its rights and obligations on the APA to BMDC under a Deed of Assignment. On the same day, the Deed of Absolute Sale has also been executed between Asian Land and BMDC. Total consideration paid by BMDC to Asian Land amounted to ₱54.0 million, inclusive of VAT.

Solar Resources, Inc. (Solar Resources)

On July 26, 2017, BMDC entered into an APA with Solar Resources to acquire and operate the latter's assets used in the water business operations in Solar developments in the province of Bulacan. On July 31, 2017, Solar Resources executed a Deed of Assignment in relation to the APA and a Deed of Absolute Sale to sell and transfer its properties pertaining to water facilities and its operations in the Las Palmas Subdivisions Phases 1 to 7 to BMDC. Total consideration paid by BMDC to Solar Resources amounted to ₱21.0 million, inclusive of VAT.

Borland Development Corporation (Borland)

On December 14, 2017, Borland executed the APA, Deed of Assignment, and Deed of Absolute Sale to sell, assign, transfer, and convey its assets pertaining to water facilities and its operation in San Vicente Homes subdivision in Bulacan to BMDC. Total consideration paid by BMDC to Borland amounted to ₱7.3 million, exclusive of VAT.



The fair values of the identifiable assets on these transactions as of the date of acquisition were as follows:

	Asian Land	Solar Resources	Borland
Assets acquired			
Property, plant and equipment	₱103,122	₱17,544	₱6,050
Acquisition cost	48,214	18,750	7,280
Goodwill (Bargain purchase)	(₱54,908)	₱1,206	₱1,230

No identifiable liabilities were acquired by BMDC in these acquisitions. The gain on bargain purchase is presented as part of "Other income" in the consolidated statements of income (see Note 22).

Merger of AEI to iPeople, Inc. (IPO)

On January 8, 2018, the Group publicly announced the potential merger of AEI and IPO, the listed holding company for the education sector of House of Investments Inc., a member of the Yuchengco Group of Companies (see Note 38). The parties agreed to an exclusivity period to complete due diligence, and to finalize the terms and conditions of the proposed merger within the first quarter of 2018. As of December 31, 2017, AEI was classified as a disposal group held for sale.

The major classes of assets and liabilities of AEI classified as held for sale as of December 31, 2017 are as follows:

Assets	
Cash and cash equivalents	₱423,234
Accounts and other receivables	89,097
Other current assets	55,706
Land and improvements	867,634
Property and equipment	312,936
Other noncurrent assets	72,442
	<u>1,821,049</u>
Liabilities	
Accounts and other payables	88,312
Loans payable	80,000
Other noncurrent liabilities	417,537
	<u>585,849</u>
Non-controlling interests	<u>₱85,252</u>

The net cash flows incurred by AEI for the year are as follows:

Operating	(₱87,728)
Investing	(100,908)
Financing	235,845
Net cash inflow	<u>₱47,209</u>

2016 Acquisitions

Prime Orion Philippines, Inc. (POPI)

On February 24, 2016, ALI purchased 2.5 billion common shares or 51% interest in POPI for a total consideration ₱5,625.0 million. On July 4, 2016, ALI obtained control over POPI. Accordingly, POPI financial statements were consolidated on a line-by-line basis with that of the Group as of December 31, 2016.

In 2017, ALI finalized its purchase price allocation and there were no changes to the fair market values of the assets acquired and liabilities assumed.



The following are the fair values of the identifiable assets and liabilities assumed (in thousands):

Assets	
Cash	₱1,300,869
Trade and other receivables	6,119,799
Inventories	273,299
Other current assets	293,598
Financial assets at FVPL	₱17,903
AFS investments	1,394,192
Leasehold rights	3,611,808
Investment properties	1,562,098
Property, plant and equipment	88,876
Other noncurrent assets	93,012
	14,755,454
Liabilities	
Accounts and other payables	1,160,303
Deferred tax liabilities – net	1,422,162
Deposits and other liabilities	788,175
	3,370,640
Net assets	11,384,814
Total net assets acquired	5,813,086
Acquisition cost	5,625,000
Negative goodwill	(₱188,086)

The fair value of the trade and other receivables approximate their carrying amounts since these are short-term in nature. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected. The negative goodwill amounting to ₱188.1 million is included under “Other income” in 2016.

Of the total consideration of ₱5,625.0 million, only 25% or ₱1,406.3 million was paid on February 24, 2016, the remaining ₱4,218.8 million which is to be paid upon fulfillment of certain terms and conditions is included as part of “Trade receivables” (see Note 7).

From July 4 to December 31, 2016, ALI Group’s share in POPI’s revenue and net income amounted to ₱229.8 million and ₱12.9 million, respectively. If the combination had taken place at the beginning of 2016, the Group’s share in POPI’s revenue and net income (loss) would have been ₱435.8 million and (₱202.2 million), respectively.

VIA Optronics GmbH (VIA)

On August 16, 2016, Cooperatief and the shareholders of VIA entered into a Sale and Purchase Agreement (SPA) under which Cooperatief will acquire a 76.01% stake in VIA for a total cash consideration of €47.79 million (US\$53.46 million), while the remaining 23.99% to be retained by the company founder. The closing of the transaction transpired on September 14, 2016.

In 2016, the purchase price allocation for the acquisition of VIA has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation.



IMI Group finalized the purchase price allocation with the following changes to the provisional values based on additional information subsequently obtained:

Assets	Fair Values	Provisional Values
Cash and cash equivalents	US\$6,585	US\$6,585
Receivables	18,745	18,745
Inventories	5,448	5,448
Other current assets	661	661
Property, plant and equipment	3,149	3,149
Intangible asset	8,341	493
Deferred tax asset	558	558
Other noncurrent assets	159	159
	43,646	35,798
Liabilities		
Accounts payable and accrued expenses	18,241	18,241
Current portion of long-term debt	126	126
Loans payable	8,478	8,478
Other current liabilities	2,724	2,724
Long-term debt	209	209
Other noncurrent liabilities	152	152
Deferred tax liabilities	1,976	217
	31,906	30,147
Net Assets	US\$11,740	US\$5,651
Non-controlling interest (23.99%)	(2,816)	(1,356)
Goodwill	44,540	49,169
Cost of acquisition	US\$53,464	US\$53,464

The fair value of the intangible asset of VIA increased by US\$7.9 million (₱392.0 million) (see Note 15). The intangible assets is attributable to VIA's extensive experience and knowledge and certain know-how and other intellectual property (IP) rights in the field of developing and manufacturing optical bonded products, including materials and equipment for optical bonding and the optical bonding process. The goodwill recognized is not expected to be deductible for tax purposes.

The fair value of the IP was determined using relief from royalty method taking into account the royalty savings of owning an IP. The IP will be amortized over 5 years.

Deferred tax liability on the increase in fair value of the intangible asset was recognized amounting to US\$1.8 million (₱87.9 million). Derecognized deferred tax liability due to amortization of IP amounted to US\$0.4 million (₱22.0 million) for the year ended December 31, 2017.

Analysis of cash flows on acquisition (in thousands):

	In US\$	In Php*
Cost of acquisition	US\$53,464	₱2,538,156
Less: Cash acquired with the subsidiary	6,585	312,623
Net cash flow (included in cash flows from investing activities)	US\$46,879	₱2,225,533

*Translated using the exchange rate at the date of the closing of the transaction (US\$1:₱47.475 on September 14, 2016).

Acquisition-related costs, which consist of professional and legal fees, financing and transaction costs, representation and travel expenses amounting to US\$1.4 million were recognized as expense in 2016.



From the date of acquisition up to December 31, 2016, IMI Group's share in VIA's revenue and net loss amounted to US\$19.4 million and US\$0.4 million, respectively. If the combination had taken place at the beginning of 2016, the Group's total revenue would have increased by US\$64.6 million, while net income before tax would have decreased by \$0.1 million.

Northwind

On November 21, 2016, ACEHI, through its wholly-owned subsidiary Presage Corporation, purchased an additional 17.79% stake in Northwind amounting to ₱355.9 million. This transaction resulted to an increase in ACEHI's ownership interest in Northwind from 50.00% to 67.79%.

Below is a summary of the fair values of assets acquired and liabilities assumed as of the date of the acquisition (amount in thousands):

Assets	
Cash	₱241,033
Receivables	348,248
Prepayments and other current assets	234,723
Investments - Ilocos Mango Growers, Inc.	209
Property and equipment	4,136,655
	<u>4,960,868</u>
Liabilities	
Accounts payable and accrued expenses	211,957
Deferred tax liability	129,675
Loans payable	2,237,909
	<u>2,579,541</u>
Net Assets	<u>2,381,327</u>
Negative goodwill	(149,849)
Fair value of previously held interest	(1,099,998)
Non-controlling interest	(775,598)
Acquisition cost	<u><u>₱355,882</u></u>

The cost of the acquisition is determined as follows (amounts in thousands):

Cash paid	₱355,882
Fair value of previously held interest	1,099,998
	<u><u>₱1,455,880</u></u>

Cash on acquisition follows (amounts in thousands):

Cash acquired from Northwind	₱241,033
Cash paid	(355,882)
Net cash flow	<u><u>(₱114,849)</u></u>

Transactions with Non-controlling Interest

Parent Company

MWC

On various dates in 2016, the Parent Company purchased additional 1,040,600 shares amounting to ₱21.3 million. In December 2016, the Parent Company disposed of 437,300 shares amounting to ₱3.7 million. The Parent Company recognized ₱9.4 million gain on sale. The transactions resulted to an increase in the Parent Company's ownership interest in MWC by 0.02%. As of December 31, 2017 and 2016, ownership interest of the Parent Company in MWC is at 35.3%.

The difference between the fair value of the consideration paid and the amount of which the noncontrolling interest is adjusted amounting to ₱675.4 million is recognized in equity under "Equity Reserve" in 2015.



ALI

In January 2015 and March 2013, the Parent Company participated in the placement and subscription of 484.8 million and 399.5 million common shares of ALI with proceeds of ₱16.0 billion and ₱12.2 billion, respectively. The Parent Company sold its listed ALI common shares through a private placement and infused the proceeds into ALI as subscription for the same number of new ALI shares at the same price. These transactions support ALI's fund raising initiatives to acquire assets for its expansion projects.

Following the transactions, the Parent Company's ownership interest in ALI's common stock was reduced from 48.9% to 47.2% as of January 2015 and from 50.4% to 48.9% as of March 2013. The Parent Company maintained the same number of common shares it held in ALI prior to the transactions. The transaction was accounted for as an equity transaction which resulted into additions to equity reserves amounting to ₱5.7 billion in 2015 and ₱2.6 billion in 2013.

ALI Group

POPI

In February 2017, ALI purchased additional 631,000 common shares of POPI from BPI Securities Corporation for ₱1.26 million. ALI's interest remains at 51% of the total POPI's outstanding capital stock.

In June 2017, Orion Land, Inc. (OLI), a subsidiary of POPI, acquired 512,480,671 common shares equivalent to 11.69% ownership at ₱2.45 share amounting to ₱1,255.58 million. The acquisition of by OLI was treated as an acquisition of non-controlling interest of POPI resulting to reduction to equity reserve of ₱405.9 million. This increased ALI's effective ownership to 63.05%.

CHI

In 2017, ALI purchased additional 97,763,900 common shares of CHI from BPI Securities Corporation totaling ₱575.0 million which brought up ALI's ownership to 72% of the total outstanding capital stock of CHI. The transaction was accounted for as an equity transaction which resulted into negative equity reserves of ₱180.1 million.

In February 2016, ALI purchased additional 906,000 common shares of CHI from BPI Securities Corporation totaling ₱4.1 million which brought ALI's ownership from 56.36% to 56.40%. Subsequently, on March 14, 2016, ALI bought additional 200,953,364 CHI's common shares from First Metro Securities Brokerage Corporation for ₱1,200.0 million resulting into an increase to 66.9% of the total outstanding capital stock of CHI.

In 2016, ALI purchased additional 201,859,364 common shares of CHI for total consideration of ₱1,209.8 million which brought ALI's ownership from 56.4% to 66.9%. The transaction was accounted for as an equity transaction since there was no change in control. The difference between the fair value of the consideration paid and the amount of which the noncontrolling interest is adjusted amounting to ₱461.0 million is recognized in equity under "Equity Reserve".

AHRC

In August 2017, AHRC entered into a memorandum of agreement with SIDECO and an individual to develop Sicogon Island into a new leisure destination. The investment of SIDECO and an individual to Sicogon Island Tourism Estate Corp. (SITEC) changed the ownership interest of AHRC in SITEC from 100% to 77% without a loss of control. The difference between the amount by which non-controlling interest of 23% are adjusted and the fair value of consideration paid is recognized directly to equity amounting to ₱134.0 million.

Nuevo Centro, Inc. (Nuevo Centro)

From March 2016 to July 2016, LLHI subscribed to 18,150,931 common and 48,876,456 preferred shares of Nuevo Centro or equivalent to 45.0% stake of NCI's total outstanding capital. This transaction resulted into lower ALI's interest to 55.0% in NCI as of December 31, 2016. The transactions were accounted as an equity transaction since there was no change in control.



In 2015, ALI purchased additional shares from non-controlling interests of CHI, NTDCC, Aurora Properties Incorporated (API). The transactions were accounted as an equity transaction since there was no change in control. The movements within equity are accounted for as follows:

	Consideration paid	Carrying value of Non-controlling interests (In Thousands)	Difference recognized within Equity
6.7% in CHI	₱649,927	₱434,074	₱215,853
9.4% in NTDCC	778,356	174,770	603,586
1.9% in API	58,157	45,540	12,617
	₱1,486,440	₱654,384	₱832,056

IMI Group

STEL

On December 26, 2016, STEL acquired the remaining non-controlling interest in Shenzhen Speedy-Tech Electronics Co., Ltd. for a total consideration of US\$0.4 million.

The details of the transaction are as follows (in thousands):

	In US\$	In Php*
Non-controlling interest acquired	US\$190	₱9,447
Consideration paid to the non-controlling shareholder	(360)	(17,899)
Total amount recognized in "Equity Reserves" account within equity	(US\$170)	(₱8,452)

*Translated using the exchange rate at the reporting date (US\$1:₱49.72 on December 31, 2016).

PSi

On January 5, 2015, Deeds of Assignment of Shares effective December 29, 2014 were executed between IMI and the minority shareholders of PSi namely Narra Venture and Narra Associate II Limited for the purchase of the remaining 16.75% interest in PSi for a total consideration of US\$0.5 million. The purchase of the remaining minority shares resulted to the 100% ownership of IMI in PSi.

Details of the transactions are as follows (amounts in thousands):

		2014
Change in ownership interest		83.25% to 100%
Non-controlling interests acquired	(US\$3,145)	(₱140,644)
Consideration paid to non-controlling shareholders	US\$500	₱22,360
Value of the option exercised	—	—
Total consideration	500	22,360
Total amount recognized against "Equity Reserves"	(US\$3,645)	₱163,004



24. Income Tax

The components of the Group's deferred taxes are as follows:

Net deferred tax assets

	2017	2016
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	₱8,229,295	₱6,655,930
Accrued expenses	1,283,669	2,416,227
Service concession obligation	1,247,529	1,136,592
NOLCO	891,246	58,159
Allowance for probable losses	677,516	1,230,459
Retirement benefits	416,474	682,398
Unrealized foreign exchange loss	169,120	69,832
Advanced rental	32,926	4,856
Allowance for doubtful accounts	15,214	53,970
Fair value adjustment on property, plant and equipment arising from business combination	13,150	14,031
Allowance for inventory obsolescence	12,722	23,199
Remeasurement loss	13,025	3,125
Others	523,178	590,760
	13,525,064	12,939,538
Deferred tax liabilities on:		
Capitalized interest and other expenses	(447,596)	(512,191)
Others	(356,558)	(12,700)
	(804,154)	(524,891)
Net deferred tax assets	₱12,720,910	₱12,414,647

Net deferred tax liabilities

	2017	2016
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	₱522,615	₱24,178
Fair value adjustments on:		
Long-term debt	104,269	114,943
AFS financial asset	1,116	1,116
Allowance for probable losses	42,863	66,214
Accrued expenses	40,307	20,020
NOLCO	10,325	15,586
MCIT	5,910	2,786
Retirement benefits	2,462	619
Advanced rental	970	21,074
Unrealized foreign exchange loss	—	727
Others	73,897	17,355
	804,734	284,618

(Forward)



	2017	2016
Deferred tax liabilities on:		
Fair value adjustments arising from business combination with MWC:		
Service concession assets	(P3,887,223)	(P4,090,901)
Land and improvements	(625,490)	(625,490)
Property, plant and equipment	(394,528)	(226,722)
Service concession obligation	(34,091)	(34,091)
Customers' guaranty and other deposits	(18,691)	(18,691)
Fair value adjustment arising from other business combination	(1,709,279)	(2,064,770)
Difference between tax and book basis of accounting for real estate transactions	(1,272,005)	(1,767,512)
Retirement benefits	(102,983)	(18,739)
Concession finance receivable	(76,799)	(68,677)
Accrued receivables	(54,429)	(44,726)
Unrealized gain on AFS financial assets	(32,209)	(108,226)
Gain on bargain purchase	(15,989)	-
Capitalized interest and other expenses	(15,658)	(148,767)
Difference between amortization expense of SCA per straight line method and per UOP	(12,149)	-
Unrealized fair value gain less costs to sell of biological assets	(9,583)	(9,508)
Unrealized foreign exchange gain	(5,056)	(10,601)
Prepaid expenses	(1,966)	(11,088)
Insurance recovery	-	(98,382)
Depreciation	-	(7,796)
Others	(644,911)	(473,685)
	(8,913,039)	(9,828,372)
Net deferred tax liabilities	(P8,108,305)	(P9,543,754)

Deferred tax related to remeasurement gain on defined benefit plans recognized in OCI amounted to P51.1 million and P19.5 million in 2017 and 2016, respectively.

The Group has NOLCO amounting to P16.7 billion and P16.3 billion in 2017 and 2016, respectively, and MCIT amounting to P75.7 million and P82.2 million in 2017 and 2016, respectively. Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. As of December 31, 2017, total unrecognized NOLCO and MCIT amounted to P14.6 billion and P57.7 million, respectively. The subsidiaries will recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

As of December 31, 2017, NOLCO and MCIT that can be claimed as deduction from future taxable income or used as deductions against income tax liabilities, respectively, are as follows:

Year incurred	Expiry Date	NOLCO (In Thousands)	MCIT
2015	2018	P5,233,048	P26,391
2016	2019	5,835,744	23,198
2017	2020	5,632,420	26,132
		P16,701,212	P75,721



As of December 31, 2017 and 2016 deferred tax liabilities have not been recognized on the undistributed earnings and cumulative translation adjustment of foreign subsidiaries since the timing of the reversal of the temporary difference can be controlled by the Group and management does not expect the reversal of the temporary differences in the foreseeable future. The undistributed earnings and cumulative translation adjustment amounted to ₱14.4 billion and ₱11.4 billion as of December 31, 2017 and 2016, respectively.

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

	2017	2016	2014
Statutory income tax rate	30.00%	30.00%	30.00%
Tax effects of:			
Nontaxable share of profit of associates and joint ventures	(8.93)	(10.10)	(9.54)
Nondeductible expenses	1.45	4.57	0.78
Interest income and capital gains subjected to lower rates	(1.93)	(0.58)	(0.72)
Income under income tax holiday	(0.35)	(3.94)	(0.17)
Others	(0.51)	(0.47)	(1.30)
Effective income tax rate	19.73%	19.48%	19.05%

The income tax on profits of overseas subsidiaries have been calculated at the rates of tax prevailing in the countries where such subsidiary operates, based on existing legislation, interpretations and practices in respect thereof.

Republic Act (RA) No. 10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN)

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

Revenue Regulations (RR) No. 16-2008

RR No. 16-2008 provided the implementing guidelines for Section 34 of Republic Act No. 9504 on the use of the Optional Standard Deduction (OSD) for corporations. The OSD allowed shall be an amount not exceeding 40% of the gross income. Gross income earned refers to gross sales or gross revenue derived from any business activity, net of returns and allowances, less cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses. This was applied by MWC and for the years ended December 31, 2017, 2016 and 2015.

MWC availed of the income tax holiday granted for Board of Investments (BOI) registered projects, the Antipolo Water Supply Project in 2009 and East La Mesa (Rodriguez) Water Treatment Plant Project in 2012. The ITH period is for three (3) years and were not renewed by the MWC.

The tax rate of 18% for the years in which OSD is projected to be utilized was used in computing the deferred income taxes on the net service concession obligation starting 2009.

The availment of OSD affected the recognition of several deferred tax assets and liabilities, in which the related income and expenses are not considered in determining gross income for income tax purposes. MWC forecasts that it will continue to avail of the OSD, such that the manner by which it will recover or settle the underlying assets and liabilities, for which the deferred tax assets and liabilities were initially recognized, would not result in any future tax consequence under OSD.



Registration with the PEZA and Board of Investments (BOI) Incentives

Some activities of certain local subsidiaries are registered with the PEZA and BOI. Under the registration, these subsidiaries are entitled to certain tax and nontax incentives, which include, but are not limited to, income tax holiday (ITH) and duty-free importation of inventories and capital equipment. Upon the expiration of the ITH, the subsidiaries will be liable for payment of a five percent (5%) tax on gross income earned from sources within the PEZA economic zone in lieu of payment of national and local taxes.

25. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to owners of the Parent Company:

	2017	2016	2015
	(In Thousands, except EPS figures)		
Net income attributable to the owners of the Parent Company	₱30,263,842	₱26,011,263	₱22,278,955
Less dividends on preferred stock	1,285,015	1,285,015	1,281,375
	28,978,827	24,726,248	20,997,580
Less profit impact of assumed conversions of potential ordinary shares of investees	319,184	262,166	225,795
	₱28,659,643	₱24,464,082	₱20,771,785
Weighted average number of common shares	620,928	620,058	619,562
Dilutive shares arising from stock options	2,240	2,379	2,637
Adjusted weighted average number of common shares for diluted EPS	623,168	622,437	622,199
Basic EPS	₱46.67	₱39.88	₱33.89
Diluted EPS	₱45.99	₱39.31	₱33.38

26. Defined Benefit Plan

The Parent Company and certain subsidiaries have their respective funded, noncontributory tax-qualified defined benefit type of retirement plans covering substantially all of their employees. The benefits are based on defined formula with a certain minimum lump-sum guarantee of effective salary per year of service. The consolidated retirement costs charged to operations amounted to ₱969.2 million, ₱871.4 million and ₱817.4 million in 2017, 2016 and 2015, respectively.

The Parent Company's pension fund is known as the AC Employees Welfare and Retirement Fund (ACEWRF). ACEWRF is a legal entity separate and distinct from the Parent Company, governed by a board of trustees appointed under a Trust Agreement between the Parent Company and the initial trustees. It holds common and preferred shares of the Parent Company in its portfolio. All such shares have voting rights under certain conditions, pursuant to law. ACEWRF's portfolio is managed by a committee appointed by the fund's trustees for that purpose. The members of the committee include the Parent Company's Chief Finance Officer, Group Head of Corporate Governance, General Counsel, Corporate Secretary and Compliance Officer, Head for Strategic Human Resources, Treasurer and Comptroller. ACEWRF has not exercised voting rights over any shares of the Parent Company that it owns.

For the subsidiaries, the funds are generally administered by a trustee bank under the supervision of the Board of Trustees of the plan for each subsidiary. The Board of Trustees 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.



Existing regulatory framework in 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. Some of the entities of the Group also provides additional post employment healthcare benefits to certain senior employees in the Philippines.

The components of expense (included in personnel costs under "Cost of rendering services" and "General and administrative expenses") in the consolidated statements of income follow:

	2017	2016	2015
	(In Thousands)		
Current service cost	₱787,865	₱704,932	₱704,928
Past service cost	549	14,350	28,458
Net interest cost on benefit obligation	189,488	153,556	84,832
Gain on curtailment and settlements	(8,679)	(1,416)	(791)
Total pension expense	₱969,223	₱871,422	₱817,427

The remeasurement effects recognized in other comprehensive income (included in Equity under "Remeasurement losses (gains) on defined benefit plans") in the consolidated statements of financial position follow:

	2017	2016	2015
	(In Thousands)		
Loss (gain) on plan assets (excluding amount included in net interest)	(₱270,307)	₱236,148	₱87,456
Actuarial gain due to liability assumption changes – demographic	(151,681)	(336,353)	(150,092)
Actuarial loss (gain) due to liability assumption changes – financial	71,456	(62,177)	(15,516)
Remeasurements in other comprehensive income	(₱350,532)	(₱162,382)	(₱78,152)

The funded status and amounts recognized in the consolidated statements of financial position for the pension plan as of December 31, 2017 and 2016, as follows:

	2017	2016
	(In Thousands)	
Benefit obligations	₱10,035,831	₱9,586,617
Plan assets	(7,533,027)	(7,354,356)
Net pension liability position	₱2,502,804	₱2,232,261

As of December 31, 2017 and 2016 pension assets (included under "Other Noncurrent Assets") amounted to ₱98.0 million, and ₱236.9 million (see Note 16), respectively, and pension liabilities amounted to ₱2.6 billion and ₱2.5 billion, respectively.



Changes in net defined benefit liability of funded funds in 2017 and 2016 are as follows:

2017

	Net benefit cost in statement of income							Remeasurements in other comprehensive income									
	January 1	Current service cost	Past Service Cost	Net interest	Loss (gain) on Curtailments and Settlements	Subtotal	Benefits paid	Return on plan assets*	Actuarial loss due to liability experience	Actuarial loss due to liability assumption changes	Subtotal	Transfer payments	Contribution by employer	Foreign currency exchange differences	Reclassifications	Settlements	December 31
	(In Thousands)																
Present value of defined benefit obligation	₱9,586,617	₱787,865	₱549	₱521,151	(₱8,679)	₱1,300,886	(₱593,372)	₱-	₱71,456	(₱151,681)	(₱80,225)	(₱38,238)	₱-	(₱1,097)	(₱99,896)	(₱38,844)	₱10,035,831
Fair value of plan assets	(7,354,356)	-	-	(331,663)	-	(331,663)	593,372	(270,307)	-	-	(270,307)	240,930	(495,764)	(261)	46,178	38,844	(7,533,027)
Net defined benefit liability (asset)	₱2,232,261	₱787,865	₱549	₱189,488	(₱8,679)	₱969,223	₱-	(₱270,307)	₱71,456	(₱151,681)	(₱350,532)	₱202,692	(₱495,764)	(₱1,358)	(₱53,718)	₱-	₱2,502,804

*Excluding amount included in net interest

2016

2016

	Net benefit cost in statement of income						Remeasurements in other comprehensive income													
					Loss(gain) on															
	January 1	Current service cost	Past Service Cost	Net interest	Curtailments and Settlements	Subtotal	Benefits paid	Return on plan assets*	Actuarial loss due to liability experience	Actuarial loss due to liability assumption changes	Subtotal	Transfer payments	Contribution by employer	Foreign currency exchange differences	Reclassifications	Settlements	December 31			
	(In Thousands)																			
Present value of defined benefit obligation	₱9,442,829	₱704,932	₱14,350	₱465,361	(₱1,416)	₱1,183,227	(₱694,115)	₱-	(₱62,177)	(₱336,353)	(₱398,530)	₱50,032	₱-	₱3,174	₱-	₱-	₱9,586,617			
Fair value of plan assets	(6,963,028)	-	-	(311,805)	-	(311,805)	694,115	236,148	-	-	236,148	(53,076)	(956,459)	(251)	-	-	(7,354,356)			
Net defined benefit liability (asset)	₱2,479,801	₱704,932	₱14,350	₱153,556	(₱1,416)	₱871,422	₱-	₱236,148	(₱62,177)	(₱336,353)	(₱162,382)	(₱3,044)	(₱956,459)	₱2,923	₱-	₱-	₱2,232,261			

*Excluding amount included in net interest



The following tables present the changes in the present value of defined benefit obligation and fair value of plan assets:

Present value of defined benefit obligation

	2017	2016
	(In Thousands)	
Balance at beginning of year	₱9,586,617	₱9,442,829
Current service cost	787,865	704,932
Interest cost	521,151	465,361
Past service cost	549	14,350
Remeasurements in other comprehensive income:		
Actuarial changes arising from experience adjustments	71,456	(62,177)
Actuarial changes arising from changes in liability assumptions	(151,681)	(336,353)
Benefits paid from plan assets	(593,372)	(694,115)
Reclassifications to Other current liabilities	(99,896)	—
Settlements	(38,844)	—
Transfer payments	(38,238)	50,032
Foreign currency exchange difference	(1,097)	3,174
Gain on curtailment and settlements	(8,679)	(1,416)
	₱10,035,831	₱9,586,617

Fair value of plan assets

	2017	2016
	(In Thousands)	
Balance at beginning of year	₱7,354,356	₱6,963,028
Contributions	495,764	956,459
Interest income on plan assets	331,663	311,805
Return on plan assets (excluding amount included in net interest)	270,307	(236,148)
Foreign currency exchange difference	261	251
Benefits paid	(593,372)	(694,115)
Transfer payments	(240,930)	53,076
Reclassifications to other current assets	(46,178)	—
Settlements	(38,844)	—
	₱7,533,027	₱7,354,356

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

	2017	2016
	(In Thousands)	
Assets		
Cash and cash equivalents	₱339,677	₱520,202
Debt investments	3,997,425	3,562,291
Equity investments	3,142,117	2,962,189
Other assets	310,991	304,326
	7,790,210	7,349,008
Liabilities		
Trust fee payable	(2,670)	(2,464)
	(2,670)	(2,464)
Net Asset Value*	₱7,787,540	₱7,346,544

*The difference of ₱254.5 million and ₱7.8 million in the fair value of plan assets as of December 31, 2017 and 2016, respectively, pertains to movements after the valuation date.



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

The plan assets have diverse investments and do not have any concentration risk.

The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension and post-employment medical benefit obligations for the defined benefit plans are shown below:

	2017	2016
Discount rates	1.4% to 5.9%	2.0% to 8.2%
Future salary increases	1.2 to 8.0%	3.0% to 10.0%

There were no changes from the previous period in the methods and assumptions used in preparing sensitivity analysis.

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

		2017	2016
	Increase (decrease)	Net Pension Liabilities	
		(In Thousands)	
Discount rates	1%	(P485,593)	(P639,250)
	(1%)	720,338	791,969
Future salary increases	1%	712,879	759,878
	(1%)	(483,717)	(516,854)

The management performed an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The Group's current strategic investment strategy consists of 51.31% of debt instruments, 40.33% of equity instruments and 8.35% other assets.

The Group expects to contribute P710.1 million to the defined benefit pension plan in 2018.

The average duration of the defined benefit obligation at the end of the reporting period is 4.05 to 26.1 years in 2017 and 4.5 to 25 years in 2016.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2017 (amounts in thousands):

	2017	2016
Less than 1 year	P1,122,351	P915,860
More than 1 year to 5 years	14,392,011	3,895,336
More than 5 years	27,956,423	41,518,162
	P43,470,785	P46,329,358

As of December 31, 2017 and 2016, the plan assets include shares of stock of the Parent Company with total fair value of P459.8 million and P738.7 million, respectively. The Parent Company gives the trustee bank the discretion to exercise voting rights over the shares.



The fund includes investment in securities of its related parties. Details of the investment per type of security are as follows (in thousands):

2017	Historical Cost	Fair Value	Unrealized Gains
		(In Thousands)	
Equity securities	₱1,055,337	₱1,151,094	₱95,757
Debt securities	2,470,907	2,435,663	(35,244)
Unit investment trust funds	368,937	381,694	12,757
Others	50,962	51,999	1,037
	₱3,946,143	₱4,020,450	₱74,307

2016	Historical Cost	Fair Value	Unrealized Gains
		(In Thousands)	
Equity securities	₱1,241,891	₱1,249,321	₱7,430
Debt securities	447,185	441,592	(5,593)
Unit investment trust funds	755,613	753,914	(1,699)
	₱2,444,689	₱2,444,827	₱138

The overall expected rate of return on assets is determined based on the market prices prevailing on that date.

The Group's transactions with the fund mainly pertain to contributions, benefit payments, settlements and curtailments.

27. Stock Option Purchase Plans

The Parent Company has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (ESOWN) covering 3.0% of the Parent Company's authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a defined period of time.

ESOP

The ESOP grantees may exercise in whole or in part the vested allocation in accordance with the vesting percentage and vesting schedule stated in the ESOP. Also, the grantee must be an employee of the Parent Company or any of its subsidiaries during the 10-year option period. In case the grantee retires, he/she is given 3 years to exercise his/her vested and unvested options. In case the grantee resigns, he/she is given 90 days to exercise his/her vested options.

A summary of the Parent Company's stock option activity and related information for the years ended December 31, 2017 and 2016 follows:

	2017		2016		2015	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, at beginning of year	1,201,738	₱295.27	1,338,693	₱301.51	1,621,606	₱301.80
Exercised	(169,035)	343.88	(136,955)	(356.29)	(282,913)	(301.17)
Outstanding, at end of year	1,032,703	₱287.32	1,201,738	₱295.27	1,338,693	(₱301.51)

The options have a contractual term of 10 years. As of December 31, 2017 and 2016, the weighted average remaining contractual life of options outstanding is 3.54 years and 5.33 years, respectively, and the range of exercise prices amounted from ₱500.00 to ₱227.50.



The fair value of each option is estimated on the date of grant using the Black-Scholes Merton Formula. The fair values of stock options granted under ESOP at each grant date and the assumptions used to determine the fair value of the stock options are as follows:

	April 26, 2013	April 18, 2011	April 16, 2010
Weighted average share price	₱640.00	₱352.08	₱303.70
Exercise price	₱500.00	₱316.87	₱273.03
Expected volatility	42.40%	41.21%	41.31%
Option life	10 years	10 years	10 years
Expected dividends	0.54%	0.86%	0.92%
Risk-free interest rate	3.04%	6.64%	8.56%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also necessarily be the actual outcome.

ESOWN

The Parent Company also has ESOWN granted to qualified officers and employees wherein grantees may subscribe in full to the shares awarded to them based on the average market price determined by the Personnel and Compensation Committee as the offer price set at grant date. For any share awards unsubscribed, grantees still have the option to subscribe from the start of the fifth year but not later than on the start of the seventh year from date of grant.

To subscribe, the grantee must be an employee of the Parent Company or any of its subsidiaries during the 10-year payment period. In case the grantee resigns, the unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, and payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may continue to subscribe to the unsubscribed shares anytime within the 10-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the plan are subject to the Parent Company's Right to Repurchase.

In 2015, the Parent Company introduced a revised ESOWN plan wherein grantees are given one (1) month from the time an allocation is awarded to subscribe in full, with any unsubscribed awards forfeited.

Subscriptions receivable from the stock options are presented under equity.

ESOWN grants totaling 456,286 and 501,564 were subscribed in 2017 and 2016, respectively. Movements in the number of options outstanding under ESOWN as of December 31, 2017 and 2016 follow:

	2017		2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
At January 1	25,806	₱373.09	61,154	₱301.51
Granted	456,286		515,299	
Subscribed	(456,286)	837.53	(515,299)	717.3
Exercised/cancelled	—	—	(35,348)	(200.03)
At December 31	25,806	₱373.09	25,806	₱373.09

The ESOWN grants are effectively treated as options on shares exercisable within a given period, considering both the subscription period allowed to grantees and the subscription payment pattern. As such, the fair values of these options are estimated on the date of grant using the Black-Scholes Merton Formula and Binomial Tree Model, taking into account the terms and conditions upon which



the options were granted. These models require six inputs to produce the stock option value, which are namely: share price, exercise price, time to maturity, volatility rate, dividend yield, and risk-free rate.

The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

	April 18, 2017	December 16, 2016	December 23, 2015	April 11, 2014	April 30, 2012
Number of unsubscribed shares	—	—	—	8,344	17,462
Fair value of each option	₱222.49	₱176.82	₱444.59	₱619.00	₱259.97
Weighted average share price	₱859.00	₱732.00	₱718.88	₱673.96	₱434.47
Exercise price	₱837.53	₱717.30	₱611.05	₱480.00	₱322.00
Expected volatility	29.55%	30.31%	38.23%	42.13%	41.78%
Dividend yield	0.61%	0.70%	0.67%	0.74%	0.74%
Interest rate	2.89%	1.46%	4.81%	4.38%	5.59%

Total expense arising from share-based payments (included under “General and administrative expenses”) in the consolidated statements of income amounted to ₱248.0 million in 2016.

In 2017, the Parent Company recognized an adjustment of ₱166.7 million reduction in the ESOWN costs of share-based payments following the revised valuation methodology.

ALI

ALI has stock option plans for key officers (ESOP) and employees (ESOWN) covering 2.5% of ALI’s authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a three-year period.

ESOP

The ESOP grantees may exercise in whole or in part the vested allocation in accordance with the vesting percentage and vesting schedule stated in the ESOP. Also, the grantee must be an employee of ALI or any of its subsidiaries during the 10-year option period. In case the grantee retires, he is given 3 years to exercise his vested and unvested options. In case the grantee resigns, he is given 90 days to exercise his vested options.

No ESOP grant and availment during 2017 and 2016. In 2015, the options exercised had a weighted average exercise price of ₱5.63 per share or ₱16.09 million. The average fair market value of the shares at the exercise date was ₱36.53 per share or about ₱104.4 million.

ESOWN

In November 2001, ALI offered all its ESOWN subscribers with outstanding ESOWN subscriptions the option to cancel the subscriptions within the 5-year holding period. In December 2001, the program for ESOWN was indefinitely suspended.

In 2005, ALI introduced a revised ESOWN Plan (the Plan) wherein grantees may subscribe in whole or in part to the shares awarded to them based on a discounted market price that was determined by the Compensation Committee of ALI as the offer price set at grant date. The grantees paid for the shares subscribed through installments over a maximum period of ten (10) years. The subscription is subject to a holding period stated in the plan. To subscribe, the grantee must be an employee of ALI or any of its subsidiaries during the ten (10)-year payment period. In case the grantee resigns, unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, or payments may be converted into the



equivalent number of shares. In case the grantee retires, the grantee may subscribe to the unsubscribed shares anytime within the ten (10)-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the Plan are subject to ALI's right to repurchase.

The subscribed shares are effectively treated as options exercisable within a given period which is the same time as the grantee's payment schedule. The fair values of these options are estimated on the date of grant using the Binomial Tree Model. The Binomial Tree model requires six inputs to produce an option stock value namely: market value of the share, book value of the share, time to maturity, volatility rate, dividend yield, and risk free rate.

For the unsubscribed shares, the employee still has the option to subscribe within seven (7) years except for 2017 grant.

Movements in the number of options outstanding and weighted average exercise prices (WAEP) under ESOWN follow:

	2017	WAEP	2016	WAEP
At January 1	7,135,513	₱19.95	8,734,420	₱16.96
Granted	11,420,517	—	15,182,203	—
Subscribed	(10,424,599)	26.65	(17,051,221)	24.11
Cancelled availment	2,768,790	—	678,086	—
Cancelled	(1,953,912)	—	(407,975)	—
At December 31	8,946,309	₱23.30	7,135,513	₱19.95

The fair values of stock options granted are estimated on the date of grant using the Binomial Tree Model (BTM) and Black-Scholes Merton (BSM) Formula, taking into account the terms and conditions upon which the options were granted. The expected volatility was determined based on an independent valuation. Option maturity is four years from the date of grant.

The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

	Grant Date						
	March 01, 2017	April 05, 2016	March 20, 2015	March 20, 2014	March 18, 2013	March 13, 2012	March 31, 2011
Number of unsubscribed shares	—	181,304	—	1,369,887	1,713,868	3,967,302	3,843,057
Fair value of each option (BTM)	₱8.48	₱13.61	₱16.03	₱12.60	₱16.05	₱9.48	₱7.81
Fair value of each option (BSM)	₱—	₱18.21	₱20.63	₱12.16	₱11.85	₱6.23	₱7.27
Weighted average share price	₱39.72	₱35.58	₱36.53	₱31.46	₱30.00	₱21.98	₱15.5
Exercise price	₱27.68	₱26.27	₱29.58	₱22.55	₱21.45	₱14.69	₱13.2
Expected volatility	30.95%	32.03%	31.99%	33.50%	36.25%	33.00%	36.25%
Dividend yield	1.34%	1.27%	1.02%	1.42%	1.93%	0.9%	1.01%
Interest rate	4.41%	4.75%	4.11%	3.13%	2.78%	5.70%	5.60%

Total expense (included under "General and administrative expenses") recognized in 2017, 2016 and 2015 in the consolidated statement of income arising from share-based payments of ALI amounted to ₱153.8 million, ₱208.3 million and ₱213.6 million, respectively.

IMI

IMI Group has an ESOWN, which is a privilege extended to IMI Group's eligible managers and staff whereby IMI Group allocates up to 10% of its authorized capital stock for subscription by said personnel under certain terms and conditions stipulated in the ESOWN.



The key features of the plan are as follows:

- The subscription price per share shall be based on the average closing price at the PSE for 20 consecutive trading days with a discount to be determined by the Compensation Committee of IMI.

- Term of payment is eight years reckoned from the date of subscription:

Initial payment	2.5%
1 st Anniversary	5.0%
2 nd Anniversary	7.5%
3 rd Anniversary	10.0%
Over the remaining years	75.0% balance

- Holding period:

40%	after one (1) year from subscription date
30%	after two (2) years from subscription date
30%	after three (3) years from subscription date

On August 5, 2015, the Executive Committee of IMI approved the grant of ESOWN to qualified executives covering up to 27,189,000 shares at a subscription price of ₱5.11 per share, equivalent to the average closing price of IMI's common shares, at the PSE for 20 consecutive trading days ending June 25, 2015, net of 15% discount. Out of the total shares granted, 10,393,394 shares were subscribed by 78 executives of the IMI Group.

The fair value of stock options granted in 2015 is estimated at the date of grant using the Black-Scholes Melton Formula, taking into account the terms and conditions upon which the stock options were granted. The expected volatility was determined based on an independent valuation.

Movements in the number of shares outstanding under ESOWN in 2017, 2016 and 2015 follow:

	2017		2016		2015	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
At beginning of year	141,565,253	₱6.69	143,740,493	₱6.69	135,902,428	₱6.71
Forfeitures	(1,158,757)	8.66	(2,175,240)	6.99	(2,555,329)	6.37
Subscriptions	-	-	-	-	10,393,394	5.11
At end of year	₱140,406,496	₱6.67	141,565,253	₱6.69	143,740,493	₱6.69

Total expense arising from share-based payments of IMI (included under "General and administrative expenses") in the consolidated statement of income amounted to US\$0.3 million (₱13.0 million), US\$0.7 million (₱33.2 million), and US\$1.5 million (₱72.0 million in 2017, 2016 and 2015, respectively.

MWC

Executive Stock Option Plan (Executive SOP), Expanded Executive SOP and ESOWN

The subscribed shares are effectively treated as options exercisable within a given period which is the same time as the grantee's payment schedule. The fair values of these options are estimated on the date of grant using the Binomial Tree Model.

For the unsubscribed shares, the employee still has the option to subscribe within 7 years.

The fair values of stock options granted are estimated on the date of grant using the Binomial Tree Model and Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The expected volatility was determined based on an independent valuation.



The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

	Grant Dates		
	February 10, 2015	November 19, 2013	October 5, 2012
Number of shares granted	7,281,647	6,627,100	4,772,414
Number of unsubscribed shares	884,873	351,680	460,000
Fair value of each option	₱11.58	₱10.58	₱11.76
Weighted average share price	₱21.35	₱23.00	₱26.24
Exercise price	₱26.00	₱22.92	₱24.07
Expected volatility	26.53%	24.90%	30.66%
Dividend yield	2.55%	3.47%	2.56%
Risk-free interest rate	3.79%	2.99%	4.57%
Expected life of option	4 years	4 years	4 years

To enjoy the rights provided for in the ESOWN, the grantee should be with MWC at the time the holding period expires. The Holding Period of the ESOWN shares follows:

Year	Holding Period
After one year from subscription date	40%
After two years from subscription date	30%
After three years from subscription date	30%

The ESOWN grantees are allowed to subscribe fully or partially to whatever allocation may have been granted to them. In case of partial subscriptions, the employees are still allowed to subscribe to the remaining unsubscribed shares granted to them provided that this would be made at the start of Year 5 from grant date up to the end of Year 6. Any additional subscription made by the employee (after the initial subscription) will be subjected to another 3-year holding period.

Movements in the number of stock options outstanding under ESOWN are as follows:

	2017	Weighted average exercise price	2016	Weighted average exercise price
At January 1	4,923,730	₱23.49	4,996,593	₱23.49
Cancelled	(4,691,750)	—	(72,863)	—
At December 31	231,980	₱23.49	4,923,730	₱23.49

Total expense arising from equity-settled share-based payment transactions of MWC (included under "General and administrative expenses") in the consolidated statement of income amounted to ₱12.2 million, ₱33.2 million and ₱68.7 million in 2017, 2016 and 2015, respectively.

28. Operating Segment Information

For management purposes, the Group is organized into the following business units:

- Parent Company - represents operations of the Parent Company including its financing entities such as ACIFL, AYCFL, PFIL and MHI.
- Real estate and hotels - planning and development of large-scale fully integrated mixed-used communities that become thriving economic centers in their respective regions. This include development and sale of residential, leisure and commercial lots and the development and leasing of retail and office space and land in these communities; construction and sale of residential condominiums and office buildings; development of industrial and business parks;



development and sale of high-end, upper middle-income and affordable and economic housing; strategic land bank management; hotel, cinema and theater operations; and construction and property management.

- Financial services and insurance - commercial banking operations with expanded banking license. These include diverse services such as deposit taking and cash management (savings and time deposits in local and foreign currencies, payment services, card products, fund transfers, international trade settlement and remittances from overseas workers); lending (corporate, consumer, mortgage, leasing and agri-business loans); asset management (portfolio management, unit funds, trust administration and estate planning); securities brokerage (on-line stock trading); foreign exchange and capital markets investments (securities dealing); corporate services (corporate finance, consulting services); investment banking (trust and investment services); a fully integrated bancassurance operations (life, non-life, pre-need and reinsurance services); and other services (internet banking, foreign exchange and safety deposit facilities).
- Telecommunications (Telecoms) - provider of digital wireless communications services using a fully digital network; domestic and international long distance communication services or carrier services; broadband internet and wireline voice and data communication services; also licensed to establish, install, operate and maintain a nationwide local exchange carrier (LEC) service, particularly integrated local telephone service with public payphone facilities and public calling stations, and to render and provide international and domestic carrier and leased line services. In recent years, operations include developing, designing, administering, managing and operating software applications and systems, including systems designed for the operations of bill payment and money remittance, payment facilities through various telecommunications systems operated by telecommunications carriers in the Philippines and throughout the world and to supply software and hardware facilities for such purposes.
- Water infrastructure - contractor to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery, sewerage and sanitation, distribution services, pipeworks, used water management and management services. In 2016, a new business initiative was undertaken where the group will exclusively provide water and used water services and facilities to all property development projects of major real estate companies.
- Electronics manufacturing - global provider of electronics manufacturing services (EMS) and power semiconductor assembly and test services with manufacturing facilities in Asia, Europe, and North America. It serves diversified markets that include those in the automotive, industrial, medical, telecommunications infrastructure, storage device, and consumer electronics industries. Committed to cost-effective and innovative customized solutions (from design and product development to manufacturing and order fulfillment), the company's comprehensive capabilities and global manufacturing presence allow it to take on specific outsourcing needs.
- Power generation - unit that will build a portfolio of power generation assets using renewable and conventional technologies which in turn will operate business of generating, transmission of electricity, distribution of electricity and supply of electricity, including the provision of related services.
- Automotive, IT/BPO and Others - includes operations of Automotive unit's business on manufacturing, distribution and sale and providing repairs and services for passenger cars and commercial vehicles. In 2016, this unit launched initiatives to include industrial manufacturing activity for long-term synergy and integration with automotive business. This segment also includes the Information Technology and BPO services unit (venture capital for technology businesses and emerging markets; onshore and offshore outsourcing services in the research, analytics, legal, electronic discovery, document management, finance and accounting, full-service creative and marketing, human capital management solutions, and full-service accounting); International unit (investments in overseas property companies and projects); Aviation (air-



chartered services); consultancy, agri-business and other operating companies. This business segment group also includes the companies like Infrastructure (development arm for its transport infrastructure investments); education, human capital resource management and health services.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

For the years ended December 31, 2017, 2016 and 2015, there were no revenue transactions with a single external customer which accounted for 10% or more of the consolidated revenue from external customers.

Intersegment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Segment revenue, segment expense and segment results include transfers between operating segments. Those transfers are eliminated in consolidation.



The following tables regarding operating segments present assets and liabilities as of December 31, 2017 and 2016 and revenue and income information for each of the three years in the period ended December 31, 2017 (amounts in millions):

2017

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecoms	Water Infrastructure	Electronics	Power Generation	Automotive and Others	Intersegment Eliminations	Consolidated
Revenue										
Sales to external customers	₱254	₱133,161	₱-	₱-	₱16,659	₱ 55,029	₱2,155	₱34,970	₱-	₱242,228
Intersegment	266	(63)	-	-	547	-	262	845	(1,857)	-
Share of profit of associates and joint ventures	-	861	10,772	4,559	304	-	1,778	220	-	18,494
Interest income	-	5,410	-	-	-	-	-	-	-	5,410
Dividend income	61	2	-	-	-	-	390	201	-	654
	581	139,371	10,772	4,559	17,510	55,029	4,585	36,236	(1,857)	266,786
Costs and expenses										
Costs of sales and services	26	87,921	-	-	7,299	48,405	1,563	31,885	(1,425)	175,674
General and administrative	3,255	7,315	-	-	3,558	4,618	1,313	5,355	(201)	25,213
	3,281	95,236	-	-	10,857	53,023	2,876	37,240	(1,626)	200,887
Other income (charges)										
Interest income	449	578	-	-	358	6	81	36	(105)	1,403
Other income	1,055	2,344	-	-	13,122	437	2,050	2,463	(533)	20,938
Interest and other financing charges	(3,838)	(9,070)	-	-	(1,361)	(345)	(305)	(205)	683	(14,441)
Other charges	-	-	-	-	(11,672)	-	-	-	-	(11,672)
	(2,334)	(6,148)	-	-	447	98	1,826	2,294	45	(3,772)
Net income (loss) before income tax	(5,034)	37,986	10,772	4,559	7,101	2,104	3,536	1,290	(188)	62,126
Provision for (benefit from) income tax	169	9,825	-	-	1,734	376	(56)	279	(68)	12,259
Net income (loss)	(₱5,203)	₱28,161	₱10,772	₱4,559	₱5,367	₱1,728	₱3,592	₱1,011	(₱120)	₱49,867
Other information										
Segment assets	₱47,213	₱536,543	₱-	₱-	₱110,892	₱45,906	₱54,506	₱32,857	(₱21,741)	₱806,176
Investments in associates and joint ventures	139,054	26,796	-	-	8,263	-	24,562	3,974	-	202,649
Deferred tax assets	98	10,649	-	-	1,203	60	116	176	419	12,721
Total assets	₱186,365	₱573,988	₱-	₱-	₱120,358	₱45,966	₱79,184	₱37,007	(₱21,322)	₱1,021,546
Segment liabilities	₱112,443	₱378,185	₱-	₱-	₱54,008	₱31,982	₱36,021	₱13,050	(₱23,344)	₱602,345
Deferred tax liabilities	102	3,544	-	-	4,060	127	170	105	-	8,108
Total liabilities	₱112,545	₱381,729	₱-	₱-	₱58,068	₱32,109	₱36,191	₱13,155	(₱23,344)	₱610,453
Segment additions to property, plant and equipment and investment properties	₱164	₱30,676	₱-	₱-	₱1,299	₱3,089	₱14,088	₱3,178	₱929	₱53,423
Depreciation and amortization	₱324	₱6,420	₱-	₱-	₱3,412	₱1,443	₱323	₱498	(₱122)	₱12,298
Non-cash expenses other than depreciation and amortization	₱207	₱612	₱-	₱-	₱586	₱24	₱54	₱271	₱48	₱1,802
Cash flows provided by (used in):										
Operating activities	(₱5,097)	₱25,641	₱-	₱-	₱129	(₱140)	(₱5,034)	(₱795)	₱10,797	₱25,501
Investing activities	₱7,951	(₱35,372)	₱-	₱-	(₱4,174)	(₱4,737)	(₱23,925)	(₱8,233)	₱4,704	(₱63,786)
Financing activities	(₱164)	₱9,801	₱-	₱-	₱8,940	₱4,986	₱23,674	₱10,585	(₱15,501)	₱42,321



2016

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecoms	Water Infrastructure	Electronics	Power Generation	Automotive and Others	Intersegment Eliminations	Consolidated
Income										
Sales to external customers	P298	P117,532	P-	P-	P16,090	P39,994	P203	P25,092	P-	P199,209
Intersegment	181	168	-	-	414	-	-	481	(1,244)	-
Share of profit of associates and joint ventures	-	554	10,637	4,754	369	-	1,542	298	-	18,154
Interest income	656	5,614	-	-	258	14	56	80	99	6,777
Other income	1,104	660	-	-	8,077	(215)	2,174	2,006	(660)	13,146
Total income	2,239	124,528	10,637	4,754	25,208	39,793	3,975	27,957	(1,805)	237,286
Operating expenses	3,293	83,552	-	-	9,916	37,856	1,251	26,516	(1,622)	160,762
Operating profit (loss)	(1,054)	40,976	10,637	4,754	15,292	1,937	2,724	1,441	(183)	76,524
Interest and other financing charges and other charges	4,558	8,268	-	-	8,183	183	222	1,069	101	22,584
Provision for (benefit from) income tax	6	8,278	-	-	1,543	324	143	230	(17)	10,507
Net income (loss)	(P5,618)	P24,430	P10,637	P4,754	P5,566	P1,430	P2,359	P142	(P267)	P43,433
Other information										
Segment assets	P49,110	P501,579	P-	P-	P95,040	P31,540	P43,067	P26,245	(P27,605)	P718,976
Investments in associates and joint ventures	130,954	24,985	-	-	6,200	-	13,743	4,432	-	180,314
Deferred tax assets	280	9,869	-	-	1,656	77	1	137	395	12,415
Total assets	P180,344	P536,433	P-	P-	P102,896	P31,617	P56,811	P30,814	(P27,210)	P911,705
Segment liabilities	P101,980	P359,393	P-	P-	P40,993	P19,727	P27,903	P8,772	(P27,603)	P531,165
Deferred tax liabilities	97	4,357	-	-	4,728	63	203	96	-	9,544
Total liabilities	P102,077	P363,750	P-	P-	P45,721	P19,790	P28,106	P8,868	(P27,603)	P540,709
Segment additions to property, plant and equipment and investment properties	P105	P33,649	P-	P-	P944	P2,404	P21,703	P734	(P6,746)	P52,793
Depreciation and amortization	P333	P5,873	P-	P-	P3,734	P1,158	P86	P371	P5	P11,560
Non-cash expenses other than depreciation and amortization	P388	P434	P-	P-	P46	(P121)	P488	P971	P-	P2,206
Cash flows provided by (used in):										
Operating activities	(P5,244)	P12,807	P-	P-	P1,256	P2,441	P7,166	(P131)	P16,922	P35,217
Investing activities	(P2,406)	(P39,648)	P-	P-	(P598)	(P5,136)	(P21,268)	P626	(P7,753)	(P76,183)
Financing activities	(P22,387)	P28,683	P-	P-	(P3,239)	P2,220	P22,757	P170	(P9,169)	P19,035



2015

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecoms	Water Infrastructure	Electronics	Power Generation	Automotive and Others	Intersegment Eliminations	Consolidated
Income										
Sales to external customers	P52	P100,266	P-	P-	P15,867	P36,958	P-	P20,892	P-	P174,035
Intersegment	153	395	-	-	163	-	-	442	(1,153)	-
Share of profit of associates and joint ventures	-	(140)	8,856	4,899	403	-	1,026	(6)	-	15,038
Interest income	867	5,980	-	-	318	30	15	87	-	7,297
Other income	1,424	683	-	-	6,220	(81)	1,794	1,731	(474)	11,297
Total income	2,496	107,184	8,856	4,899	22,971	36,907	2,835	23,146	(1,627)	207,667
Operating expenses	3,605	72,099	-	-	14,443	35,152	893	22,355	(1,464)	147,083
Operating profit (loss)	(1,109)	35,085	8,856	4,899	8,528	1,755	1,942	791	(163)	60,584
Interest and other financing charges and other charges	4,259	7,334	-	-	1,402	124	13	136	9	13,277
Provision for (benefit from) income tax	90	6,854	-	-	1,631	271	(48)	207	7	9,012
Net income (loss)	(P5,458)	P20,897	P8,856	P4,899	P5,495	P1,360	P1,977	P448	(P179)	P38,295
Other information										
Segment assets	P69,090	P416,909	P-	P-	P96,401	P24,398	P10,517	P23,792	(P19,486)	P621,621
Investments in associates and joint ventures	121,430	17,522	-	-	5,724	(83)	13,501	4,617	-	162,711
Deferred tax assets	246	7,912	-	-	925	72	108	115	365	9,743
Total assets	P190,766	P442,343	P-	P-	P103,050	P24,387	P24,126	P28,524	(P19,121)	P794,075
Segment liabilities	P103,839	P290,734	P-	P-	P40,952	P13,449	P4,260	P8,576	(P2,720)	P459,090
Deferred tax liabilities	89	1,782	-	-	4,393	64	47	27	39	6,441
Total liabilities	P103,928	P292,516	P-	P-	P45,345	P13,513	P4,307	P8,603	(P2,681)	P465,531
Segment additions to property, plant and equipment and investment properties	P310	P23,339	P-	P-	P726	P1,653	P5,536	P1,559	(P4,662)	P28,461
Depreciation and amortization	P219	P4,247	P-	P-	P3,468	P1,054	P10	P440	P5	P9,443
Non-cash expenses other than depreciation and amortization	P611	P156	P-	P-	P5,139	P104	P271	P113	P154	P6,548
Cash flows provided by (used in):										
Operating activities	(P12,736)	P21,175	P-	P-	P4,927	P2,580	P1,055	P499	P1,085	P18,585
Investing activities	P21,443	(P48,946)	P-	P-	(P622)	(P1,659)	(P3,705)	(P2,166)	(P3,166)	(P38,821)
Financing activities	(P11,401)	P18,583	P-	P-	(P3,705)	(P1,403)	P4,707	P2,761	P2,080	P11,622



Geographical Segments

	Income			Total Assets		Investment Properties and Property, Plant and Equipment Additions	
	2017	2016	2015	2017	2016	2017	2016
Philippines	₱205,230	₱194,219	₱168,523	₱947,944	₱863,719	₱47,982	₱47,129
Japan	2,158	2,361	2,786	30	19	-	-
USA	13,990	9,138	10,816	5,365	3,754	431	720
Europe	26,274	16,946	19,451	15,322	11,866	3,999	2,861
Others (mostly Asia)	19,134	14,621	6,091	52,884	32,347	1,011	1,043
	₱266,786	₱237,286	₱207,667	₱1,021,546	₱911,705	₱53,423	₱51,753

The following table shows the reconciliation of revenue and income information of the operating segments to the consolidated revenue for the years ended December 31, 2016 and 2015:

	2016	2015
	(In Millions)	
Total income	₱237,286	₱207,667
Less:		
Interest income	(1,766)	(2,124)
Other income	(12,576)	(11,068)
Revenue	₱222,944	₱194,475

29. Leases

Finance leases - as lessee

The Group has finance leases for various items of property, plant and equipment. These leases have lease terms of 3 to 10 years. Future minimum lease payments under the finance leases together with the present value of the net minimum lease payments follow:

	2017		2016	
	Minimum Payments	Present values of payments	Minimum Payments	Present values of payments
	(In Thousands)			
Within one year	₱20,770	₱20,871	₱6,760	₱6,712
After one year but not more than five years	21,630	22,489	6,337	6,919
Total minimum lease payments	42,400	43,360	13,097	13,631
Less amounts representing finance charges	3,034	2,555	1,407	-
Present value of minimum lease payments	₱39,366	₱40,805	₱11,690	₱13,631

Operating lease commitments - as lessee

Parent Company

On December 15, 2014, Mermac, Inc (the Lessor) and the Parent Company made and entered into a Contract of Lease. The Lessor leases, lets, and demises unto the Parent Company, an office space constituting the Leased Premises, located at the 35th Floor, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City. The term of the lease shall be five (5) years, commencing on November 15, 2014 and ending on November 14, 2019. The lease is subject to annual escalation clause of 5% for the first 2 years and 10% for the next 2 years.

Future minimum rentals payable under non-cancellable operating leases follow:

	2017	2016
	(In Thousands)	
Within one year	₱7,809	₱7,099
More than one (1) year but less than five (5) years	7,242	15,233
	₱15,051	₱22,332



ALI Group

ALI Group entered into lease agreements with third parties covering real estate properties. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Future minimum rentals payable under noncancellable operating leases of ALI Group follows:

	2017	2016
	<i>(In Thousands)</i>	
Within one year	₱733,899	₱816,851
After one year but not more than five years	2,687,534	3,696,977
More than five years	18,594,127	18,120,723
	₱22,015,560	₱22,634,551

ALI

On September 2, 2014, ALI signed a Lease Agreement with D.M. Wenceslao & Associates Inc. for the lease of several parcels of land along Asean Avenue and Macapagal Boulevard, Aseana City, Paranaque City with an aggregate area of 92,317 sqm. ALI signed a 45-year lease contract with an option to renew for another 45 years subject to such terms and conditions as may be mutually agreed upon by the lessor and ALI.

On January 1, 2015, ALI and ACCI entered into a lease contract for the lease of parcels of land and buildings within the Greenbelt and Glorietta development located at the Ayala Center, Makati City. The lease shall be for a period of two years from January 1, 2015 until December 31, 2016, renewable for another two years upon the written agreement of both parties. The lease generally provide for a fixed monthly rent and a certain percentage of gross rental revenue per month.

On April 26, 2012, ALI signed a Lease Agreement with the Province of Negros Occidental for the lease of a parcel of land with an aggregate area of 40,481 sq. m. located along Gatuslao cor. North and South Capitol Roads, Bacolod City, registered in the name of the Province of Negros Occidental. ALI signed a 50-year lease contract with an option to renew as may be mutually agreed upon by the lessor and ALI.

Arvo Commercial Corporation (Arvo)

Arvo entered into a lease agreement with Avida to lease a land in Dasmarinas, Cavite with an area of approximately 18,700 square meters (sqm) for the construction, development and operation thereon of a mixed-use commercial development for a period of 50 years. The lease agreement provides for a rental fee equivalent to 8% of gross rental income which will be paid on a monthly basis.

On December 4, 2013, Arvo entered an agreement with Liberty Commercial Center, Inc. (LCC) to construct a five-storey commercial mall building with an aggregate gross floor area of approximately 30,400 square meters on a 10,000 square meter portion of the land, and Arvo to act as coordinator for the construction and development of the building. Arvo assisted LCC in obtaining a loan from a local bank in the aggregate amount of approximately ₱1,325.00 million to fully fund the cost of the design and construction of the building. Upon completion of the construction of the building, Arvo shall lease the building from LCC under a building lease agreement.

On October 15, 2014, Arvo entered into a property lease agreement with Rotonda Development Corporation for the construction, development and operation of a commercial and mall center. The terms of the lease shall be 42 years, with an option to renew for another 40 years subject to mutual agreement of the parties. The lease agreement provided rent-free period of 2 years and lease payments shall commence thereafter. Lease payments shall be paid annually at ₱60.00 per sqm, subject to an annual escalation of 4%.



On March 5, 2015, Arvo entered into a building lease agreement with L.C. Lopez Resources, Inc. that has a lease term of 40 years with an option for renewal for another 10 years upon mutual agreement of the parties. Arvo shall have the right but not the obligation to retrofit the leased premises as may be deemed necessary. Arvo shall pay monthly rent equivalent of ₱170.00 per sqm with annual escalation of 5%.

Ayalaland MetroNorth, Inc. (AMNI)

On January 28, 2011, the Board of Regents of the University of the Philippines awarded to AMNI the ₱4.0 billion development of a 7.4-hectare lot at the University of the Philippines' Diliman East Campus, also known as the UP Integrated School, along Katipunan Avenue, Quezon City. AMNI signed a 25-year lease contract for the property last June 22, 2011, with an option to renew for another 25 years subject to mutual agreement of the parties. The lease payments shall commence as soon as sales are registered by the merchants.

A retail establishment with about 63,000 sqm of gross leasable area and an office/BPO building about 8,000 sqm of gross leasable area shall be constructed on the property. For the year ended December 31, 2012, lease payments have been capitalized as construction was still in progress. For the year ended December 31, 2013, Phase 1a (with gross leasable area of 5,000 sqm.) of the retail establishment has commenced operations on September 30, 2013.

On December 18, 2013, AMNI has donated the New UPIS facilities at a total cost of ₱224.7 million and the rehabilitated and upgraded UPIS "K-2" and "3-6" Buildings at a cost of ₱40.0 million to the University of the Philippines.

Subic Bay Town Center, Inc. (SBTCI)

On October 16, 2009, ALI has executed a lease agreement with the Subic Bay Metropolitan Authority (SBMA), for the development of a 7.5-hectare property along Rizal Highway within the Subic Bay Freeport Zone, located between the two main gates linking the Freeport Zone to Olongapo City. The lease commitment is expected to be completed in 2060 after the 50-year lease term. The lease may be renewed for another 25 years upon mutual agreement of the parties. ALI offered to develop a mall with an estimated gross leasable area of 38,000 sqm. On March 25, 2010, ALI entered into an assignment of lease agreement whereby ALI assigned its rights and obligations granted to or imposed under the lease agreement to its subsidiary, SBTCI. The lease payments to SBMA started from the commencement of the commercial operation of the mall last April 26, 2012 which was completed during the same period.

Station Square East Commercial Corporation (SSECC)

ALI has an existing contract with Bases Conversion and Development Authority (BCDA) to develop, under a lease agreement signed on July 2000, a mall with an estimated gross leasable area of 152,000 sqm on a 9.8-hectare lot inside Fort Bonifacio. The lease commitment is expected to be completed in 2015. The lease agreement covers 25 years, renewable for another 25 years subject to reappraisal of the lot at market value. The annual fixed lease rental amounts to ₱106.5 million while the variable rent ranges from 5% to 20% of gross revenues. Subsequently, ALI transferred its rights and obligations granted to or imposed under the lease agreement to SSECC, a subsidiary, in exchange for equity. As part of the bid requirement, ALI procured a performance bond in 2003 from the Government Service Insurance System in favor of BCDA amounting to ₱3.9 billion to guarantee the committed capital to BCDA. Moreover, SSECC obtained standby letters of credit to guarantee the payment of the fixed and variable rent as prescribed in the lease agreement.

POPI

On August 28, 1990, ALI, through a Deed of Assignment, acquired all the rights, titles, interests and obligations of Gotesco Investment, Inc. in a contract of lease of the land owned by PNR for the Tutuban Terminal. The contract provided for a payment of a guaranteed minimum annual rental plus a certain percentage of gross sales. The lease covers a period of 25 years until 2014 and is automatically renewable for another 25 years, subject to compliance with the terms and conditions of



the lease agreement. On December 22, 2009, ALI entered into an agreement with PNR for the renewal of its lease contract for another 25 years beginning September 5, 2014. Rent expense charged to operations amounted to ₱149.6 million for the year ended December 31, 2017.

As at December 31, 2017, the aggregate annual commitments on these existing lease agreements for the succeeding years are as follows (in thousands):

	2017	2016
Less than one (1) year	₱140,529	₱153,936
More than one (1) year but not more than five (5) years	702,547	769,678
More than five (5) years	2,201,626	2,527,109
	₱3,044,802	₱3,450,723

IMI Group

IMI Group has various operating lease agreement in respect of plant facilities, office spaces and land. These lease agreements have terms ranging from 5 to 15 years, fixed payment subject to escalation clauses, renewal option and early termination penalties.

Future minimum rentals payable under operating leases of IMI Group as of December 31, 2017 and 2016 follow:

	2017	2016
	(In Thousands)	
Within one year	₱256,015	₱243,918
After one year but not more than five years	621,821	680,488
More than five years	122,525	239,090
	₱1,000,361	₱1,163,496

MWC Group

MWPVI leases

In 2015, MWPVI leases office space and facilities. The operating lease agreements are for periods ranging from one (1) to five (5) years or more from the date of the contracts and are renewable under certain terms and conditions.

Manila Water Total Solutions Corp. (MWTS) lease

In 2015, MWTS, as a lessee, entered into six (6) noncancelable operating lease agreements for its bottled water and integrated use water operations. Average lease term for these arrangements is five (5) years.

LAWC lease

In September 2015, LAWC entered into a lease agreement for its new office in One Evotech, Nuvali with Glensworth Development, Inc. for five (5) years starting September 1, 2015 to August 31, 2020.

Obando Water lease

In November 2, 2017, Obando Water entered into a lease agreement for its office space at a building called OEG Plaza located at Obando, Bulacan with Jennifer C. Gabriel for three (3) years commencing on July 1, 2017 to June 30, 2020.



As of December 31, 2017 and 2016, MWC Group's future minimum lease payments are as follows:

	2017	2016
Within one year	₱36,349	₱22,591
After one year but not more than five years	63,881	59,298
More than five years	33,096	-
	₱133,326	₱81,889

Operating leases - as lessor

Parent Company

The Parent Company is a party under various operating leases which have lease terms between one to thirty years with an annual escalation rate of 4.5% to 10%.

Future minimum rentals receivable under non-cancellable operating leases of the Parent Company follow:

	2017	2016
	<i>(In Thousands)</i>	
Within one year	₱28,079	₱15,171
More than one (1) year but less than five (5) years	157,285	79,766
More than five (5) years	599,989	289,029
	₱785,353	₱383,966

ALI Group

ALI Group have lease agreements with third parties covering their investment properties portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Future minimum rentals receivable under noncancellable operating leases of ALI Group are as follows:

	2017	2016
	<i>(In Thousands)</i>	
Within one year	₱887,835	₱816,851
After one year but not more than five years	3,457,212	3,696,977
More than five years	21,121,236	18,120,723
	₱25,466,283	₱22,634,551

30. Related Party Transactions

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

The Group, in its regular conduct of business, has entered into transactions with associates, joint ventures and other related parties principally consisting of advances, loans and reimbursement of expenses, purchase and sale of real estate properties, various guarantees, construction contracts, and development, management, underwriting, marketing and administrative service agreements. Sales and purchases of goods and services as well as other income and expense to and from related parties are made at normal commercial prices and terms.



The transactions and balances of accounts with related parties follow:

a. Transactions with BPI, an associate

- i. As of December 31, 2017 and 2016, the Group maintains current and savings account, money market placements and other short-term investments with BPI broken down as follows (amounts in thousands):

	2017	2016
Cash in banks	₱5,955,749	₱4,227,508
Cash equivalents	26,226,780	19,751,912
Short-term investments	1,323,456	405,523
Financial assets at FVPL	82,978	977,589

- ii. From the Group's placements and short-term investments with BPI, the Group has accrued interest receivable amounting to ₱28.1 million and ₱23.1 million as of December 31, 2017 and 2016, respectively. Cash in banks earns interest at 0.01% to 0.75% per annum. Cash equivalents earn interest from 1.2% to 2.8% per annum. Investment in FVPL pertain to MMF which earns interest depending on the duration of time invested in the fund with fair value of ₱83.0 million and ₱977.6 million, as of December 31, 2017 and 2016, respectively. Interest income earned from all the deposits, placements and investments amounted to ₱248.0 million in 2017, ₱511.8 million in 2016 and ₱650.4 million in 2015.

The Group also has short-term and long-term debt payable to BPI aggregating to ₱29.6 billion and ₱33.4 billion as of December 31, 2017 and 2016, respectively. These short-term and long-term debts are interest bearing with varying rates ranging from 3.92% to 4.70%, have various maturities starting 2018 and varying schedules of payments for interest. The Group has accrued interest payable pertaining to the outstanding balance of the short-term and long-term debt amounting to ₱7.6 million and ₱78.3 million as of December 31, 2017 and 2016, respectively. Interest expense incurred from the debt amounted to ₱893.4 million in 2017, ₱1.0 billion in 2016 and ₱250.3 million in 2015.

b. Outstanding balances of related party transactions follow (amounts in thousands):

	Receivables		Payables	
	2017	2016	2017	2016
Associates:				
BPI	₱1,023,825	₱653,923	₱80,304	₱142,412
CDPEI	416,352	—	69	—
Alveo -Federal Land Communities, Inc. (Alveo-Federal Land)	166,887	—	—	—
Isuzu Philippines Corporation (IPC)	129,233	214,152	682,208	746,752
Honda Cars Philippines, Inc.(HCP)	117,366	94,760	616,974	724,967
Bonifacio Land Corp. (BLC)	375	374	212,696	211,893
	1,854,038	963,209	1,592,251	1,826,024
Joint ventures:				
Globe	249,802	350,666	17,362	38,618
Lagoon Development Corporation (Lagoon)	7,943	5,922	—	—
	257,745	356,588	17,362	38,618
Other related parties:				
FBDC	573,421	455,170	10,348	1,141,047
Columbus Holdings, Inc. (Columbus)	—	—	—	267,355
Others	385,051	564,671	253,900	168,927
	958,472	1,019,841	264,248	1,577,329
	₱3,070,255	₱2,339,638	₱1,873,861	₱3,441,971



- i. Receivable from BPI includes trade receivables on vehicles sold and financing dealer incentives by AITHI group, dividends receivable and accrued interest receivables on short-term placements by the Group.
 - ii. Receivable from CPDEI pertains to development and construction related costs while accounts from Alveo-Federal Land mainly consist of marketing and management fees; and construction costs.
 - iii. Receivable from Globe includes trade receivables on vehicles sold and project management and professional fees.
 - iv. Receivable from FBDC largely pertains to management fees which are included under "Other income."
 - v. Receivable from IPC and HCP pertains to marketing and sales incentives arising from the sale of vehicles.
 - vi. Other outstanding balances of receivable from related parties at year-end pertain mostly to advances, including those for project development, and reimbursement of operating expenses. In 2016, these include a receivable, which is fully provided for with allowance, from a company undergoing process of dissolution. All these are unsecured, interest free, will be settled in cash and are due and demandable, unless otherwise stated.
 - vii. Payable to Columbus in 2016 represent non-interest bearing advances for stock redemption.
 - viii. Payable to IPC and HCP consist of purchased parts and accessories and vehicles that are trade in nature, interest-free, unsecured and are payable within 15 to 30 days.
 - ix. Payable to BPI includes interest payable on Group's borrowings payable at various payment terms like monthly or quarterly and insurance premiums payable which are due in 30-60 days.
 - x. The other outstanding balances of payable to related parties at year-end consist of advances, including those for development costs and land acquisitions, and expenses incurred on utilities, professional services and other miscellaneous services. Unless otherwise stated, all these are unsecured, interest free, will be settled in cash and are due and demandable.
 - xi. Allowance for doubtful accounts on amounts due from related parties amounted to ₱33.1 million and ₱208.1 million as of December 31, 2017 and 2016, respectively (see Note 7). Provision for doubtful accounts amounted to ₱0.7 million, (₱0.6 million) and ₱0.3 million in 2017, 2016 and 2015, respectively (see Note 22).
- c. Dividends receivable from related parties pertain to accrued dividend declarations from subsidiaries, associates and joint ventures. These are non-interest bearing and usually collectible within one year. This amounted to ₱1,153.2 million and ₱1,228.1 million as of December 31, 2017 and 2016, respectively.
- d. Receivables from officers and employees amounting to ₱1.5 billion and ₱1.1 billion as of December 31, 2017 and 2016 pertain to housing, car, salary and other loans granted to the Group's officers and employees which are collectible through salary deduction, are interest bearing ranging from 5.0% to 10.0% per annum and have various maturity dates ranging from 2018 to 2027.



e. Revenue and expenses from related parties follow:

	Revenue			Costs and Expenses		
	2017	2016	2015	2017	2016	2015
	(In Thousands)					
Associates:						
BPI	₱525,772	₱757,791	₱852,681	₱915,015	₱1,082,322	₱ 264,997
Joint ventures:						
Globe	193,426	236,299	82,733	169,884	143,207	120,172
Integreon	—	—	45,716	—	—	—
Asiacom	347	—	191	—	—	—
	719,545	994,090	981,321	1,084,899	1,225,529	385,169
Other related parties:						
Lagoon	42,737	—	—	828	—	—
Others	22,468	26,936	5,412	23,061	12,135	5,075
	65,205	26,936	5,412	23,889	12,135	5,075
	₱784,750	₱1,021,026	₱986,733	₱1,108,788	₱1,237,664	₱390,244

Revenue recognized from related parties includes:

- Leasing and project development and management services rendered by ALI Group.
- Water and sewerage services rendered by MWC.
- Automotive sales and repair services rendered by AITHI Group.
- Interest and miscellaneous income from cash deposits and money market placement as well as financing dealer incentive from BPI and other entities.
- Others include various income such as interest and management fees.

Expenses recognized from related parties include:

- Interest expense from short-term and long-term debt and credit card and other bank charges payable to BPI.
- Purchases of communications software and billings for mobile phone charges and internet connections with Globe.
- Building rental, leased lines, internet connections and ATM connections with Innove, subsidiary of Globe.
- Others include miscellaneous operating expenses such as professional and management services.

f. The Group's compensation of key management personnel by benefit type follows:

	2017	2016	2015
	(In Thousands)		
Short-term employee benefits	₱1,812,104	₱1,709,872	₱1,652,622
Post-employment benefits (Note 26)	114,237	156,923	73,264
Share-based payments (Note 27)	20,956	65,893	125,641
	₱1,947,297	₱1,932,688	₱1,851,527

Key management personnel of the Group include all officers with position of vice president and up.



31. Financial Instruments

Financial Risk Management

General

Like any other risks, financial risks are inherent in the its business activities and are typical of any large holding company. The financial risk management of the Parent Company seeks to effectively contribute to better decision making, enhance performance, and satisfy compliance demands.

The Parent Company defines financial risks as risk that relates to the Parent Company's ability to meet financial obligations and mitigate funding risk, credit risk and exposure to broad market risks, including volatility in foreign currency exchange rates and interest rates. Funding risk refers to the potential inability to meet contractual or contingent financial obligations as they arise and could potentially impact the Parent Company's financial condition or overall financial position. Credit risk is the risk of financial loss arising from a counterparty's failure to meet its contractual obligations or non-payment of an investment. These exposures may result in unexpected losses and volatilities in the Parent Company's profit and loss accounts.

The Parent Company maintains a strong focus on its funding strategy to help provide access to sufficient funding to meet its business needs and financial obligations throughout business cycles. The Parent Company's plans are established within the context of our annual strategic and financial planning processes. The Parent Company also take into account capital allocations and growth objectives, including dividend pay-out. As a holding company, the Parent Company generates cash primarily on dividend payments of its subsidiaries, associates and joint ventures and other sources of funding.

The Parent Company also establishes credit policies in setting up limits for counterparties that are reviewed quarterly and monitoring of any changes in credit standing of counterparties.

The Parent Company has a formal foreign exchange and interest rate risk management policy. The Parent Company actively monitors foreign exchange exposure and interest rate changes. And in addition, the Parent Company ensures that all loan covenants and regulatory requirements are complied with.

The Ayala Group continues to monitor and manage its financial risk exposures in accordance with Board approved policies. The succeeding discussion focuses on Ayala Group's financial risk management.

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise financial assets at FVPL, AFS financial assets, bank loans, corporate notes and bonds. The financial debt instruments were issued primarily to raise financing for the Group's operations. The Group has various financial assets such as cash and cash equivalents, short-term investments, accounts and notes receivables and accounts payable and accrued expenses which arise directly from its operations.

The Group's main risks arising from the use of financial instruments are interest rate risk, foreign exchange risk, price risk, liquidity risk, and credit risk.

The Group also uses hedging instruments, the purpose of which is to manage the currency and interest rate risks arising from its financial instruments.



The Group's risk management policies relevant to financial risks are summarized below:

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Parent Company's and its subsidiaries' obligations. The policy is to keep a certain level of the total obligations as fixed to minimize earnings volatility due to fluctuation in interest rates.

The following table demonstrates the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates as of December 31, 2017 and 2016, with all variables held constant.

Cash flow interest rate risk

	Change in basis points	Effect on profit before tax	
		2017	2016
		(In Thousands)	
Parent Company -			
Floating rate			
Borrowings	+100	(P69,169)	(P30,250)
	-100	69,169	30,250
Subsidiaries -			
Floating rate			
Borrowings	+100	(P563,358)	(P435,510)
	-100	563,358	435,510

There is no other impact on the Group's equity other than those already affecting the net income.



The terms and maturity profile of the interest-bearing financial assets and liabilities, together with its corresponding nominal amounts and carrying values follows:
(amounts in thousands)

December 31, 2017

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	₱64,218,644	₱64,218,644	₱–	₱–	₱64,218,644
	Fixed at the date of investment or revaluation cut-off	Various	5,400,239	5,400,239	–	–	5,400,239
Short-term investments	Fixed at the date of sale or transaction	Various	1,023,623	93,431	842,510	87,682	1,023,623
Accounts and notes receivable	Fixed at the date of investment or revaluation cut-off	Various	–	–	–	–	–
AFS financial asset - Quoted debt investments			–	–	–	–	–
			₱70,642,506	₱69,712,314	₱842,510	₱87,682	₱70,642,506
Parent Company							
Long-term debt							
<i>Fixed</i>							
	Fixed at 3.92%	7 years	₱10,000,000	₱–	₱–	₱9,913,730	₱9,913,730
	Fixed at 6.80%	10 years	10,000,000	–	9,959,350	–	9,959,350
	Fixed at 4.82%	8 years	10,000,000	–	–	9,906,788	9,906,788
	Fixed at 6.875%	15 years	10,000,000	–	–	9,939,791	9,939,791
<i>Floating</i>							
	Variable at 0.30% to 1% over 3-month PDST R2 or 0% to 0.95% over BSP RRP	3 months	9,222,500	1,875,500	7,323,322	–	9,198,822
Subsidiaries							
Short-term debt							
	Ranging from 1.82% to 4.31%	Monthly, quarterly	6,979,123	6,979,123	–	–	6,979,123
	Ranging from 2.64% to 7.00%	Monthly, quarterly	22,925,600	22,925,600	–	–	22,925,600
Long-term debt							
<i>Fixed</i>							
		3,4,5,7,10 and 15 years					
Peso and foreign currency	Fixed at 1.86% to 9.00%		243,199,395	8,017,262	89,391,352	144,630,783	242,039,397
Dollar							
Exchangeable bond	Fixed at 0.50%	5 years	14,551,428	–	14,551,428	–	14,551,428
<i>Floating</i>							
	Variable at 0.75% over 91-day PDST-R2	3 months, semi-annual	15,207,006	3,839,205	7,315,153	4,043,565	15,197,923
			₱352,085,052	₱43,636,690	₱128,540,605	₱178,434,657	₱350,611,952



December 31, 2016

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents	Fixed at the date of investment	Various	P60,195,546	P60,195,546	P—	P—	P60,195,546
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	1,008,705	1,008,705	—	—	1,008,705
Accounts and notes receivable	Fixed at the date of sale or transaction	Various	1,189,971	1,028,046	103,828	58,097	1,189,971
AFS financial asset - Quoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	115,621	—	115,621	—	115,621
			P62,509,843	P62,232,297	P219,449	P58,097	P62,509,843
Parent Company							
Long-term debt							
<i>Fixed</i>							
	Fixed at 3.92% to 7.20%	7 years	P20,000,000	P9,994,372	P—	P9,903,942	P19,898,314
	Fixed at 6.80%	10 years	10,000,000	—	—	9,948,974	9,948,974
	Fixed at 6.88%	15 years	10,000,000	—	—	9,933,361	9,933,361
<i>Floating</i>							
	Variable at 0.30% to 1% over 3-month PDST R2 or 0% to 0.95% over BSP RRP	3 months	10,865,000	1,948,128	6,019,533	2,868,064	10,835,725
Subsidiaries							
Short-term debt							
	Ranging from 1.23% to 3.16%	Monthly, quarterly	3,453,298	2,720,687	—	—	2,720,687
	Ranging from 2.30% to 7.00%	Monthly, quarterly	28,137,450	28,137,450	—	—	28,137,450
Long-term debt							
<i>Fixed</i>							
		3,4,5,7,10 and 15 years					
Peso and foreign currency	Fixed at 0.50% to 10.21%		168,992,056	4,806,986	74,357,583	89,189,278	168,353,847
Dollar							
Exchangeable bond	Fixed at 0.50%	5 years	14,916,000	—	—	14,198,775	14,198,775
<i>Floating</i>							
	Variable at Libor+1.50% to 3.50%	3 months, semi-annual	32,194,550	3,043,183	22,199,501	6,584,134	31,826,818
			P298,558,354	P50,650,806	P102,576,617	P141,626,528	P295,853,951



Foreign exchange risk

The Group's foreign exchange risk results primarily from movements of the PHP against other currencies. The Group's consolidated statements of income can be affected significantly by movements in the USD and other currencies versus the PHP. In 2017 and 2016, the Group entered into currency forward contracts to hedge its risks associated with foreign currency fluctuations.

IMI Group

The IMI Group's foreign exchange risk results primarily from movements of the US\$ against other currencies. As a result of significant operating expenses in PHP, IMI Group's consolidated statements of income can be affected significantly by movements in the US\$ versus the PHP. In 2017 and 2016, IMI Group entered into currency forward contracts to hedge its risks associated with foreign currency fluctuations.

IMI Group also has transactional currency exposures. Such exposure arises from sales or purchases denominated in other than IMI Group's functional currency. Approximately 48% and 53% of the Group's sales for the years ended December 31, 2017 and 2016, respectively, and 44% and 43% of costs for the years ended December 31, 2017 and 2016, respectively, are denominated in currencies other than IMI Group's functional currency.

IMI Group manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into the relevant domestic currency as and when the management deems necessary. The unhedged exposure is reviewed and monitored closely on an ongoing basis and management will consider hedging any material exposure where appropriate.

MWC Group

The MWC Group's foreign exchange risk results primarily from movements of the PHP against the US\$ and Japanese Yen (JPY). Majority of revenues are generated in PHP, and substantially all capital expenditures are also in PHP. Approximately 44.01% and 33.00% of debt as of December 31, 2017 and 2016, respectively, was denominated in foreign currency.

Information on the Group's significant foreign currency-denominated monetary assets and liabilities and their Php equivalent follows:

	December 31, 2017		December 31, 2016	
	US\$	Php Equivalent*	US\$	Php Equivalent*
	(In Thousands)			
Assets				
Cash and cash equivalents	US\$217,021	₱10,835,871	US\$103,225	₱5,132,368
Short-term investments	—	—	350	17,402
Accounts and notes receivables	14,434	720,708	14,394	715,676
Other current assets	590	29,439	441	21,931
Other noncurrent assets	104	5,193	424	21,101
Total assets	232,149	11,591,211	118,834	5,908,478
Liabilities				
Accounts payable and accrued expenses	12,044	601,340	31,048	1,543,716
Other current liabilities	224	11,169	8,031	399,284
Short-term debt	—	—	—	—
Long-term debt	147,482	7,363,775	152,113	7,563,067
Other noncurrent liabilities	63,757	3,183,403	68,433	3,402,491
Total liabilities	223,507	11,159,707	259,625	12,908,558
Net foreign currency denominated liabilities	US\$8,462	₱431,524	(US\$140,791)	(₱7,000,080)

*Translated using the exchange rate at the reporting date (US\$1:₱49.93 on December 31, 2017 and US\$1: ₱49.72 on December 31, 2016).



	December 31, 2017		December 31, 2016	
	JPY	Php Equivalent*	JPY	Php Equivalent*
	(In Thousands)			
Assets				
Cash and cash equivalents	JPY46,451	₱20,598	JPY37,673	₱16,087
Accounts and notes receivable	41,761	18,518	(35,333)	(15,089)
Other noncurrent assets	3,139	1,392	2,799	1,195
Total assets	91,351	40,508	5,139	2,193
Liabilities				
Accounts payable and accrued expenses	397,399	176,218	170,775	72,928
Other current liabilities	—	—	—	—
Long-term debt	35,575,756	15,735,157	14,494,352	6,161,549
Other noncurrent liabilities	752,817	332,971	871,689	370,555
Total liabilities	36,725,972	16,244,346	15,536,816	6,605,032
Net foreign currency denominated liabilities	(JPY36,634,621)	(₱16,203,838)	(JPY15,531,677)	(₱6,602,839)

*Translated using the exchange rate at the reporting date (JPY1:₱0.4423 on December 31, 2017 and JPY1 ₱0.4251 on December 31, 2016).

	December 31, 2017		December 31, 2016	
	RMB	Php Equivalent*	RMB	Php Equivalent*
	(In Thousands)			
Assets				
Cash and cash equivalents	RMB151,171	₱1,155,146	RMB115,209	₱824,238
Accounts and notes receivables	516,348	3,945,590	421,004	3,011,974
Total assets	667,519	5,100,736	536,213	3,836,212
Liabilities				
Accounts payable and accrued expenses	555,768	4,246,808	295,403	2,113,391
Net foreign currency denominated assets	RMB111,751	₱853,928	RMB240,810	₱1,722,821

*Translated using the exchange rate at the reporting date (RMB1: ₱7.64 on December 31, 2017 and RMB1: ₱7.15 on December 31, 2016).

	December 31, 2017		December 31, 2016	
	EUR	Php Equivalent*	EUR	Php Equivalent
	(In Thousands)			
Assets				
Cash and cash equivalents	EUR14,893	₱889,971	EUR19,059	₱989,926
Receivables	65,048	3,886,393	70,065	3,638,292
Other current and noncurrent assets	13	791	10	522
Total assets	79,954	4,777,155	89,134	4,628,740
Liabilities				
Accounts payable and accrued expenses	26,448	1,579,577	47,961	2,490,774
Short term debt	4,997	298,568	16,373	850,186
Long-term debt	3,112	185,942	10,883	565,120
Other noncurrent liabilities	1,019	60,898	817	42,406
Total liabilities	35,576	2,124,985	76,034	3,948,486
Net foreign currency denominated assets	EUR44,378	₱2,652,170	EUR13,100	₱680,254

*Translated using the exchange rate at the reporting date (EUR1: ₱59.61 on December 31, 2017 and EUR1: ₱51.93 on December 31, 2016)



	December 31, 2016		December 31, 2015	
	VND	Php Equivalent*	VND	Php Equivalent
	(In Thousands)			
Assets				
Cash and cash equivalents	VND22,817,184	₱50,162	VND21,236,476	₱47,150
Accounts and notes receivable	1,008,650	2,254	33,485,375	74,667
Total assets	23,825,834	52,416	54,721,851	121,817
Liabilities				
Accounts payable and accrued expenses	454,437	653	430,784	961
Net foreign currency denominated assets	VND23,371,397	₱51,763	VND54,291,067	₱120,856

*Translated using the exchange rate at the reporting date (VND1:₱0.0022 on December 31, 2017 and VND1:₱0.0022 on December 31, 2016).

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (amounts in thousands).

Currency	Increase (decrease) in Peso per foreign currency	Increase (decrease) in profit before tax	
		2017	2016
US\$	₱1.00	₱8,642	(₱140,791)
	(1.00)	(8,642)	140,791
JPY	1.00	(36,634,621)	(15,531,677)
	(1.00)	36,634,621	15,531,677
RMB	1.00	111,751	240,810
	(1.00)	(111,751)	(240,810)
EUR	1.00	44,378	13,100
	(1.00)	(44,378)	(13,100)
VND	1.00	23,371,397	54,291,067
	(1.00)	(23,371,397)	(54,291,067)

There is no other impact on the Group's equity other than those already affecting net income.

Equity price risk

AFS financial assets are acquired at certain prices in the market. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers, or factors affecting all instruments traded in the market. Depending on several factors such as interest rate movements, the country's economic performance, political stability, and domestic inflation rates, these prices change, reflecting how market participants view the developments. The Group's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each sector and market.



The analysis below demonstrates the sensitivity to a reasonably possible change of market index with all other variables held constant, of the Group's equity arising from fair valuation of quoted AFS financial assets (amounts in thousands).

	Market Index	Change in Variables	Effect on Equity Increase (decrease) (In Thousands)
2017	PSEi	5% (5%)	₱354,563 (354,563)
2016	PSEi	5% (5%)	₱306,121 (306,121)

Liquidity risk

Liquidity risk is defined by the Group as the risk of losses arising from funding difficulties due to deterioration in market conditions and/or the financial position of the Group that make it difficult to raise the necessary funds or that forces the Group to raise funds at significantly higher interest rates than usual.

This is also the possibility of experiencing losses due to the inability to sell or convert marketable securities into cash immediately or in instances where conversion to cash is possible but at loss due to wider than normal bid-offer spreads.

The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and capital market issues, both on-shore and off-shore.

ALI Group

ALI Group employs scenario analysis and contingency planning to actively manage its liquidity position and guarantee that all operating, investing and financing needs are met. ALI Group has come up with a three-layered approach to liquidity through the prudent management of sufficient cash and cash equivalents, the potential sale of accounts receivables and the maintenance of short-term revolving credit facilities.

Cash and cash equivalents are maintained at a level that will enable it to fund its general and administrative expenses as well as to have additional funds as buffer for any opportunities or emergencies that may arise. Management develops viable funding alternatives through a continuous program for the sale of its receivables and ensures the availability of ample unused short-term revolving credit facilities from both local and foreign banks as back-up liquidity.

MWC Group

MWC Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, and debentures. MWC Group's policy is to maintain a level of cash that is sufficient to fund its operating cash requirements for the next four (4) to six (6) months and any claim for refund of customers' guaranty deposits. Capital expenditures are funded through long-term debt, while operating expenses and working capital requirements are sufficiently funded through internal cash generation.



The table summarizes the maturity profile of the Group's financial liabilities as of December 31, 2017 and 2016, based on contractual undiscounted payments.

	December 31, 2017				
	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
	(In Thousands)				
Accounts payable and accrued expenses					
Accounts payable	₱90,750,983	₱-	₱-	₱-	₱90,750,983
Project costs	15,946,912	-	-	-	15,946,912
Accrued expenses	15,839,590	-	-	-	15,839,590
Personnel costs	8,368,005	-	-	-	8,368,005
Dividends payable	3,618,606	-	-	-	3,618,606
Retentions payable	4,924,173	8,374,648	-	-	13,298,821
Related parties	1,873,861	-	-	-	1,873,861
Contractors payable	-	-	-	7,955,096	7,955,096
DRP obligation	230,103	-	-	728,390	958,493
Subscription payable	-	481,675	-	19,424	501,099
Liability for purchased land	3,710,462	-	-	2,303,140	6,013,602
Derivative liability	1,095,584	-	-	-	1,095,584
Service concession obligation	803,898	32,888	866,146	6,849,022	8,551,954
Customers' deposits	23,722,969	13,436,009	6,827,379	987,277	44,973,634
Short-term debt	29,904,723	-	-	-	29,904,723
Long-term debt	13,731,967	27,715,554	49,161,741	230,097,967	320,707,229
Other liabilities	1,165,241	516,695	-	1,604,083	3,286,019
Interest payable	9,699,654	25,155,368	2,134,659	18,645,827	55,635,508
	₱225,386,731	₱75,712,837	₱58,989,925	₱269,190,226	₱629,279,719

	December 31, 2016				
	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	Total
	(In Thousands)				
Accounts payable and accrued expenses					
Accounts payable	₱90,791,680	₱-	₱-	₱-	₱90,791,680
Project costs	16,721,212	-	-	-	16,721,212
Accrued expenses	11,841,850	-	-	-	11,841,850
Personnel costs	8,056,866	-	-	-	8,056,866
Dividends payable	3,503,405	-	-	-	3,503,405
Retentions payable	4,306,272	6,485,226	-	-	10,791,498
Related parties	3,441,971	-	-	-	3,441,971
Contractors payable	-	-	-	6,485,226	6,485,226
DRP obligation	261,560	-	-	656,638	918,198
Subscription payable	-	481,675	-	19,424	501,099
Liability for purchased land	6,257,097	-	-	2,099,051	8,356,148
Derivative liability	569,350	-	-	-	569,350
Service concession obligation	754,519	1,431,059	-	5,391,803	7,577,381
Customers' deposits	16,849,188	18,036,930	2,631,289	275,538	37,792,945
Short-term debt	30,858,137	-	-	-	30,858,137
Long-term debt	19,792,669	13,558,251	17,005,624	214,639,270	264,995,814
Other liabilities	104,446	516,695	-	401,657	1,022,798
Interest payable	9,686,530	22,163,528	13,587,313	8,689,467	54,126,838
	₱223,796,752	₱62,673,364	₱33,224,226	₱238,658,074	₱558,352,416

Cash and cash equivalents, short-term investments, financial assets at FVPL and AFS debt investments are used for the Group's liquidity requirements. Please refer to the terms and maturity profile of these financial assets under the maturity profile of the interest-bearing financial assets and liabilities disclosed in the interest rate risk section.

Credit risk

Credit risk is the risk that the Group's counterparties to its financial assets will fail to discharge their contractual obligations. The Group's holding of cash and short-term investments and receivables from customers and other third parties exposes the Group to credit risk of the counterparty. Credit risk management involves dealing with institutions for which credit limits have been established. The



Group's Treasury Policy sets credit limits for each counterparty. The Group trades only with recognized, creditworthy third parties and has a well-defined credit policy and established credit procedures.

Given the Group's diverse base of counterparties, the Group's not exposed to large concentrations of credit risk.

The maximum exposure to credit risk for the components of the consolidated statement of financial position is equal to the carrying values.

ALI Group

For installments receivable from the sale of properties, credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. ALI Group also undertakes supplemental credit review procedures for certain installment payment structures. ALI Group's stringent customer requirements and policies in place contribute to lower customer default than its competitors. Customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements. Exposure to bad debts is not significant as titles to real estate properties are not transferred to the buyers until full payment has been made and the requirement for remedial procedures is minimal given the profile of buyers.

Credit risk arising from rental income from leasing properties is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. In accordance with the provisions of the lease contracts, the lessees are required to make a deposit with ALI Group (e.g. security deposits and advance rentals) which helps reduce ALI Group's credit risk exposure in case of defaults by the tenants. For existing tenants, ALI Group has put in place a monitoring and follow-up system. Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables. Regular meetings with tenants are also undertaken to provide opportunities for counseling and further assessment of paying capacity.

IMI Group

The credit evaluation reflects the customer's overall credit strength based on key financial and credit characteristics such as financial stability, operations, focus market and trade references. 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 with the result that IMI Group's exposure to bad debts is not significant.

MWC Group

It is MWC Group's policy that except for connection fees and other highly meritorious cases, the Group does not offer credit terms to its customers. Credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. Customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements.



The aging analysis of accounts and notes receivables that are past due but not impaired follows:

December 31, 2017

	Neither Past Due nor Impaired	Past Due but not Impaired						Individually Impaired	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days	Total		
(In Thousands)									
Trade:									
Real estate	₱86,262,330	₱2,560,363	₱2,100,803	₱2,312,607	₱2,216,421	₱4,882,663	₱14,072,857	₱550,660	₱100,885,847
Electronics manufacturing	11,344,745	1,010,669	219,026	103,419	108,508	136,166	1,577,788	100,373	13,022,906
Automotive	3,142,350	1,005,980	494,173	319,579	190,426	349,775	2,359,933	29,903	5,532,186
Water infrastructure	2,167,886	—	—	—	—	—	—	67,074	2,234,960
Power generation	1,151,909	—	—	—	—	—	—	—	1,151,909
Information technology and BPO	119,569	—	—	—	—	—	—	171,346	290,915
International and others	16,723	1,352	1,201	1,932	652	658	5,795	—	22,518
Receivable from related parties	2,848,376	97,195	9,413	17,449	50,581	47,241	221,879	—	3,070,255
Receivable from officers and employees	1,432,504	18,032	5,138	5,903	3,865	14,090	47,028	—	1,479,532
Concession financial receivable	1,384,551	—	—	—	—	—	—	—	1,384,551
Dividend receivable	1,153,206	—	—	—	—	—	—	—	1,153,206
Receivable from BWC	501,014	—	—	—	—	—	—	—	501,014
Others	300,693	—	—	—	—	—	—	—	300,693
Total	₱111,825,856	₱4,693,591	₱2,829,754	₱2,760,889	₱2,570,453	₱5,430,593	₱18,285,280	₱919,356	₱131,030,492



December 31, 2016

	Neither Past Due nor Impaired	Past Due but not Impaired						Individually Impaired	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days	Total		
		(In Thousands)							
Trade:									
Real estate	₱74,867,330	₱2,042,497	₱1,795,664	₱1,378,543	₱1,282,877	₱7,715,792	₱14,215,373	₱960,901	₱90,043,604
Electronics manufacturing	7,888,657	1,205,349	292,233	145,578	81,189	85,137	1,809,486	86,202	9,784,345
Water infrastructure	2,589,207	—	—	—	—	—	—	123,737	2,712,944
Automotive	1,274,943	611,328	356,775	211,618	91,923	205,889	1,477,533	38,862	2,791,338
Information technology and BPO	56,849	32,900	5,966	238	4,914	2,985	47,003	171,346	275,198
International and others	123,481	964	—	139	—	13	1,116	400,557	525,154
Receivable from related parties	1,316,771	374,075	181,987	131,066	70,981	264,758	1,022,867	—	2,339,638
Dividend receivable	1,228,133	—	—	—	—	—	—	—	1,228,133
Receivable from officers and employees	1,018,843	16,140	22,251	1,721	4,325	27,521	71,958	—	1,090,801
Receivable from BWC	529,501	—	—	—	—	—	—	—	529,501
Concession financial receivable	1,205,814	—	—	—	—	—	—	—	1,205,814
Others	57,852	—	—	—	—	1,102	1,102	—	58,954
Total	₱92,157,381	₱4,283,253	₱2,654,876	₱1,868,903	₱1,536,209	₱8,303,197	₱18,646,438	₱1,781,605	₱112,585,424



The table below shows the credit quality of the Group's financial assets as of December 31, 2017 and 2016 (amounts in thousands):

December 31, 2017

	Neither past due nor impaired				Past due but not impaired	Individually Impaired	
	High Grade	Medium Grade	Low Grade	Total			Total
Cash and cash equivalents excluding cash on hand	₱64,218,644	₱-	₱-	₱64,218,644	₱-	₱-	₱64,218,644
Short-term investments	5,400,239	-	-	5,400,239	-	-	5,400,239
Other current assets							
FVPL financial assets	-	6,063,585	-	6,063,585	-	-	6,063,585
Deposits in escrow	259,898	-	-	259,898	-	-	259,898
Derivative assets	85,347	-	-	85,347	-	-	85,347
Other noncurrent assets							
Deposits –others	4,239,797	-	-	4,239,797	-	-	4,239,797
Others	291,968	-	-	291,968	-	-	291,968
Accounts and notes receivables							
Trade							
Real estate	77,306,224	4,711,851	4,244,255	86,262,330	14,072,857	550,660	100,885,847
Electronics manufacturing	739,414	10,605,331	-	11,344,745	1,577,788	100,373	13,022,906
Automotive	-	2,957,709	184,641	3,142,350	2,359,933	29,903	5,532,186
Water infrastructure	1,299,516	868,370	-	2,167,886	-	67,074	2,234,960
Power generation	1,151,909	-	-	1,151,909	-	-	1,151,909
Information technology and BPO	-	119,569	-	119,569	-	171,346	290,915
International and others	14,137	2,586	-	16,723	5,795	-	22,518
Receivable from related parties	2,460,841	387,535	-	2,848,376	221,879	-	3,070,255
Dividend receivable	1,153,206	-	-	1,153,206	-	-	1,153,206
Receivable from BWC	-	501,014	-	501,014	-	-	501,014
Concession financial receivable	1,384,551	-	-	1,384,551	-	-	1,384,551
Receivable from officers employees	1,365,525	57,419	9,560	1,432,504	47,028	-	1,479,532
Other receivable	300,693	-	-	300,693	-	-	300,693
AFS Investments							
Quoted shares of stocks	2,072,962	-	-	2,072,962	-	-	2,072,962
Unquoted shares of stocks	-	2,393,405	-	2,393,405	-	-	2,393,405
Quoted debt investments	-	-	-	-	-	-	-
	₱163,744,871	₱28,668,374	₱4,438,456	₱196,851,701	₱18,285,280	₱919,356	₱216,056,337



December 31, 2016

	Neither past due nor impaired				Past due but not impaired	Individually Impaired	
	High Grade	Medium Grade	Low Grade	Total			Total
Cash and cash equivalents	P60,223,324	P—	P—	P60,223,324	P—	P—	P60,223,324
Short-term investments	1,008,705	—	—	1,008,705	—	—	1,008,705
Other current assets							
FVPL financial assets	—	6,664,015	—	6,664,015	—	—	6,664,015
Deposits in escrow	104,163	—	—	104,163	—	—	104,163
Derivative assets	245,887	—	—	245,887	—	—	245,887
Other noncurrent assets							
Deposits –others	6,578,972	—	—	6,578,972	—	—	6,578,972
Others	788,716	—	—	788,716	—	—	788,716
Accounts and notes receivables							
Trade							
Real estate	71,381,596	1,421,014	2,064,720	74,867,330	14,215,373	960,901	90,043,604
Electronics manufacturing	364,922	7,523,735	—	7,888,657	1,809,486	86,202	9,784,345
Water infrastructure	1,669,754	919,453	—	2,589,207	—	123,737	2,712,944
Automotive	—	1,042,950	231,993	1,274,943	1,477,533	38,862	2,791,338
Information technology and BPO	56,849	—	—	56,849	47,003	171,346	275,198
International and others	62,436	61,045	—	123,481	1,116	400,557	525,154
Receivable from related parties	791,762	446,470	78,539	1,316,771	1,022,867	—	2,339,638
Dividend receivable	1,228,133	—	—	1,228,133	—	—	1,228,133
Receivable from BWC	—	529,501	—	529,501	—	—	529,501
Concession financial receivable	1,205,814	—	—	1,205,814	—	—	1,205,814
Receivable from officers employees	909,369	55,107	54,367	1,018,843	71,958	—	1,090,801
Other receivable	265,524	8,255	—	273,779	1,102	—	274,881
AFS Investments							
Quoted shares of stocks	2,579,137	—	—	2,579,137	—	—	2,579,137
Unquoted shares of stocks	—	1,870,321	—	1,870,321	—	—	1,870,321
Quoted debt investments	115,621	—	—	115,621	—	—	115,621
	P149,580,684	P20,541,866	P2,429,619	P172,552,169	P18,646,438	P1,781,605	P192,980,212



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

Cash and cash equivalents, short-term investments, FVPL financial assets, quoted AFS financial assets, investment in bonds classified as loans and receivable, advances to other companies and related party receivables

High grade pertains to cash and cash equivalents and short-term investments, quoted financial assets, investment in bonds classified as loans and receivable, related party transactions and receivables with high probability of collection.

Medium grade pertains to unquoted financial assets other than cash and cash equivalents and short-term investments with nonrelated counterparties and receivables from counterparties with average capacity to meet their obligation.

Low grade pertains to financial assets with the probability to be impaired based on the nature of the counterparty.

Trade receivables

Real estate, information technology and BPO and international and others - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to 3 defaults in payment in the past; and low grade pertains to receivables with more than 3 defaults in payment.

Electronics manufacturing - high grade pertains to receivable with favorable credit terms and can be offered with a credit term of 15 to 45 days; medium grade pertains to receivable with normal credit terms and can be offered with a credit term of 15 to 30 days; and low grade pertains to receivables under advance payment or confirmed irrevocable Stand-by Letter of Credit and subjected to semi-annual or quarterly review for possible upgrade or transaction should be under advance payment or confirmed and irrevocable Stand-By Letters of credit; subject to quarterly review for possible upgrade after one year.

Water infrastructure - high grade pertains to receivables that are collectible within 7 days from bill delivery; medium grade pertains to receivables that are collectible from 11 to 30 days from bill delivery.

Automotive - high grade pertains to receivables from corporate accounts and medium grade for receivables from noncorporate accounts.

Unquoted AFS financial assets - the unquoted investments are unrated.



32. Fair Value Measurement and Derivative Instruments

Fair Value of Financial and Nonfinancial Instruments

The carrying amounts approximate fair values for the Group's financial assets and liabilities due to its short-term maturities except for the following financial instruments as of December 31, 2017 and 2016 (amounts in thousands):

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS AT FVPL				
Held for trading	₱6,063,585	₱6,063,585	₱6,664,015	₱6,664,015
Derivative assets				
Embedded	83,785	83,785	241,787	241,787
Freestanding	1,562	1,562	4,100	4,100
Total financial assets at FVPL	6,148,932	6,148,932	6,909,902	6,909,902
LOANS AND RECEIVABLES				
Accounts and notes receivables				
Trade receivables				
Real estate	100,885,847	101,042,936	90,043,604	90,376,380
Nontrade receivables				
Receivable from officers and employees	1,479,532	1,470,522	1,090,801	1,087,369
Concession financial receivable	1,384,552	3,188,264	1,205,814	2,080,736
Total loans and receivables	103,749,931	105,701,722	92,340,219	93,544,485
AFS FINANCIAL ASSETS				
Quoted equity investments	2,072,962	2,072,962	2,579,137	2,579,137
Unquoted equity investments	2,393,405	2,393,405	1,870,321	1,870,321
Quoted debt investments	–	–	115,621	115,621
Total AFS financial assets	4,466,367	4,466,367	4,565,079	4,565,079
OTHER FINANCIAL ASSETS				
Deposits	4,499,695	4,499,695	6,683,135	6,683,135
Total Other Financial Assets	4,499,695	4,499,695	6,683,135	6,683,135
Total financial assets	₱118,864,925	₱120,816,716	₱110,498,335	₱111,702,601
FINANCIAL LIABILITIES AT FVPL				
Other noncurrent liabilities -				
Contingent consideration	₱1,247,052	₱1,247,052	₱–	₱–
Financial liabilities on put option	1,094,079	1,094,079	563,541	563,541
Derivative liabilities				
Freestanding	1,505	1,505	2,452	2,452
Embedded	–	–	3,357	3,357
	2,342,636	2,342,636	569,350	569,350
OTHER FINANCIAL LIABILITIES				
Long-term debt	320,707,229	312,309,608	264,995,814	263,904,537
Service concession obligation	8,551,954	8,627,085	7,577,381	9,590,173
Deposits and other noncurrent liabilities	38,052,071	34,694,619	39,429,606	39,704,667
Total other financial liabilities	367,311,254	355,631,312	312,002,801	313,199,377
Total financial liabilities	₱369,653,890	₱369,653,948	₱312,572,151	₱313,768,727

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Financial assets at FVPL – Fair values of investment securities are based on quoted prices as of the reporting date. For other investment securities such as FVPL with no reliable measure of fair value, these are carried at its last transaction price.

The fair value of the investment in UITF is based on net asset values as of reporting dates.



The fair value of the investment in ARCH Capital Fund is determined using the discounted cash flow (DCF) method. Under the DCF method in fund fair valuation, it is estimated using assumptions regarding the benefits and liabilities of ownership over the underlying asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream, associated with the underlying asset. The exit yield is normally separately determined and differs from the discount rate. Significant inputs considered were rental, growth and discount rates. The higher the rental and growth rates, the higher the fair value. The higher the discount rates, the lower the fair value.

The fair value of other unquoted financial assets at FVPL is determined using Weighted Average Cost of Capital using market comparable. The rate used ranged from 5% to 10% in 2017 and 2016.

Derivative instrument - The fair value of the freestanding currency forwards is based on counterparty valuation. Derivative asset - The fair value is estimated using a modified stock price binomial tree model for convertible callable bonds.

Noncurrent trade and nontrade receivables - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 4.53% to 7.20% and 3.96% to 6.88% as of December 31, 2017 and 2016

AFS quoted debt and equity investments - Fair values are based on the quoted prices published in markets.

AFS unquoted equity investments - Fair value of equity funds are based on the net asset value per share. The fair value of other unquoted equity investments is determined using Weighted Average Cost of Capital using market comparable. The rate used ranged from 5% to 10% in 2017 and 2016. For other unquoted equity shares where the fair value is not reasonably determinable due to the unpredictable nature of future cash flows and the lack of suitable method of arriving at a reliable fair value, these are carried at cost less impairment, if any.

Financial liabilities on put options - These pertain to the liabilities of IMI arising from the written put options over the non-controlling interest of VIA and STI. The fair value of the financial liabilities is estimated using the discounted, probability-weighted cash flow method. The future cash flows were projected using the equity forward pricing formula with reference to the current equity value of the acquiree and the forecasted interest rate which is the risk-free rate in Germany and UK. The risk-free rate used is 0.26% for VIA and 0.91% for STI. Management applied weights on the estimated future cash flows, based on management's judgment on the chance that the trigger events for the put option will occur.

The current equity value of VIA is determined using the discounted cash flow approach. The future cash flows are projected using the projected revenue growth rate of VIA. The discount rate represents the current market assessment of the risk specific to the acquiree, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital.

For STI, management used the market approach by approximating the EBITDA multiple taken from comparable companies of STI that are engaged in providing electronics services solutions to derive its current equity value. Management computed EBITDA as the difference of forecasted gross profit and selling and administrative expenses before depreciation and amortization.



Other financial liabilities - non-current - The fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. This also include the contingent consideration related to the acquisition of STI determined based on probability-weighted payout discounted at 8% at the date of acquisition to determine its fair value. The discount rate is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital. The discount rates used for Peso-denominated loans were 3.93% to 7.20% in 2017 and 0.19% to 7.62% in 2016 while the discount rates used for the foreign currency-denominated loans ranged 0.90% to 2.99% in 2017 and 3.54% to 6.14% in 2016.

For variable rate loans that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates.

The following table shows the fair value hierarchy of the Group's assets and liabilities as at December 31, 2017 and 2016 (amounts in thousands):

2017

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Recurring financial assets measured at fair value				
Financial assets at FVPL	P-	P82,978	P5,980,607	P6,063,585
Derivative assets				
Embedded	-	-	83,785	83,785
Freestanding	-	-	1,562	1,562
AFS financial assets				
Quoted equity investments	1,161,169	911,793	-	2,072,962
Unquoted equity investments	-	-	2,393,405	2,393,405
	10,615,299	10,615,299	10,615,299	P10,615,299
Recurring financial assets for which fair values are disclosed:				
Trade and nontrade receivables	P-	P-	P102,513,458	P102,513,458
Concession financial receivable	-	-	3,188,264	3,188,264
Deposits	-	-	4,499,695	4,499,695
	P-	P-	P110,201,417	P110,201,417
Recurring financial liabilities measured at fair value				
Financial liabilities on put option	P-	P-	P1,094,079	P1,094,079
Contingent consideration (noncurrent liability)	-	-	1,247,052	1,247,052
Derivative liabilities				
Freestanding	-	1,505	-	1,505
	P-	P1,505	P2,341,131	P2,342,636
Recurring financial liabilities for which fair values are disclosed:				
Long-term debt	-	-	312,309,608	312,309,608
Service concession obligation	-	-	8,627,085	8,627,085
Deposits and other noncurrent liabilities	-	-	34,694,619	34,694,619
	P-	P-	P355,631,312	P355,631,312
Nonfinancial assets for which fair values are disclosed:				
Investment properties	P-	P-	P334,437,827	P334,437,827
Investments in associates and joint ventures*	216,671,968	-	-	216,671,968
	P216,671,968	P-	P334,437,827	P551,109,795

*Fair value of investments in listed associates and joint ventures for which there are published price quotations



2016

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Recurring financial assets measured at fair value				
Financial assets at FVPL	P—	P1,736,759	P4,927,256	P6,664,015
Derivative assets				
Embedded	—	—	241,787	241,787
Freestanding	—	3,335	765	4,100
AFS financial assets				
Quoted equity investments	2,243,515	335,622	—	2,579,137
Unquoted equity investments	—	638,334	1,231,987	1,870,321
Quoted debt investments	—	—	115,621	115,621
	P2,243,515	P 2,714,050	P6,517,416	P11,474,981
Recurring financial assets for which fair values are disclosed:				
Loans and receivables	P—	P—	P80,706,268	P80,706,268
Concession financial receivable	—	—	2,080,736	2,080,736
Deposits	—	—	6,683,135	6,683,135
	P—	P—	P89,470,139	P89,470,139
Recurring financial liabilities measured at fair value				
Financial liabilities on put option	P—	P—	P563,541	P563,541
Contingent consideration (noncurrent liability)	—	—	—	—
Derivative liabilities				
Freestanding	P—	P525	P1,927	P2,452
Embedded	—	—	3,357	3,357
	P—	P525	P 568,825	P569,350
Recurring financial liabilities for which fair values are disclosed:				
Long-term debt	P—	P—	P263,904,537	P263,904,537
Service concession obligation	—	—	9,590,173	9,590,173
Deposits and other noncurrent liabilities	—	—	20,064,469	20,064,469
	P—	P—	P293,559,179	P293,559,179
Nonfinancial assets for which fair values are disclosed:				
Investment properties	P—	P—	P295,508,639	P295,508,639
Investments in associates and joint ventures*	168,647,494	—	—	168,647,494
	P168,647,494	P—	P295,508,639	P464,156,133

*Fair value of investments in listed associates and joint ventures for which there are published price quotations

There was no change in the valuation techniques used by the Group in determining the fair market value of the assets and liabilities.

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.



The following table presents the valuation techniques and unobservable key inputs used to value the Group's financial assets and liabilities categorized as Level 3:

	Valuation Technique	Unobservable inputs	Range of unobservable inputs	Sensitivity of the input to the fair value
Financial assets at FVPL	Market comparable	Weighted average cost of capital (WACC)	5% to 10%	5% increase / (decrease) in WACC would result in increase / (decrease) in fair value by US\$5,200,723/ (US\$5,200,723)
				10% increase / (decrease) in WACC would result in increase / (decrease) in fair value by US\$10,401,445/ (US\$10,401,445)
Financial liabilities on put options	Discounted, probability-weighted cash flow method	Growth rate	0%-2% (1%)	1% increase in growth rate would result in an increase in fair value by US\$0.81 million. Decrease in growth rate by 1% would result in a fair value decrease of US\$0.66 million.
		Discount rate	10%-12% (11%)	1% increase in discount rate would result in a decrease in fair value by US\$0.91 million. Decrease in discount rate by 1% would result in a fair value increase of US\$1.11 million.
		Probability of trigger events occurring	1% – 10% (5%)	Increase in the probability to 10% would result in an increase in fair value by \$2.76 million. Decrease in the probability to 1% would result in a decrease in fair value by \$5.66 million.
Other noncurrent liabilities (contingent consideration)	Discounted, probability-weighted payout	Discount rate	7%-9% (8%)	1% increase in discount rate would result in a decrease in fair value by US\$0.45 million. Decrease in discount rate by 1% would result in a fair value increase of US\$0.47 million.
		Probability of pay-out	£0 to £23.3 million (\$0 to \$30.20 million)	£0 to £23.3 million (\$0 to \$30.20 million)

ALI Group categorizes trade receivable, receivable from employees, long-term debt and deposits and other noncurrent liabilities under Level 3. The fair value of these financial instruments is determined by discounting future cash flows using the applicable rates of similar types of instruments plus a certain spread. This spread is the unobservable input and the effect of changes to this is that the higher the spread, the lower the fair value.

A reconciliation of the beginning and closing balances of Level 3 financial assets and liabilities at FVPL are summarized below:

Financial Assets at FVPL	2017	2016
At January 1	₹4,927,256	₹4,784,228
Additions	1,071,109	685,824
Disposals/redemptions/return of capital	(410,580)	(846,328)
Recognized in statement of income	276,392	54,638
Exchange difference	116,430	248,894
At December 31	₹5,980,607	₹4,927,256



Financial Liabilities at FVPL	2017	2016
At January 1	₱563,541	₱—
Additions	1,889,943	563,541
Recognized in statement of income	(115,859)	—
Exchange Difference	3,466	—
At December 31	₱2,341,091	₱563,541

Derivatives

	2017	2016
Derivative Assets		
Prepayment option of ACEHI	₱83,785	₱106,617
Currency forward of AIVPL	1,562	765
Conversion option of BHL	—	135,170
Currency forward of IMI	—	3,335
	₱85,347	₱245,887
Derivative Liabilities		
Conversion option of AIVPL	₱1,505	₱3,357
Currency forwards of AC and IMI	—	2,452
	₱1,505	₱5,809

Financial liabilities on put options

The acquisition of VIA in 2016 and STI in 2017 included call and put options over the non-controlling interests. The put options resulted in a financial liability of US\$21.9 million and US\$11.3 million as of December 31, 2017 and 2016, respectively.

Free standing derivatives

IMI and IMI BG entered into various short-term currency forwards with an aggregate notional amount of US\$9.0 million in 2016 and US\$11.0 million and €16.3 million (US\$14.8 million) in 2015. As of December 31, 2017 and 2016, the outstanding forward contracts have a net positive fair value of nil and US\$0.1 million, respectively. The changes in fair value of currency forwards recognized in 2017 and 2016 amounted to US\$ million and US\$0.1 million gain, respectively (see Note 22).

Embedded derivatives

AIVPL Group

Conversion option

On January 9, 2015, AIVPL made shareholder advances to Integreon amounting to US\$1.5 million, under the following terms:

- Final Maturity Date on January 31, 2017.
- The Borrower is liable for the principal sum of US\$1.5 million due to AIVPL plus accrued interest at the rate of nine percent (9%) p.a.
- The Borrower is liable for 12% penalty on both principal and accrued interest if not paid on maturity.
- With option to convert both principal and accrued interest during an equity financing transaction to raise capital with the requisite corporate approvals.
- Closing and completion of the sale and purchase of the conversion shares shall take place in accordance with the terms of any transactional documents entered into in connection with such equity financing transaction.



ACEHI

Prepayment option

The onshore and offshore loan agreements of ACEHI have embedded prepayment options subject to a 3% prepayment penalty. The embedded derivative for Tranch A onshore dollar loan is assessed to be not closely related to the host contract, and thus, bifurcated and accounted for separately.

As of December 31, 2017 and 2016, the value of the derivative asset related to the embedded prepayment option amounted to ₱83.8 million and ₱106.6 million, respectively. The fair value changes of the derivative asset recognized in the consolidated statement of income for the year ended December 31, 2017 and 2016 amounted to ₱99.9 million and (₱138.8 million), respectively (see Note 22).

BHL

Convertible bonds

In June 2014, BHL invested VND113 billion (equivalent to USD5.3 million) in CII convertible bonds through its wholly owned subsidiary, VIP. These bonds have a maturity of 5 years, and a coupon rate of 5% p.a.

On June 23, 2016, the third bond conversion exercise, BHL Group converted 69,235 bonds into 6,293,461 shares at a closing price of VND 26,500 per share. Based on the initial bond offering submission made by CII, the conversion ratio would be 90.9:1 (1 convertible bond to 90.9 shares), where the number of converted shares will be rounded down to the next last whole number. This conversion increased the investment in CII shares by VND 166.6 billion (equivalent to US\$7.5 million).

BHL Group recognized a total gain of VND 37.9 million (US\$1.7 million) on the conversion exercise, out of which VND 28.3 million (US\$1.3 million) was the gain on the difference between the CII share price on the date of conversion and the carrying amount of convertible bond, and VND 9.6 million (US\$ 0.4 million) was the gain on the realization of the valuation reserve previously recorded on the convertible bonds (see Note 22).

In 2017, BHL Group converted 43,755 bonds into 3,977,329 shares at a closing price of VND 37,250 per share. Based on the initial bond offering submission made by CII, the conversion ratio would be 90.9:1 (1 convertible bond to 90.9 shares), where the number of converted shares will be rounded down to the next last whole number. This conversion increased the investment in CII shares by VND 148.2 billion (equivalent to US\$6.7 million). BHL Group recognized a total gain of VND91.4 billion (US\$4.0 million) on the conversion exercise, out of which VND 35.7 billion (US\$1.6 million) was the gain on the difference between the CII share price on the date of conversion and the carrying amount of convertible bond, and VND 55.7 million (US\$ 2.4 million) was the gain on the realization of the valuation reserve previously recorded on the convertible bonds (see Note 22).

Fair Value Changes on Derivatives

The net movements in fair values of the Group's derivative instruments as of December 31, 2017 and 2016 follow (amounts in thousands):

Derivative Assets

	2017	2016
Balance at beginning of year	₱245,887	₱241,263
Fair value of currency forwards	797	5,777
Net changes in fair value of derivatives	(22,832)	76,527
	223,852	323,567
Fair value of settled instruments	(138,505)	(77,680)
Balance at end of year	₱85,347	₱245,887



Derivative Liabilities

	2017	2016
Balance at beginning of year	₱5,809	₱3,771
Fair value of currency forwards	1,505	12,580
Net changes in fair value of derivatives	14	112
	7,328	16,463
Fair value of settled instruments	(5,823)	(10,654)
Balance at end of year	₱1,505	₱5,809

No other financial assets or liabilities are carried at fair value as of December 31, 2017 and 2016.

Net changes in fair value of derivative assets and liabilities was recognized in the consolidated statement of income under "Other Income". However, the net changes in fair value of IMI Group's freestanding currency forward are recognized in the consolidated income under "Foreign exchange gains (losses)" (see Note 22).

33. Notes to Consolidated Statements of Cash Flows

Changes in liabilities arising from financing activities follow:

	January 1, 2017	Cash Flows	Non-cash Changes	Foreign Exchange Movement	December 31, 2017
Short-term debt and Long-term debt	₱295,853,951	₱53,771,118	₱392,311	₱594,572	₱350,611,952
Dividends payable	3,503,405	(10,864,490)	10,979,692*	—	3,618,607
Other noncurrent liabilities	40,870,522	1,181,105	1,182,190	—	43,233,817
Service concession obligation	7,699,645	(778,819)	587,455	59,541	7,447,677
Total liabilities from financing activities	₱347,927,523	₱43,308,914	₱2,161,956	₱654,113	₱404,912,053

*This amount pertains to dividends declared by the Parent Company and by the subsidiaries to the non-controlling shareholders during the year.

The Group's noncash investing and financing activities are as follows:

2017

- Transfer from land and improvements to inventories amounting to ₱10,908.5 million.
- Transfer from inventories to investment properties amounting to ₱2,454.9 million.
- Transfer from land and improvements to investment properties amounting to ₱1,905.0 million.
- Transfer from investment properties to land and improvements amounting to ₱646.2 million.
- Transfer from investment properties to property and equipment amounting to ₱1,764.6 million.
- Transfer from investment properties to other current and noncurrent assets amounting to ₱86.3 million and ₱62.1 million, respectively.
- Transfer from advances to contractors to land and improvements amounting to ₱1,581.2 million
- Capitalization of depreciation related to the development phase of certain projects amounting to ₱57.4 million.
- Transfer from other noncurrent assets to intangible assets mounting to ₱1,195.4 million.
- Conversion of BHL's 69,235 investment in CII bonds to 6,293,461 shares.

2016

- Transfers from land and improvements to inventories amounted to ₱4,795.5 million.
- Transfer from land and improvements to investment properties amounted to ₱426.1 million.
- Transfer from land and improvements to other assets amounted to ₱174.3 million.
- Transfers from inventories to investment properties amounted to ₱1,065.3 million.



- Transfer from investment properties to property and equipment amounted to ₱16.7 million.
- Conversion of BHL's 69,235 investment in CII bonds to 6,293,461 shares.
- Sale of ACEHI's 70% ownership interest in Quadriver, Hydro Power and PhilnewRiver to Sta. Clara Power Corporation for a total selling price of ₱350.0 million collectible in four (4) years.
- Sale of Integreon of which US\$10.5 million will be due in four (4) years.

2015

- Transfers from land and improvements to inventories amounted to ₱9,253 million.
- Transfer from land and improvements to investment properties amounted to ₱1.7 million.
- Transfer from land and improvements to other assets amounted to ₱56.9 million.
- Transfers from inventories to investment properties amounted to ₱52.0 million
- Transfer from investment properties to property, plant and equipment amounted to ₱53.9 million.
- In July 2015, donated property to YMCA and PCPI was returned to the Parent Company. The total consideration was recognized as gain on reversion of land amounting to ₱575.1 million.

34. Commitments

Parent Company

The Parent Company acted as guarantor to AYCFI's term loans and credit facilities as follows:

Description of Facility	Date Contracted	Amount drawn as of December 31, 2017	2017	2016
			Outstanding balance (Amounts in thousands)	
US\$225 million transferable term loan facility	November 28, 2013	225,000	US\$–	US\$225,000
US\$100 million transferable loan facility	March 28, 2014	Undrawn	–	–
US\$200 million term loan facility	May 9, 2014	Undrawn	–	–
US\$200 million transferable term loan facility	March 18, 2016	Undrawn	–	–
US\$200 million revolving credit facility	March 18, 2016	Undrawn	–	–
			US\$–	US\$225,000

The Parent Company unconditionally guaranteed the due and punctual payment of loans if, for any reason AYCFI does not make timely payment. The Parent Company waived all rights of subrogation, contribution and claims of prior exhaustion of remedies. The Parent Company's obligation as guarantor will remain in full force until no sum remains to be lent by the lenders, and the lenders recover the advances.

On September 7, 2017, the Parent Company announced that AYCFI had successfully set the terms of a US dollar-denominated fixed-for-life (non-deferrable) senior perpetual issuance at an aggregate principal amount of US\$400 million with an annual coupon of 5.125% for life with no step-up. The issuance is the first corporate fixed-for-life with no coupon step-up in Southeast Asia and the first fixed-for-life with no step-up (and reset) deal in the Philippines. The issuer, AYCFI, may redeem the Notes in whole but not in part on September 13, 2022 (first redemption date) or any interest payment date falling after the first redemption date at 100% of the principal amount of the Notes plus any accrued but unpaid interest. The proceeds of the issuance will be used to refinance AYCFI's US Dollar maturing obligations and to fund investments of the Parent Company or its offshore subsidiaries.



On May 2, 2014, AYCFL issued at face US\$300.0 million Exchangeable Bonds (the Bonds) due on May 2, 2019 with a fixed coupon rate of 0.5% per annum, payable semi-annually. The Bonds are guaranteed by the Parent Company and constitute direct, unsubordinated, unconditional and unsecured obligations of AYCFL, ranking pari passu and without any preference or priority among themselves. The Bonds were listed in the Singapore Stock Exchange and include features such as exchange option, put option and early redemption options.

ALI Group

ALI-NTDCC

On December 8, 2017, ALI assigned to NTDCC development rights on certain portions of the North Triangle lot pads covered by a Deed of Assignment and Encroachment Settlement Agreement amounting to ₱631.2 million.

ALI-MWVPI

On January 12, 2016, ALI entered into a partnership with MWVPI for the waterworks of ALI's projects nationwide. The MOA was signed by ALI and its subsidiaries and affiliates, CHI and CPVDC. Total expenses amounted to ₱0.2 million in 2016.

ALI-LT Group

ALI and LT Group, Inc. (LTG) entered into an agreement on January 21, 2016 to jointly develop a project along the C5 corridor. The project is envisioned to be a township development that spans portions of Pasig City and Quezon City. A new company named, ALI-ETON Property Development Corporation (ALI-ETON), was incorporated on March 13, 2016. ALI-ETON is 49.99% owned by ALI and the remaining 50.01% is held by the LT Group, Inc.

Construction will begin by 4th quarter of 2017 and is expected to be completed and ready for operation by the 1st quarter of 2019.

SM-ALI Group Consortium

On June 30, 2015, ALI, through SM-ALI Group consortium (the Consortium), participated and won in the bidding for Lot No. 8-B-1, containing an area of 263,384 square meters, which is portion of Cebu City-owned lot located at the South Road Properties, Cebu City covered by Transfer Certificate of Title No. 107-2011000963. The Consortium is a consortium among SM Prime Holdings, Inc. (SMPHI), ALI and CHI (collectively referred to as the ALI Group). The SM-ALI Group has finished with the joint masterplan and is now securing permits to commence development. Consistent with the agreed payment schedule in the Deed of Absolute Sale, the ALI Group has paid ₱3.8 billion, excluding taxes, on August 1, 2017.

Assignment Agreement between Metro Rail and MRTDC

On August 8, 1997, an Assignment Agreement was executed between Metro Rail Transit Corporation (Metro Rail) and MRTDC whereby MRTDC agreed to be bound by all obligations in respect of the Development Rights and make payments to DOTC.

Assignment Agreement between MRTDC and NTDCC

On February 21, 2002, MRTDC and NTDCC entered into an assignment agreement wherein the development rights of MRTDC over an 8.3 hectare portion of the MRT Depot (inclusive of project development costs incurred in relation thereto) was assigned to NTDCC in exchange for 32,600,000 shares of stock to be issued out of the increase in the authorized capital stock of NTDCC, each share with a par value of ₱10, or an aggregate par value of ₱326.0 million. The amount of development rights in excess of the aggregate par value of the shares subscribed was credited to additional paid-in capital.

On January 13, 2006, the deed of assignment between MRTDC and NTDCC was acknowledged by the DOTC making MRTDC and NTDCC jointly and severally liable for the DRP and all other obligations attached thereto. NTDCC has been paying rent to DOTC in behalf of MRTDC since January 1, 2006. The DRP obligation is payable annually for 42 years from the date of assumption,



renewable upon expiration. As of December 31, 2017 and 2016, the DRP obligation amounted to ₱958.8 million and ₱880.0 million, respectively (see Notes 17 and 20). Total DRP obligation paid amounted to ₱223.1 million and ₱216.9 million in 2017 and 2016, respectively. Total rent expense recognized in the statements of comprehensive income under the “Cost of sales” account amounted to ₱344.8 million and ₱338.3 million in 2017 and 2016, respectively.

Memorandum of Agreement between DOTC, NHA, MRTDC, NTDC

On March 21, 2007, DOTC, National Housing Authority (NHA), MRTDC, and NTDC entered into a MOA whereby DOTC assigns, transfers and conveys to NHA, its successors or assigns, the right to demand and collect the Depot DRP Payable and Depot DRP. In the MOA, DOTC authorizes MRTDC/NTDC to remit the Depot DRP Payable and the Depot DRP to NHA directly which shall be credited by DOTC in favour of MRTDC/ NTDC as payment for the DRP.

Funding and Repayment Agreement between NTDC, MRTDC and MRTDC Shareholders

On December 17, 2014, NTDC, MRTDC and MRTDC shareholders executed a “Funding and Repayment Agreement” wherein the latter agrees to repay NTDC, for the account of MRTDC, its respective pro rata share in the Total Depot DRP Advances (the Pre-2006 DRP Payables and the Residual Depot DRP, including 15% interest rate accrued on such DRP payables).

Arvo Commercial Corporation

On December 17, 2014, Arvo Commercial Corporation signed a Deed of Absolute Sale with the Philippine National Bank for a parcel of land with an area of 6,003 sqm located at No. 460 Quirino Highway, Brgy. Talipapa, Novaliches, Quezon City.

Long-term Management Agreement between AHRC and Mandarin Oriental Hotel Group

On June 4, 2014, AHRC, a wholly owned subsidiary of ALI has signed a long-term management agreement with the Mandarin Oriental Hotel Group to develop and operate luxury hotel in Makati City. Set to open its doors by 2020, the new Mandarin Oriental Manila will be featuring 275 spacious rooms complemented by an extensive range of modern amenities including premium selection of restaurants and a signature spa. ALI Group is committed to pay US\$5 million (₱223.6 million) to Manila Mandarin Hotel, Inc. upon the opening of the New Hotel or June 30, 2017, whichever is earlier. In 2017, ALI fully paid the said amount.

ALI-SPI

On May 12, 2014, ALI has signed the terms of reference with Sureste Properties, Inc. (SPI), a wholly owned subsidiary of Bloomerry Resorts Corp. (BLOOM) for the retail area to be opened in the new Phase 1-A of Solaire Resort & Casino. ALI will be the leasing and marketing agent of the said area with gross leasable area of more than 5,000 sqm.

Memorandum of Agreement between ALI and MWC

On April 6, 2010, ALI and MWC entered into a Memorandum of Agreement (MOA) to establish a water utility services company which will manage and operate all water systems in NUVALI, as well as, adjacent projects of ALI in Laguna.

During the past 3 years, the required activities according to the MOA between MWC and ALI were accomplished- like auditing and re-design of the existing water/sewerage assets of several NUVALI and ALI projects in Laguna, water system design reviews and repairs, and developing plans and proposals for the expansion of the area coverage of the water and sewerage system. MWC is currently designing the cost plan and the target completion of the project has not yet been established. However, it is expected that the water and sewer system development shall happen simultaneous with NUVALI's expansion plan. The project will be undertaken in phases and in relation to expected NUVALI build out. The project shall start this year upon the signing of the JVA. MWC is currently re-estimating the project cost because of NUVALI expansion. Finally, on December 23, 2013 LTI signed an agreement with LAWC, to sell the water reticulation system of LTI. LAWC took over officially as the exclusive water service provider on December 31, 2013.



MWC-Provincial Government of Laguna

In 2009, MWC and the Provincial Government of Laguna formed a joint venture company, LAWC. LAWC is a water services company that has concession in the cities of Sta. Rosa, Binan and Cabuyao.

ITS South Project

On August 11, 2015, ALI won the bid for the Integrated Transport System Project – South Terminal (the ITS South Project). ALI was awarded by the Department of Transportation and Communications (DOTC) with a 35-year concession agreement to build and operate the ITS South Project and will likewise have the right to develop and operate commercial leasing facilities on the same 5.57 hectare Food Terminal Inc. property on which the future transport terminal will be built. The site of the ITS South Project is right next to ARCA South, where ALI is developing an integrated mixed-use estate. It is estimated that up to 4,000 buses and 160,000 passengers will feed into ITS South from SLEX every day. Full blast construction of the terminal will start by the 2nd half of 2018 and targeted to be operational by 1st half of 2020.

Concession Agreement between ASITI and DOTr

On January 26, 2016, ALI Group through ASITI entered into a Concession Agreement (CA) with the Department of Transportation (DOTr). The CA sets forth the rights and obligations of ASITI as concessionaire, including the construction and operation of the South Integrated Transport System Project (the Project) of DOTr. During the concession period, DOTr will monitor and review the performance of the concessionaire.

The concession will run for a period of 35 years from the start of the construction of the Project. Under the terms of the concession agreement, ASITI will design, engineer, construct, operate and maintain a mass transportation intermodal terminal at the outskirts of Metro Manila. The operation of the Project includes the collection and remittance of terminal fees to DOTr of the concessionaire during the concession period. In addition, ASITI will be permitted to develop and operate commercial leasing facilities.

Upon the start of the construction the Project, DOTr will give to ASITI the full, exclusive and uninterrupted use and possession of a 5.57 hectare property known as the Project Land. Ownership of the Project Land shall remain with DOTr at all times while the possession, custody and risk of loss or deterioration of the Project and commercial assets shall vest in the concessionaire during the concession period. ASITI shall transfer the Project and the related assets, free from any liens or encumbrances, to DOTr at the end of the concession period. ASITI will be entitled to annual payments from DOTr amounting to ₱277.9 million during the 35-year concession period, subject to meeting benchmarks set for certain key performance indicators enumerated in the CA.

As of December 31, 2017, construction of the Project has not yet commenced.

MDC

MDC, in the normal course of business, furnishes performance bonds in connection with its construction projects. These bonds shall guarantee MDC's execution and completion of the work indicated in the respective construction contracts.

Parent Company's Concession Agreement

In 2012, the Parent Company entered into a concession agreement with the DPWH to finance, design, construct, operate and maintain the Daang Hari – SLEX Link Road, now known as the Muntinlupa-Cavite Expressway(MCX) [the Project]. Under the concession agreement, the Parent Company will:

- a. Purchase the advance works on Segment I of the Project and finance and construct the remaining works thereof;
- b. Finance, design, and construct Segment II of the Project;
- c. Undertake the operations and maintenance of the Project;
- d. Impose and collect tolls from the users of the Project; and



- e. Grant business concessions and charge and collect fees for non-toll user related facilities and toll user related facilities situated in the Project.

The Parent Company is authorized to adjust the toll rates once every two years in accordance with a prescribed computation as set out in the concession agreement and upon compliance with the rules and regulations on toll rate implementation as issued or may be issued by the Toll Regulatory Board.

In the event that the Parent Company is disallowed from charging and collecting the authorized amounts of the toll rates as prescribed in the concession agreement from the users of the Project, the Parent Company shall be entitled to either of the following:

- a. Compensation from the DPWH of the toll income forgone by the Parent Company which shall be calculated based on a prescribed computation under the concession agreement.
- b. Extension of the concession period to compensate the Parent Company for the forgone toll income which shall be mutually agreed by the Parent Company and the DPWH.

The Parent Company shall pay the DPWH an amount equal to 5% of all gross revenues arising from non-toll user and toll user related facilities situated within the Project.

The concession period shall commence on the date of the issuance of the Notice to Proceed with Segment II and shall end on the date that is 30 years thereafter, unless otherwise extended or terminated in accordance with the concession agreement. Any extension of the concession period shall in no event be beyond 50 years after the date of the issuance of the Notice to Proceed with Segment II.

At the end of the Concession Period, the Project shall be turned over by the Parent Company to the DPWH in the condition required for turnover under the Concession Agreement.

On July 24, 2015, MCX was opened to the public.

In accordance with the Concession Agreement, the Parent Company shall have the right to impose and collect toll fees (inclusive of value-added tax) from the users of the MCX at the following rates:

Vehicle Class	Initial Toll Rate (flat rate)
Class 1: Light vehicles	₱17.00
Class 2: Medium-weight vehicles	34.00
Class 3: Heavy vehicles	51.00

Periodic Toll Adjustment

On September 27, 2016, the Parent Company has filed for a Petition for Approval of Periodic Toll Adjustment. Under Section 13.2 of the Concession Agreement, Concessionaire is authorized to adjust the Toll Rate every two years. Since MCX commercially operated on July 24, 2015, the Parent Company is entitled to adjust its toll for MCX effective July 24, 2017. However, under Section 3 of the 2013 Revised Rules of Procedure of the Toll Regulatory Board (TRB), the petition has to be filed on or before 30 September. Thus, the Petition was filed knowing fully well that the effectivity of the adjusted toll rate will still be on July 24, 2017.

On June 19, 2017, TRB sent an order directing the publication of the full petition in a newspaper of general circulation, along with the notice to expressway users that they may file an opposition within the period provided for under the Rules. Accordingly, the full petition was published on July 25, 2017. On November 8, 2017, all TRB requirements for the approval of the toll rate increase were submitted.



Interoperability Agreement

On July 21, 2015, the Parent Company, MCX Tollway, Inc. (MCXI) (an 80% owned subsidiary of AC Infra), South Luzon Tollway Corporation (SLTC), and Manila Toll Expressway Systems, Inc. (MATES) signed a Memorandum of Agreement on the Interoperability together with an Addendum thereto ("MOA on Interoperability") of the Project and the SLEX. The MOA on Interoperability provides the framework that will govern the interface and integration of the technical operations and toll collection systems between the Project and SLEX, and to ensure seamless travel for road users.

On the same date, MATES and MCXI also executed a Toll Collection Services Agreement, under which, MATES was appointed as sub-contractor of MCXI for the provision of toll collection services for the MCX toll plaza.

The Parent Company shall have the exclusive right and corresponding obligation to undertake the O&M of the Project. As such, on December 19, 2014, the Parent Company entered into an Operations and Maintenance Agreement (OMA) with MCXI for the operations and maintenance of the Project. The OMA has a term of seven (7) years, renewable for another seven (7) years, with the right of first offer in favor of MCXI. As compensation, the Parent Company shall pay an annual recurring fee of ₱77.6 million, exclusive of VAT, subject to yearly escalation using the Consumer Price Indexation formula.

On the same date, MCXI signed two contracts with EGIS Projects Philippines, Inc. (Egis):

- a. Operations Advisory Contract - to provide advice, among others, on the establishment and implementation of procedures to enforce traffic regulations and safety measures in MCX; and
- b. Maintenance Contract - to provide cleaning, inspection, repairs and maintenance on all parts of MCX, its landscaping, traffic signs and others.

Both contracts have a term of seven (7) years and renewable for another seven (7) years. The annual recurring fee for both contracts is ₱18.2 million, exclusive of VAT, and ₱40.9 million, exclusive for VAT, respectively and subject to yearly escalation to the effect of changes in labor index rates and consumer price index as provided by the Department of Labor and Employment.

In 2016, the Parent Company amended its existing O&M agreement with MCXI reducing the annual fee to ₱29.52 million and novated the existing agreement among MCXI and Egis to include the Parent Company as another party to the Operation Advisory Contract and Maintenance contract.

Non-Toll User Related Facilities

On October 24, 2016, the Parent Company entered into an agreement with Isuzu Automotive Dealership, Inc. (the Lessee) for the lease of 15,000 square meters of the concession area. The lease term is 20 years from October 1, 2016 to September 30, 2036, renewable for another period not exceeding June 28, 2045 upon mutual agreement. The fixed initial basic rent of the leased concession area shall be ₱1,275,000, exclusive of VAT, per month. Basic rent shall escalate by 5% at the start of the third year and every two years thereafter. The Lessee shall be given a rent free construction period of 3 months commencing on the delivery date of the leased premises. The Parent Company will remit to the DPWH 5% share on the gross revenues from the non-toll user related facilities in accordance with Section 12.6.b of the Concession Agreement.

The leased concession area shall be used by the Lessee for the purpose of developing and operating a dealership showroom and service center and to carry out other related retail, services and support activities incidental and complementary to its business and may be customary to the trade. As of December 31, 2017, construction of the facilities is in progress.



On February 2, 2017, the Parent Company entered into a lease agreement with Premier Petrol Distributors, Inc. (the Lessee) for the lease of an approximately 10,667 square meters of the concession area. The lease term is 20 years from September 1, 2017 to August 31, 2037, renewable for another period not exceeding June 28, 2045 upon mutual agreement. The fixed initial basic rent of the leased concession area shall be ₱1,120,035, exclusive of VAT, per month. Basic rent shall escalate by 5% at the start of the second year and every year thereafter. The Lessee shall be given a rent free construction period the duration of which is under review by management.

On July 6, 2017, the Parent Company entered into a contract of lease with Globe Telecom, Inc. (the Lessee) for the lease of 64 square meters of the concession area, 7 lamp posts sites and 4 sites in the tunnel underneath SLEX. The lease term shall be twenty-nine (29) years and eleven (11) months, commencing on August 1, 2016 and continuing until June 28, 2045. The fixed initial basic rent of the leased concession area shall be ₱31,400 per month, exclusive of VAT, subject to annual escalation of 4.5% starting at the beginning of the second year.

For all lease agreements concerning the concession area, the Parent Company will remit, to the DPWH, 5% of its share on the gross revenues in accordance with Section 12.6.b of the Concession Agreement.

MWC Group

MWC's Concession Agreement (the "Agreement")

On February 21, 1997, MWC entered into a Concession Agreement (the Concession Agreement) with MWSS, a government corporation organized and existing pursuant to Republic Act (RA) No. 6234, as amended, with respect to the MWSS East Zone (East Zone). The Concession Agreement sets forth the rights and obligations of MWC throughout a 25-year concession period. The MWSS Regulatory Office (MWSS-RO) monitors and reviews the performance of each of the Concessionaires – MWC and Maynilad Water Services, Inc. (Maynilad), the West Zone Concessionaire.

Under the Concession Agreement, MWSS grants MWC (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under RA No. 6234) the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services in the East Zone for a period of 25 years commencing on August 1, 1997 (the Commencement Date) up to May 6, 2022 (the Expiration Date) or the early termination date as the case may be. While MWC has the right to manage, operate, repair and refurbish specified MWSS facilities in the East Zone, legal title to these assets remains with MWSS. The legal title to all fixed assets contributed to the existing MWSS system by MWC during the Concession remains with MWC until the Expiration Date (or until the early termination date) at which time all rights, titles and interest in such assets will automatically vest in MWSS.

On Commencement Date, MWC officially took over the operations of the East Zone and rehabilitation works for the service area commenced immediately thereafter. As provided in MWC's project plans, operational commercial capacity will be attained upon substantial completion of the rehabilitation work.

Under the Agreement, MWC is entitled to the following rate adjustments:

- a. Annual standard rate adjustment to compensate for increases in the consumer price index (CPI);
- b. Extraordinary price adjustment (EPA) to account for the financial consequences of the occurrence of certain unforeseen events stipulated in the Concession Agreement;
- c. Foreign Currency Differential Adjustment (FCDA) to recover foreign exchange losses including accruals and carrying costs thereof arising from MWSS loans and any Concessionaire loans used for capital expenditures and concession fee payments, in accordance with the provisions set forth in Amendment No. 1 of the Concession Agreement dated October 12; and



- d. Rebasing Convergence Adjustment for the purposes of calculating the Rates Adjustment Limit for each of the five Charging Years of the Rebasing Period determined based on the following:
 - i. where the Rebasing Adjustment is found to be positive, the Rebasing Convergence Adjustment for the first Charging Year of the Rate Rebasing Period shall be equal to the Rebasing Adjustment, and the Rebasing Convergence Adjustment for each of the following four Charging Years shall be zero; and
 - ii. where the Rebasing Adjustment is found to be negative, the Rebasing Adjustment for each of the five Charging Years of the Rebasing Period shall be equal to the Rebasing Adjustment divided by five.

These rate adjustments are subject to a rate adjustment limit which is equivalent to the sum of CPI published in the Philippines, EPA and Rebasing Convergence Adjustment as defined in the Concession Agreement. The Concession Agreement also provides a general rate setting policy for rates chargeable by MWC for water and sewerage services as follows:

1. For the period through the second Rate Rebasing date (January 1, 2008), the maximum rates chargeable by MWC (subject to interim adjustments) are set out in the Concession Agreement.
2. From and after the second Rate Rebasing date, the rates for water and sewerage services shall be set at a level that will permit MWC to recover, over the 25-year term of the concession, its investment including operating, capital maintenance and investment incurred, Philippine business taxes and payments corresponding to debt service on MWSS loans and MWC's loans incurred to finance such expenditures, and to earn a rate of return equal to the appropriate discount rate (ADR) on these expenditures for the remaining term of the concession.

The maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five-year intervals commencing on the second Rate Rebasing date, provided that the MWSS-RO may exercise its discretion to make a general adjustment of such rates.

On April 16, 2009, the MWSS Board of Trustees passed Resolution No. 2009-072 approving the 15-year extension of the Concession Agreement (the Extension) from May 7, 2022 to May 6, 2037. This resolution was confirmed by the Department of Finance (DOF), by authority from the office of the President of the Republic of the Philippines, on October 19, 2009. The significant commitments under the Extension follow:

- a. To mitigate tariff increases such that there will be reduction of the balance of the approved 2008 rebased tariff by 66%, zero increase of the rebased tariff in 2009 and a ₱1.00 increase for years 2010 to 2016, subject to CPI and FCDA adjustments.
- b. To increase the share in the current operating budget support to MWSS by 100% as part of the concession fees starting 2009.
- c. To increase the total investments from the approved ₱187.00 billion for the periods 2008 to 2022 to ₱450.00 billion for 2008 to 2037.

With the approval of the Extension, the recovery period for MWC's investment is now extended by another 15 years from 2022 to 2037.

In March 2012, MWC submitted to MWSS a business plan embodying its rate rebasing proposals for charging year 2013. The rate rebasing activity is done every five (5) years. The MWSS conducted a review of the proposal including MWC's last five (5) years' financial performance. The financial review process extended up to the third quarter of 2013. On September 10, 2013, the MWSS-RO issued Resolution No. 13-09-CA providing for a negative rate rebasing adjustment of 29.47% on MWC's 2012 average basic water rate of ₱24.57 per cubic meter shall be implemented in 5 equal tranches of negative 5.894% per charging year. MWC objected to the MWSS' Rate Rebasing determination and formally filed its Dispute Notice on September 24, 2013, before a duly-constituted Appeals Panel, commencing the arbitration process, as provided under Section 12 (in relation to Section 9.4 of the Concession Agreement).



On December 10, 2013, the MWSS Board of Trustees, through MWSS-RO Resolution No. 13-012 CA, approved the implementation of a status quo for MWC's Standard Rates including FCDA until such time that the Appeals Panel has rendered a final award on the 2013 Rate Rebasing determination.

On April 21, 2015, MWC received the final award of the Appeals Panel in the arbitration which final award included the following tariff component determination:

- a. ₱28.1 billion Opening Cash Position (OCP) which restored ₱11.0 billion from the September 2013 OCP determination of MWSS of ₱17.1 billion;
- b. ₱199.6 billion capital expenditures and concession fees which restores ₱29.5 billion from the September 2013 future capital and concession fee expenditure of ₱170.1 billion;
- c. 7.61% Appropriate Discount Rate (ADR) which was an improvement of 79 bps from the post-tax ADR of 6.82% in September 2013; and
- d. Exclusion of corporate income tax from cash flows beginning January 1, 2013.

Consequently, the final award resulted in a rate rebasing adjustment for the period 2013 to 2017 of negative 11.05% on the 2012 basic average water charge of ₱25.07 per cubic meter. This adjustment translates to a decrease of ₱2.77 per cubic meter from the tariff during the intervening years before the 2018 rate rebasing. Annual CPI adjustments and the quarterly FCDA will continue to be made consistent with MWC's Concession Agreement with MWSS.

On December 10, 2015, MWC filed a Notice of Arbitration with the Permanent Court of Arbitration against the National Government. The Notice of Arbitration was filed with respect to a Notice of Claim made on the National Government on April 23, 2015 and reiterated on August 13, 2015 and October 20, 2015. The Notice of Claim was made under the Letter of Undertaking of the National Government, which was dated July 31, 1997 and issued through the DOF, and was subsequently reiterated in the DOF Letter dated October 19, 2009 (the "Sovereign Undertaking"). These were issued to guarantee the obligations of the MWSS under its Concession Agreement with MWC executed on February 21, 1997.

Arbitration under the UNCITRAL Rules (1976)

On April 23, 2015, the Parent Company served on the Republic of the Philippines (the "Republic"), through the Department of Finance, its Notice of Claim of even date demanding that the Republic indemnify the Parent Company in accordance with the indemnity clauses in the Republic's Letter Undertaking dated July 31, 1997 and Letter Undertaking dated October 19, 2009.

At present, the arbitration case remains pending.

The MWSS Board of Trustees approves the FCDA adjustment quarterly. The FCDA has no impact on the net income of MWC, as the same is a recovery or refund mechanism of foreign exchange losses or gains. During 2017 and 2016, the following FCDA adjustments and their related foreign exchange basis took effect.

Approval Date	Effective Date	FCDA Adjustment	Foreign Exchange Rate Basis
March 10, 2016	April 1, 2016	₱0.26 per cubic meter	USD1: ₱47.51 / JPY1: ₱0.40
June 14, 2016	July 1, 2016	₱0.25 per cubic meter	USD1: ₱46.29 / JPY1: ₱0.42
April 5, 2017	April 22, 2017	₱0.69 per cubic meter	USD1: ₱44.41 / JPY1: ₱0.37
July 27, 2017	August 13, 2017	₱0.97 per cubic meter	USD1: ₱49.86 / JPY1: ₱0.45
September 14, 2017	October 1, 2017	₱1.21 per cubic meter	USD1: ₱50.64 / JPY1: ₱0.45
December 13, 2017	January 1, 2018	₱0.63 per cubic meter	USD1: ₱51.34 / JPY1: ₱0.45

There were no FCDA adjustments for the third and fourth quarters of 2016 and for the first quarter of 2017 due to the vacancies in the MWSS BOT resulting in a lack of quorum necessary for the approval of any MWSS-RO resolution, including the FCDA adjustment.



The significant commitments of MWC under the Concession Agreement and Extension are as follows:

- a. To pay MWSS concession fees;
- b. To post a performance bond, bank guarantee or other security acceptable to MWSS amounting to US\$70.00 million in favor of MWSS as a bond for the full and prompt performance of MWC's obligations under the Agreement. The aggregate amounts drawable in one or more installments under such performance bond during the Rate Rebasing Period to which it relates are set out below.

Rate Rebasing Period	Aggregate amount drawable under performance bond (in US\$ millions)
First (August 1, 1997 - December 31, 2002)	US\$70.00
Second (January 1, 2003 - December 31, 2007)	70.00
Third (January 1, 2008 - December 31, 2012)	60.00
Fourth (January 1, 2013 - December 31, 2017)	60.00
Fifth (January 1, 2018 - December 31, 2022)	50.00
Sixth (January 1, 2023 - December 31, 2027)	50.00
Seventh (January 1, 2028 - December 31, 2032)	50.00
Eighth (January 1, 2033 - May 6, 2037)	50.00

Within 30 days from the commencement of each renewal date, MWC Company shall cause the performance bond to be reinstated in the full amount set forth above as applicable for that year. With a minimum of 10-day written notice to MWC, MWSS may make one or more drawings under the performance bond relating to a Rate Rebasing Period to cover amounts due to MWSS during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Appeals Panel for adjudication until the Appeals Panel has handed down its decision on the matter.

In the event that any amount payable to MWSS by MWC is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid;

- c. With the Extension, MWC agreed to increase its annual share in MWSS operating budget by 100% from ₱100.0 million to ₱395.0 million, subject to annual CPI;
- d. To meet certain specific commitments in respect of the provision of water and sewerage services in the East Zone, unless deferred by MWSS-RO due to unforeseen circumstances or modified as a result of rate rebasing exercise;
- e. To operate, maintain, renew and, as appropriate, decommission facilities in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the East Zone is capable of meeting the service obligations (as such obligations may be revised from time to time by the MWSS-RO following consultation with MWC);
- f. To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third party property;
- g. To ensure that at all times, MWC has sufficient financial, material and personnel resources available to meet its obligations under the Agreement; and
- h. To ensure that no debt or liability that would mature after the life of the Agreement will be incurred unless with the approval of MWSS.

MWC is committed to perform its obligations under the Concession Agreement and Extension to safeguard its continued right to operate the Concession.



LAWC's Concession Agreement

On April 9, 2002, LAWC entered into a concession agreement (as amended on March 31, 2004, July 22, 2009, and June 30, 2015) with PGL, a local government unit organized and existing under Philippine Laws.

Under the terms of the concession agreement, the PGL grants LAWC (as contractor and as agent for the exercise of certain rights in Laguna) the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide water services to specific areas for an operational period of 25 years which commenced on October 20, 2004.

While LAWC has the right to manage, occupy, operate, repair, maintain, decommission and refurbish specified PGL facilities, legal title to these assets remains with PGL. Legal title to all assets procured by LAWC in the performance of its obligations under the agreement remains with LAWC and shall not pass to PGL until the end of the concession period at which time, LAWC will transfer, or if the ownership is vested in another person, cause the transfer to PGL. LAWC has the exclusive rights to provide water services in the service areas specified in the concession agreement. Concession fees set forth in the concession agreement are computed as a percentage of revenue from water services.

Seventy percent (70%) of the concession fees are applied against any advances made by LAWC to PGL. The remaining thirty percent (30%) of the concession fees are payable annually 30 days after the submission of the audited financial statements by LAWC, from the start of the operational period.

On June 30, 2015, LAWC and the PGL signed an amendment to the concession agreement which expands the concession area to cover all cities and municipalities in the province of Laguna, as well as the service obligation to include the provision of wastewater services and the establishment of an integrated sewage and septage system in the province.

The significant commitments of LAWC under its concession agreement with PGL are as follows:

- a. To pay PGL concession fees;
- b. To manage, occupy, operate, repair, maintain, decommission, and refurbish the transferred facilities;
- c. To design, construct and commission the new facilities during the cooperation period;
- d. To provide and manage the services;
- e. To bill and collect payment from the customer for all services;
- f. To extract raw water exclusively from all sources of raw water; and
- g. To negotiate in good faith with PGL any amendment or supplement to the concession agreement to establish, operate and maintain wastewater facilities if doing such is financially and economically feasible.

Simultaneous to the signing of the amendment to the joint venture agreement between PGL and MWPVI on June 30, 2015, and consequent to the amendment of the joint venture agreement of LAWC, LAWC signed an amendment to its concession agreement with the PGL which includes the following:

- a) Expansion of its concession area to cover all cities and municipalities in the PGL; and
- b) Inclusion in the service obligations of LAWC the provision of wastewater services and the establishment of an integrated sewage and septage system in the province.



In connection with the amendment of LAWC's Concession Agreement, the Sangguniang Bayan of the Municipality of Calauan Laguna approved the resolution allowing LAWC to provide water and wastewater services to the municipality of Calauan. The provision of services by LAWC in the municipality of Calauan will be implemented in phases, with full coverage of the area targeted by the first quarter of 2020.

The implementation of the facilities that will serve the municipality of Calauan has been divided into two components: pipelaying construction, which will support intended provision of 3,314 water service connections upon completion and the deep well construction for which a notice of award had been issued to contractors and which is expected to commence operations by the third week of September 2017. Applicable permits are being secured for both components as of date.

On August 23, 2017, the Sangguniang Bayan of Victoria, Laguna, has approved the inclusion of its municipality within the service area of LAWC.

BIWC's Concession Agreement

On December 17, 2009, BIWC entered into a concession agreement with TIEZA, formerly Philippine Tourism Authority (PTA). The concession agreement sets forth the rights and obligations of BIWC as concessionaire throughout the 25-year concession period. The TIEZA Regulatory Office will monitor and review the performance of the concessionaire throughout the concession period.

Under the concession agreement, TIEZA grants BIWC the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services in the entire Boracay Island. The legal title to all fixed assets contributed to the existing TIEZA system by BIWC during the concession remains with BIWC until the expiration date (or the early termination date) at which time all rights, titles and interest in such assets will automatically vest in TIEZA.

As part of the agreement, BIWC advanced concession fees to TIEZA amounting to ₱60.0 million, which will be applied as payment of, and shall be offset against the annual concession fees payable to TIEZA equivalent to 5% of the annual gross revenue of BIWC.

Under its concession agreement, BIWC is entitled to the following rate adjustments:

- a. Annual standard rate adjustment to compensate for increases in the consumer CPI;
- b. EPA to account for the financial consequences of the occurrence of certain unforeseen events stipulated in the concession agreement; and
- c. FCDA to recover foreign exchange losses including accruals and carrying costs thereof arising from TIEZA loans and any loans used for capital expenditures and concession fee payments.

These rate adjustments are subject to a rate adjustment limit which is equivalent to the sum of CPI published in the Philippines, EPA and Rebasing Convergence adjustment as defined in BIWC's concession agreement.

The rate rebasing date is set every 5 years starting January 1, 2011. Hence, the first rate rebasing period commenced on January 1, 2010 and ended on December 31, 2010 and, in the case of subsequent rate rebasing periods, the period commencing on the last rate rebasing date and ending on December 31 of the fifth year thereafter.

BIWC requested for the deferment of the rate rebasing since it was not able to commence operations in June 2009, as originally planned, because the SEC required BIWC to seek conformity from the DOF before it could be incorporated.

In January 2016, BIWC implemented an increase of 8.18% comprising of rate rebasing adjustment of 6.97% and CPI of 1.21%. The downward FCDA adjustment of 14.34% was continuously implemented throughout the year.



On June 7, 2017, TIEZA approved the new water rates of BIWC which is equivalent to an increase of 57.83% from its existing rate to be implemented on a staggered basis for a period of three (3) years with an increase of 30.14%, 11.99% and 10.79% in 2017, 2018 and 2019, respectively. The first tranche of tariff increase was implemented on July 1, 2017.

The Agreement also provides a general rate setting policy for rates chargeable by BIWC for water and sewerage services as follows:

- a. For the period through the second rate rebasing date (January 1, 2016), the maximum rates chargeable by BIWC (subject to interim adjustments) are set out in the Agreement; and
- b. From and after the second rate rebasing date, the rates for water and sewerage services shall be set at a level that will permit BIWC to recover, over the 25-year term of its concession, its investment including operating expenses, capital maintenance and investment incurred, Philippine business taxes and payments corresponding to debt service on the TIEZA loans incurred to finance such expenditures, and to earn a rate of return on these expenditures for the remaining term of the concession in line with the rates of return being allowed from time to time to operators of long-term infrastructure concession arrangements in other countries having a credit standing similar to that of the Philippines.

The maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five-year intervals commencing on the second rate rebasing date, provided that the TIEZA may exercise its discretion to make a general adjustment of such rates.

Also part of the concession agreement, BIWC assumed certain property and equipment of BIWC Sewerage System (BWSS), as well as its outstanding loan from Japan International Cooperation Agency (JICA), considered as part of its TIEZA loans under the concession agreement, and regulatory costs.

As a result of the above terms of the concession agreement, BIWC recognized a total of ₱986.9 million service concession assets on commencement date. It includes the JICA loan assumed by BIWC, regulatory costs, construction costs for the improvement and expansion of the water and wastewater facilities and the advanced concession fees.

The significant commitments of BIWC under its concession agreement with TIEZA are as follows:

- a. To meet certain specific commitments in respect of the provision of water and sewerage services in the service area, unless deferred by the TIEZA Regulatory Office (TIEZA-RO) due to unforeseen circumstances or modified as a result of rate rebasing exercise;
- b. To pay concession fees, subject to the following provisions:
 - i. Assumption of all liabilities of the BWSS as of commencement date and service such liabilities as they fall due. BWSS has jurisdiction, supervision and control over all waterworks and sewerage systems within Boracay Island prior to commencement date. The servicing of such liabilities shall be applied to the concession fees;
 - ii. Payment of an amount equivalent to 5% of the monthly gross revenue of BIWC, inclusive of all applicable taxes. Such payments shall be subject to adjustment based on the gross revenue of BIWC as reflected in its separate financial statements;
 - iii. Provision of the amount of the TIEZA BOD's approved budget in 2012, payable semi-annually and not exceeding:

Month	Maximum Amount
January	₱10,000,000
July	10,000,000



- iv. Provision of the annual operating budget of the TIEZA-RO, payable in 2 equal tranches in January and July and not exceeding:

Year	Maximum Amount
2011	₱15,000,000
2012	20,000,000
2013 and beyond	20,000,000, subject to annual CPI adjustment

- c. To establish, at Boracay Island, a TIEZA-RO building with staff house, the cost of which should be reasonable and prudent;
- d. To pay an incentive fee pegged at ₱1.00 per tourist, local and foreign, entering the service area;
- e. To raise financing for the improvement and expansion of the BWSS water and wastewater facilities;
- f. To operate, maintain, repair, improve, renew and, as appropriate, decommission facilities, as well as to operate and maintain the drainage system upon its completion, in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the service area is capable of meeting the service obligations (as such obligations may be revised from time to time by the TIEZA-RO following consultation with BIWC);
- g. To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third party property; and
- h. To ensure that at all times, BIWC has sufficient financial, material and personnel resources available to meet its obligations under the concession agreement.

In addition, MWC, as the main proponent of BIWC shall post a bank security in the amount of US\$2.50 million to secure MWC's and BIWC's performance of their respective obligations under the agreement. The amount of the performance security shall be reduced by MWC following the schedule below:

Rate Rebasing Period	Amount of Performance Security (in US\$ millions)
First	US\$2.50
Second	2.50
Third	1.10
Fourth	1.10
Fifth	1.10

On or before the start of each year, BIWC shall cause the performance security to be reinstated in the full amount set forth as applicable for that year.

Upon not less than 10 days written notice to BIWC, TIEZA may take one or more drawings under the performance security relating to a Rate Rebasing Period to cover amounts due to TIEZA during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Arbitration Panel for adjudication until the Arbitration Panel has handed its decision on the matter.

In the event that any amount payable to TIEZA by BIWC is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid.

Failure of BIWC to perform any of its obligations that is deemed material by TIEZA-RO may cause the concession agreement to be terminated.



CWC's Concession Agreement

On March 16, 2000, Vivendi Water Philippines, Inc., which subsequently changed its name to Veolia Water Philippines, Inc (VWPI), entered into a concession agreement with CDC, a government corporation organized and existing under Executive Order No. 80, series of 1993. The concession agreement sets out the terms and conditions under which VWPI will finance, design, construct, operate and maintain the water and sewerage system inside the Clark Freeport Zone (CFZ) commencing on October 1, 2000 and ending on the date falling 25 years thereafter or as may be extended by the terms of the concession agreement. As the implementing arm of the Bases Conversion Development Authority and the regulatory and development body for the CFZ, CDC has the power and authority to regulate and monitor the performance and compliance of VWPI, or its assignee, with its obligations under the concession agreement.

On September 1, 2000, in accordance with the terms of the concession agreement, VWPI assigned its rights and obligations under the concession agreement to CWC by virtue of an assignment and assumption agreement between VWPI and CWC. As consideration for the grant of the concession and franchise to develop, operate and maintain the water and sewerage system within the CFZ, CWC pays CDC an annual franchise fee of ₱1.50 million. Any new construction, change, alteration, addition or improvement on the facilities is permitted to the extent allowed under the agreement with CDC or with the prior written consent of CDC. Legal title, free of all liens and encumbrances, to improvements made or introduced by CWC on the facilities as well as title to new facilities procured by CWC in the performance of its obligations under the concession agreement shall automatically pass to CDC on the date when the concession period expires or the date of receipt of a validly served termination notice, in the latter case, subject to payment of the amount due as termination payments as defined in the concession agreement.

On September 29, 2000, CDC leased in favor of CWC the existing facilities in compliance with the condition precedent to the effectivity of and the respective obligations of CWC and CDC under the concession agreement. Under the lease agreement, CWC was required to make a rental deposit amounting to ₱2.8 million equivalent to six months lease rental and a performance security amounting to ₱6.7 million to ensure the faithful compliance of CWC with the terms and conditions of the lease agreement. CWC pays semi-annual rental fees of ₱2.8 million amounting to a total of ₱138.3 million for the entire concession period. The lease term shall be co-terminus with the concession period unless sooner terminated for any of the reasons specified in the concession agreement.

The significant commitments of CWC under its concession agreement with CDC are follows:

- a. To pay franchise and rental fees of CDC;
- b. Finance, design, and construct new facilities - defined as any improvement and extension works to (i) all existing facilities - defined as all fixed and movable assets specifically listed in the concession agreement; (ii) construction work - defined as the scope of construction work set out in the concession agreement; and (iii) other new works that do not constitute refurbishment or repair of existing facilities undertaken after commencement date;
- c. Manage, exclusively possess, occupy, operate, repair, maintain, decommission and refurbish the existing facilities, except for the private deep wells set out in the concession agreement, the negotiations for the acquisition and control of which shall be the sole responsibility and for the account of the CWC; and manage, own, operate, repair, maintain, decommission and refurbish the new facilities;
- d. Treat raw water and wastewater in CSEZ;
- e. Provide and manage all water and wastewater related services like assisting locator of relocating of pipes and assess internal leaks;



- f. Bill and collect payment from the customers for the services (with the exception of SM City Clark). SM City Clark has been carved out by virtue of Republic Act 9400 effective 2007 even if it is located within the franchise area; and
- g. Extract raw water exclusively from all sources of raw water including all catchment areas, watersheds, springs, wells and reservoirs in CFZ free of charge by CDC.

On August 15, 2014, CWC and CDC signed an amendment agreement to the concession agreement dated March 16, 2000.

As a result of the extension of the concession period, service concession assets and service concession obligation as of August 15, 2014 increased by ₱56.58 million. Further, the recovery period of the CWC's investment is now extended by another 15 years from 2025 to 2040.

On August 15, 2014, the CWC and CDC signed an amendment agreement to the concession agreement dated March 16, 2000. The Amendment provides for the following:

- a. Extension of the original concession period for another 15 years up to October 1, 2040;
- b. Additional investment of ₱4.0 billion provided under the amended concession agreement to be spent for further improvement and expansion water and waste water services in the area. Investment requirement under the original concession agreement amounted to ₱3.0 billion and the amended concession agreement required an additional investment of ₱2.0 billion. Total investment prior to the amendment of the concession agreement amounted to ₱1.0 billion;
- c. Introduction of rate rebasing mechanism for every four years starting 2014;
- d. Reduction in tariff rates by 3.9% (from ₱25.63/m³ to ₱24.63/m³) effective September 1, 2014, subject to the Extraordinary Price Adjustment; and
- e. Increase in tariff rates by:
 - ₱0.41/m³ (from ₱24.63/m³ to ₱25.04/m³) in 2018
 - ₱0.42/m³ (from ₱25.04/m³ to ₱25.45/m³) in 2019
 - ₱0.42/m³ (from ₱25.45/m³ to ₱25.87/m³) in 2020
 - ₱0.43/m³ (from ₱25.87/m³ to ₱26.30/m³) in 2021

As a result of the extension of the concession period, service concession assets and service concession obligation as of August 15, 2014 increased by ₱56.6 million. Further, the recovery period of the CWC's investment is now extended by another 15 years from 2025 to 2040.

Bulk Water Supply Agreement with MCWD

On December 18, 2013, CMWD entered into a bulk water supply agreement with MCWD. The significant commitments of CMWD under its agreement with MCWD are as follows:

- a. Provide potable and treated water at an aggregate volume of 18,000 cubic meters per day for the first year and 35,000 cubic meters per day for the succeeding years up to 20 years at ₱24.59 per cubic meter;
- b. Ensure that the source shall be sustainable and 100% reliable at any day the duration of the agreement; and
- c. Construct a facility capable of delivering a production capacity of 35,000 cubic meters per day and maintain the same on its account.



MW Consortium Agreement with PGC

On March 21, 2012, MW Consortium signed a joint investment agreement with the PGC for the formation of a joint venture company with 51% and 49% equity participation for MW Consortium and the PGC, respectively. Under the joint investment agreement, the parties agreed to develop and operate a bulk water supply system that will supply 35.0 million liters of water per day to target areas in the province of Cebu with the joint venture company serving as a bulk water supplier. The term of the agreement is 30 years starting March 2012 and renewable for another 25 years. MW Consortium and the PGC incorporated Cebu Manila Water Development, Inc. (CMWDI), with an ownership of 51% and 49%, respectively, pursuant to the joint investment agreement.

On December 13, 2013, CMWDI received a Notice of Award for the bulk supply of water to the MCWD. On December 18, 2013, CMWDI and MCWD signed a 20-year Bulk Water Supply Contract for the supply of 18.0 million liters per day of water for the first year and 35.00 million liters per day of water for years 2 up to 20. CMWDI delivered its initial 18.0 million liters per day bulk water supply to MCWD on January 5, 2015. CMWDI will increase its bulk water delivery to 35.0 million liters per day in 2016.

In 2016, due to the declaration of the state of calamity arising from the El Niño, CMWDI and MCWD invoked the force majeure clause in their Bulk Water Supply Contract which effectively lifted the requirement for MCWD to purchase and for CMWDI to deliver the agreed thirty five (35) million liters of water starting January 5, 2016 (see Note 15).

Memorandum of Understanding (MOU) with Yangon City Development Committee (YCDC)

On March 17, 2014, MWC and Mitsubishi Corporation, signed a MOU with the YCDC in Yangon City, Myanmar for the development of a proposed NRW project for Yangon City. YCDC is an administrative body of the city government in Yangon in charge of the water, infrastructure, business licenses and city property management, among others.

In 2017, MWAP successfully completed its pilot NRW reduction project in Yangon, significantly reducing levels of water system loss. In partnership with Mitsubishi Corporation and the Yangon City Development Committee, MWAP fulfilled its promise to demonstrate its technical capabilities undertaking a pilot project and improving the waterways in selected areas.

ZWC's Concession Arrangement

On June 2, 2015, ZWC, the joint venture company which is 70% owned by MWC, entered into a NRWSA with ZCWD. Under the NRWSA, ZCWD grants the ZWC the right to implement Network Restructuring and Non-Revenue Water Reduction Programs for ZCWD's water distribution system.

The project will run for 10 year period, beginning June 2, 2015, with 3 phases namely:

- a. Network Improvement Program (DMA Formation) and NRW Reduction Program (Service Line and Meter Replacement, Active Leak Detection and Repair) – from Year 1 to 5
- b. Maintenance Period – in Year 6
- c. Technical Assistance and Consultancy – from Year 7 to 10

Joint Venture for the Tagum City Bulk Water Supply Project with Tagum Water District (TWD)

On July 28, 2015, the TWD awarded the Tagum City Bulk Water Supply Project to the consortium of MWC and iWater, Inc.

On October 15, 2015, Davao del Norte Water Infrastructure Company, Inc. (Davao Water), the joint venture company of MWC and iWater, Inc., signed and executed a joint venture agreement with the TWD. Under the said agreement, Davao Water and the TWD shall cause the incorporation of a joint venture company which shall implement the Bulk Water Supply Project for 15 years from the operations start date as defined in the joint venture agreement. TWC, the joint venture company, which is 90% and 10% owned by Davao Water and TWD, was registered with the SEC on December 15, 2015. TWC will develop supplemental surface water resources that will deliver potable bulk water to TWD.



On February 26, 2016, TWC and TWD signed and executed a Bulk Water Sales and Purchase Agreement (BPSPA) for the supply of bulk water to TWD for a period of fifteen (15) years from the operations start date. TWC will have the sole and exclusive right and responsibility during the term of the agreement to:

- i. Develop raw surface water sources in Hijo River;
- ii. Plan, develop, design, build and test the facilities;
- iii. Implement the project;
- iv. Manage, use, occupy, operate, repair, maintain, upgrade and develop the facilities; and;
- v. Supply treated water to TWD for distribution to its network.

Facilities and any and all assets, equipment and properties used by TWC to implement the bulk water project will be owned by TWC even after the expiration of the BWSPA.

MWSAH Capital Transfer Agreement with Saigon Water

On November 3, 2015, MWSAH completed the execution of a Capital Transfer Agreement with Saigon Water for the acquisition of 24.5% of the charter capital of Cu Chi Water in the total amount of VND154.35 billion. Pursuant to the capital transfer agreement, Saigon Water entered into a put option agreement with MWSAH and VIAC (No 1) Limited Partnership. As of December 31, 2017 and 2016, no trigger event has occurred and the value of the put option was determined to be nil.

MWPVI Memorandum of Agreement (MOA) with ALI and the SM Group

On January 15, 2016, MWPVI entered into a MOA with ALI and its subsidiaries (the ALI Group), whereby MWPVI shall exclusively provide water and used water services and facilities to all property development projects of the ALI Group.

On December 8, 2016, MWPVI entered into a similar MOA with each of SM Prime Holdings Inc.'s and the latter's affiliates and subsidiaries, SM Development Corporation and SM Residences Corp. (collectively, the SM Group). Pursuant to the MOA, MWPVI will provide the water and/or used water services and facilities to the property development projects of the SM Group identified in each of the MOA.

On December 28, 2017, MWPVI has entered into a Novation Agreement with the SM Group and Aqua Centro MWPV, a wholly-owned subsidiary of MWC, to transfer its rights, duties and obligations to provide water and/or used water services and facilities to the property development projects of the SM Group to Aqua Centro MWPV, effective from the inception of the MOA.

As of December 31, 2017 and 2016, MWPVI has five (5) signed MOAs with the SM Group.

Calasiao Water's Concession Agreement with CWD

On December 9, 2016, MWC received a Notice of Award from the CWD for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system of the CWD in Calasiao, Pangasinan.

On June 19, 2017, MWC signed a JVA with CWD which will govern the relationship of the two in undertaking the joint venture project. Under the JVA, MWC and CWD shall cause the incorporation of a joint venture company where MWC and CWD shall own 90.00% and 10.00%, respectively, of the outstanding capital stock. The joint venture company will then enter into a concession agreement with CWD for the implementation of the joint venture project for twenty-five (25) years from the commencement date, as defined in the concession agreement.

On August 2, 2017, the SEC approved the incorporation of Calasiao Water Company, Inc.

On October 23, 2017, Calasiao Water and CWD signed and executed a concession agreement for the design, construction, rehabilitation, operation, maintenance, financing, expansion, and management of the water supply system for a period of twenty five (25) years from the commencement date.



MWPVI APA with Asian Land and Incorporation of Bulacan MWPV Development Corp. (BMDC)

On January 4, 2017, MWPVI entered into an APA with Asian Land to acquire and operate the latter's assets used in the water business operations in Asian Land's developments in the province of Bulacan. The intention of MWPVI was to assign the rights under the APA to its wholly owned subsidiary upon its incorporation.

On April 11, 2017, BMDC was incorporated to design, construct, rehabilitate, maintain, operate, finance, expand, and manage water supply system and sanitation facilities. BMDC is the ultimate entity that will own and operate the assets acquired from Asian Land.

On July 31, 2017, MWPVI assigned all its rights and obligations on the APA to BMDC, a wholly-owned subsidiary of MWPVI, under a Deed of Assignment. On the same day, the Deed of Absolute Sale was also executed between Asian Land and BMDC.

Obando Water's Concession Agreement with the OWD

On January 24, 2017, the consortium of MWC and MWPVI received the Notice of Award from the OWD for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and sanitation facilities of the OWD in Obando, Bulacan.

On February 2, 2017, Obando Water Consortium Holdings Corp. was registered with the SEC. Obando Water Holdings is the consortium between MWC and MWPVI with an equity share of 49.00% and 51.00%, respectively. The primary purpose of Obando Water Holdings is to engage in the business of a holding company without acting as stockbroker or dealer in securities.

On July 26, 2017, Obando Water Holdings signed and executed a JVA with OWD. The JVA governs the relationship of Obando Water Holdings and OWD as joint venture partners in the Obando Water Concession Project (the "Obando Concession Project"). Under the JVA, Obando Water Holdings and the OWD shall cause the incorporation of a joint venture company which will implement the Obando Concession Project for the design, construction, rehabilitation, operation, maintenance, financing, expansion, and management of water facilities and the provision of water and sanitation services in the Municipality of Obando. Obando Water Holdings will own 90.00% while OWD will own 10.00% of the joint venture company's outstanding capital stock.

For the implementation of the Obando Concession Project, OWD and the joint venture company shall execute a concession agreement. On October 10, 2017, the SEC approved the incorporation Obando Water Company, Inc.

On October 12, 2017, Obando Water and OWD signed and executed a concession agreement for the design, construction, rehabilitation, operation, maintenance, financing, expansion and management of water facilities and the provision of water and sanitation services in the Municipality of Obando for a period of twenty five (25) years from the commencement date.

BMDC APA with Solar Resources

On July 26, 2017, BMDC entered into an APA with Solar Resources to acquire and operate the latter's assets used in the water business operations in Solar Resources developments in the province of Bulacan.

On the same day, Solar Resources executed a Deed of Absolute Sale to sell and transfer its properties pertaining to water facilities and its operations in the Las Palmas Subdivisions Phases 1 to 7 to BMDC.



BMDC APA with Borland

On December 14, 2017, BMDC transferred the total consideration of ₱7.28 million, inclusive of VAT, to Borland ahead of the execution of the APA, Deed of Assignment, and Deed of Absolute Sale between the parties for the sale, assignment, transfer, and conveyance of Borland's assets pertaining to water facilities and its operation in San Vicente Homes subdivision in Bulacan. The APA, Deed of Assignment, and Deed of Absolute Sale was signed on January 3, 2018.

Notice of Award from the Leyte Metropolitan Water District (LMWD)

On December 6, 2017, MWC received the Notice of Award from the LMWD for the implementation of the joint venture project (the "Leyte Project") for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply and sanitation facilities and services of LMWD in the Province of Leyte.

The conditions precedent specified in the Notice of Award include the incorporation of a special purpose vehicle (SPV) which will implement the Leyte Project under a contractual joint venture with the LMWD.

Upon completion of the conditions precedent specified in the Notice of Award, the SPV and the LMWD shall enter into a joint venture agreement that will grant the SPV, as contractor to perform certain functions and as agent for the exercise of, the sole and exclusive right to manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission, the facilities of LMWD in its Service Area, including the right to bill and collect tariff for the provision of water supply and sanitation services in the Service Area of LMWD.

LMWD's service area covers the City of Tacloban and seven other municipalities namely Palo, Tanauan, Dagami, Tolosa, Pastrana, TabonTabon, and Santa Fe.

MWPVI Lease Agreement with the Philippine Economic Zone Authority (PEZA)

On December 18, 2017, MWPVI signed a twenty five (25) year Lease Agreement with PEZA. Pursuant to the agreement, MWPVI will lease, operate, and manage the water and used water facilities of PEZA in the Cavite Special Economic Zone for the provision of water and used water services to the locators therein. MWPVI shall apply its expertise in the industrial zones operations and shall provide capital expenditures for the duration of the agreement. The Cavite Special Economic Zone is a 275-hectare industrial estate with 297 locators consuming approximately 350,000 cubic meters per month or 12.0 million liters per day.

Asset Purchase Agreement with LTI

On December 23, 2013, LAWC entered into an asset purchase agreement with LTI to acquire and operate its water operations division in Laguna. The significant commitments of LAWC under its agreement with LTI follow:

- a. Offer water supply and sewerage services to all current or future locators in the Laguna Technopark, including future area(s) of expansion;
- b. Ensure the availability of an uninterrupted 24-hour supply of water to all current and future locators, subject to interruptions resulting from the temporary failure of items of the Water Facilities (where LAWC acts promptly to remedy such failure) or required for the repair of the construction of the Water Facilities where such repairs or construction cannot be performed without interruption to the supply of water;
- c. Upon request from a current or future locator in the LTI for a connection to a water main, make such a connection as soon as reasonably practicable, upon payment of reasonable connection fees as determined by LAWC;



- d. Ensure at all times that the water supplied to current and future locators in LTI complies with Philippine National Standards for Drinking Water as published by the Department of Health (or successor entity responsible for such standards) and prevailing at such time and shall observe any requirement regarding sampling, record keeping or reporting as may be specified by law;
- e. Make available an adequate supply of water for firefighting and other public purposes as the municipality and/or barangay in which LTI may reasonably request. LAWC shall not assess for such water used for firefighting purposes but may charge for all other water used for public purposes; and
- f. Laguna Water shall make a supply of water available to current and future locators in LTI, including the areas of expansion in the future.

MWC Management Contracts

Vietnam Project

On July 22, 2008, MWC entered into a Performance-Based Leakage Reduction and Management Services Contract with Saigon Water Corporation. The contract involves the following components:

- a. General requirements;
- b. DMA establishment;
- c. Leakage reduction and management services;
- d. System expansion work;
- d. Emergency and unforeseen works; and
- e. Daywork schedule.

On August 19, 2014, the management contract with SAWACO expired. In 2014, total revenue from the Vietnam Project amounted to ₱25.5 million. No revenues were recognized in 2016 and 2015. Total costs related to the Vietnam Project amounted to nil, ₱5.2 million and ₱51.9 million in 2017, 2016 and 2015, respectively. Costs arising from the management contract in 2016 pertain to maintenance, manpower and other administrative expenses arising from the winding down of the project which was finalized in November 2016.

ACEHI

On July 24, 2017, ACEHI SG entered into a development funding arrangement with UPC Renewables Asia Pacific Holdings Ltd. and UPC Renewables Asia I Limited for the development of small island projects in Indonesia. Under the terms of the agreement, ACEHI SG agreed to provide funding for the development of power generation projects with sub-50MW capacities. ACEHI will also have accompanying rights to participate in further construction funding of other Indonesian renewable energy projects. As of December 31, 2017, ACEHI's total capital funding amounted to US\$9.0 million.

On February 29, 2016, GNPk and Meralco Industrial Engineering Services Corp. (MEISCOR) executed the Supply, Delivery and Construction contract for the Kauswagan-Balo-I 230kV Double Circuit Line Transmission Line Project. The Notice to Proceed was also issued during the Contract signing. Construction cost amounted to ₱153.1 million where ₱87.3 million was paid in 2016. Supply cost is priced at US\$3.9 million of which US\$2.1 million was paid as of December 31, 2016.

On August 11, 2016, ACEHI and ACEHI SG, a Singapore private limited company and a wholly-owned subsidiary of ACEHI, executed a Fee Agreement with Blackstone Capital Partners (Cayman) VI L.P. (Blackstone) whereby ACEHI and ACEHI SG agreed to perform certain services and undertake certain obligations in favor of Blackstone in relation to Blackstone's investments in the Philippines.



On December 22, 2016, ACEHI SG and AC Energy Cayman, a wholly-owned subsidiary of ACEHI through AC Energy HK Limited, executed an Assignment Agreement whereby the former assigned all its rights, titles and interest under the Fee Agreement to the latter. Since the assignment was made in relation to the GNP Dinginin project, where Blackstone was an investor, ACEHI SG and AC Energy Cayman agreed that the release of the fee (under the Fee Agreement) to AC Energy Cayman shall be made as follows:

- When at least 40% of the loan amount under the financing documents of GNP Dinginin has been successfully drawn down, AC Energy Cayman shall be entitled to the release of 75% of the fee; and
- When at least 70% of the loan amount under the financing documents of GNP Dinginin has been successfully drawn down, AC Energy Cayman shall be entitled to the release of the balance of the fee.

ACEHI SG and AC Energy Cayman also agreed to cause Blackstone to deposit the fee to a trust account with a trust bank that would administer the release of the fee.

On December 23, 2016, ACEHI SG entered into a Trust Agreement with BPI Trust. As the trustee, BPI Trust has the sole power and authority to manage the fund and operate the trust account (i.e. invest, reinvest or lend the fund). The amount deposited in the trust account amounted to US\$41.7 million as of December 31, 2016.

On September 15, 2017, ACEHI SG signed an Amended and Restated Trust Agreement with BPI to revise the mechanics for the release of the fee as follows:

- When at least 15% of the loan amount under the financing documents of GNP Dinginin has been successfully drawn down, AC Energy Cayman shall be entitled to the release of up to 35% of the fee;
- When at least 18% of the loan amount under the financing documents of GNP Dinginin has been successfully drawn down, AC Energy Cayman shall be entitled to the release of up to 55% of the fee;
- When at least 30% of the loan amount under the financing documents of GNP Dinginin has been successfully drawn down, AC Energy Cayman shall be entitled to the release of up to 70% of the fee; and
- When at least 50% of the loan amount under the financing documents of GNP Dinginin has been successfully drawn down, AC Energy Cayman shall be entitled to the release of the balance of the fee.

On September 18, 2017 and December 22, 2017, BPI Trust, as Trustee under the Trust Agreement, released a total of US\$29.0 million to AC Energy Cayman in consideration for the achievement of the GNPD loan drawdown milestone per the Trust Agreement. Consequently, AC Energy Cayman recognized income of the same amount equivalent to ₱1.5 billion.

In the future, depending on the progress of construction of the GNPD power plant and the level of loan drawdown for the project, additional fees will be paid and released to AC Energy Cayman.

On December 22, 2016, ACEHI, as part of an Indonesian and a Philippine consortium, signed the share Sale and Purchase Agreements with Chevron Group for the purchase of its geothermal operations in Indonesia and Philippines. The Indonesian consortium consists of ACEHI, Star Energy Group Holdings Pte. Ltd. Star, Star Energy Geothermal Pte. Ltd. and Electricity Generating Public Co. Ltd. The acquisition of the geothermal assets in Indonesia will be made through the joint venture company, Star Energy Geothermal (Salak-Darajat) B.V., which is 19.8%-owned by ACEHI. The geothermal assets in the Philippines will be acquired through the joint venture company, ACEHI-Star Holdings, Inc., formed by the Philippine consortium of ACEHI and Star Energy Group Holdings Pte.



Ltd. The closing of the transaction is subject to the satisfaction of certain agreed conditions particularly to the consents and approvals of Philippine Competition Commission (PCC). As of December 31, 2016, total bid deposits amounted to US\$52.03 million (₱2.6 billion). In 2017, this amount formed part of ACEHI Group's investment in associates and joint ventures (see Note 11).

On December 23, 2016, ACEHI deposited ₱100.0 million earnest money to Bronzeoak for the intended acquisition of the latter's subsidiaries in 2017.

On July 24, 2017, ACEHI together with Star Energy Geothermal Holdings Pte. Ltd., entered into definitive agreements for the transfer of 99% of their consortium interests in ACEHI-STAR Holdings, Inc. to AllFirst Equity Holdings, Inc. (AllFirst). AllFirst is Chevron's current partner, and directly holds a 60% ownership interest in Philippine Geothermal Production Company.

On various dates in 2017 and 2016, ACEHI purchased certain parcels of land in Kauswagan, Lanao Del Norte. These parcels of land are used as project site for the construction and operations of the Kauswagan Power Plant Project. Portion of the land will also be donated to the local government of Kauswagan to be used for the relocation of informal settlers. The total land area acquired measures 719,600 square meters, for a total acquisition cost of ₱395.0 million.

On June 20, 2016, the EPC contract of GNPK was amended to reflect the exercise of the option to add a fourth generation unit to the Project. As of December 31, 2016, onshore EPC for the construction and supply and offshore EPC for the engineering, design and procurement amounted to US\$98.4 million and US\$267.8 million, respectively. In 2016, GNPK paid the onshore and offshore EPC amounting to US\$94.8 million and US\$265.2 million, respectively.

AC Infra

On September 12, 2015, LRMC took over the operations of LRT Line 1. In December 2015, LRMC started its rehabilitation of certain LRT 1 stations. As of December 31, 2017, LRT 1 stations are still undergoing rehabilitation of certain LRT 1 stations. Construction of the Cavite extension is expected to commence once right of way is delivered by the Grantors and is targeted to complete four years thereafter. As at December 31, 2017, right of way was not fully delivered. However, on May 30, 2017, LRMC received the Permit to Enter certificate from the Grantors allowing LRMC to enter the concerned properties and commence the construction of Cavite extension. As of December 31, 2017, the Cavite extension is currently on its design phase.

The Engineering, Procurement and Construction (EPC) Agreement with Bouygues Travaux Publics Philippines Inc., Alstom Transport S.A and Alstom Transport Construction Philippines Inc., for the Cavite extension, was signed on February 11, 2016.

35. Contingencies

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested, the outcome of which are not presently determinable.

In the opinion of the Group's management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations.

MWC

On October 13, 2005, the Municipality of Norzagaray, Bulacan assessed MWC and Maynilad Water Services, Inc. (jointly, the Concessionaires) real property taxes on certain common purpose facilities registered in the name of and owned by MWSS purportedly due from 1998 to 2005 amounting to ₱357.1 million. On November 15, 2010, the local government of Quezon City demanded the



payment of ₱302.7 million for deficiency real property taxes from MWSS on MWSS properties within its territorial jurisdiction. The assessments from the municipality of Norzagaray and Quezon City have been questioned by the Concessionaires and MWSS, and are pending resolution before the Central Board of Assessment Appeals and Supreme Court, respectively.

Total provisions amounted to ₱414.4 million as of December 31, 2017 and 2016 (see Note 20).

36. Assets Held in Trust

MWSS

MWC is granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Agreement. The legal title to all movable property in existence at the Commencement Date, however, shall be retained by MWSS and upon expiration of the useful life of any such movable property as may be determined by MWC, such movable property shall be returned to MWSS in its then-current condition at no charge to MWSS or MWC.

The Agreement also provides for the Concessionaires to have equal access to MWSS facilities involved in the provision of water supply and sewerage services in both East and West Zones including, but not limited to, the MWSS management information system, billing system, telemetry system, central control room and central records.

The net book value of the facilities transferred to MWC on Commencement Date based on MWSS' closing audit report amounted to ₱4.6 billion with a sound value of ₱10.4 billion.

In 2015, MWC engaged the services of Royal Asia Appraisal Corporation to conduct a re-appraisal of the assets managed by MWC as of 2015, based on the asset registry as of December 31, 2014. Total reproduction cost as of December 31, 2015 amounted to ₱123.5 billion, respectively with a sound value of ₱69.1 billion.

MWSS' corporate headquarters is made available to the Concessionaires starting August 1, 1997, subject to periodic renewal by mutual agreement of the parties. On October 27, 2006, MWC has renewed the lease for 5 years, with expiry of October 27, 2011. Rent expense amounted to ₱27.8 million, ₱18.5 million and ₱18.5 million in 2017, 2016 and 2015, respectively. These are included under "Rental and utilities" in the consolidated statement of income.

In March 2015, MWC and MWSS entered into an agreement for the lease of a portion of the San Juan Reservoir and Aqueduct Complex being utilized by MWC as stockyard for its pipes and other materials. The lease agreement shall continue to be in effect until the termination of the Concession Agreement. Rent expense recognized in 2017 and 2015 amounted to ₱16.2 million.

PGL

LAWC is granted the right to manage, occupy, operate, repair, maintain, decommission and refurbish the property required to provide water services under its concession agreement with PGL. The legal title of all property in existence at the commencement date shall be retained by PGL. Upon expiration of the useful life of any such property as may be determined by LAWAC, such property shall be returned to PGL in its then condition at no charge to PGL or LAWAC.

In 2014, LAWAC engaged the services of Cuervo Appraisers to conduct a re-appraisal of PGL assets on record as of December 31, 2013. Total replacement cost as of December 31, 2013 amounted to ₱2.1 billion with a sound value of ₱1.6 billion.



TIEZA

BIWC is granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Agreement. The legal title to all movable property in existence at the commencement date, however, shall be retained by TIEZA and upon expiration of the useful life of any such movable property as may be determined by MWC, such movable property shall be returned to TIEZA in its then-current condition at no charge to TIEZA or MWC.

The net book value of the facilities transferred to MWC on commencement date based on TIEZA's closing audit report amounted to ₱618.2 million.

In 2015, BIWC engaged the services of Cuervo Appraisers, Inc. to conduct an appraisal of its assets as of August 18 to 20, 2015. Total replacement cost as of December 31, 2015 amounted to ₱1.1 billion with a sound value of ₱793.4 million.

OWD

On October 12, 2017, Obando Water is granted the right to manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the Municipality of Obando. Legal title to all facilities (including any fixed assets resulting from the exercise of rights and powers), other than new assets contributed by Obando Water, shall remain with OWD.

CWD

On October 23, 2017, Calasiao is granted the right to develop, manage, operate, maintain, repair, refurbish and improve, expand and as appropriate, decommission all fixed and movable assets, including movable property but excluding retained assets, required to provide water delivery and sanitation services in the Municipality of Calasiao. Legal title to all facilities (including any fixed assets resulting from the exercise of rights and powers), other than new assets contributed by Calasiao Water, shall remain with CWD.

37. Renewable Energy Act of 2008

Republic Act No. 9513, *An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes*, which shall be known as the "Renewable Energy Act of 2008" (the Act), became effective on January 30, 2009. The Act aims to: (a) accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy; (b) increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems, and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives; (c) encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; (d) establish the necessary infrastructure and mechanism to carry out mandates specified in the Act and other laws.

As provided for in the Act, Renewable Energy (RE) developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the DOE, in consultation with the Board of Investments, shall be entitled to the following incentives, among others:

- i. Income Tax Holiday (ITH) - For the first seven (7) years of its commercial operations, the duly registered RE developer shall be exempt from income taxes levied by the National Government;



- ii. Duty-free Importation of RE Machinery, Equipment and Materials - Within the first ten (10) years upon issuance of a certification of an RE developer, the importation of machinery and equipment, and materials and parts thereof, including control and communication equipment, shall not be subject to tariff duties;
- iii. Special Realty Tax Rates on Equipment and Machinery - Any law to the contrary notwithstanding, realty and other taxes on civil works, equipment, machinery, and other improvements of a registered RE developer actually and exclusively used for RE facilities shall not exceed 1.5% of their original cost less accumulated normal depreciation or net book value;
- iv. NOLCO - the NOLCO of the RE developer during the first three (3) years from the start of commercial operation which had not been previously offset as deduction from gross income shall be carried over as deduction from gross income for the next seven (7) consecutive taxable years immediately following the year of such loss;
- v. Corporate Tax Rate - After seven (7) years of ITH, all RE developers shall pay a corporate tax of 10% on its net taxable income as defined in the National Internal Revenue Code of 1997, as amended by Republic Act No. 9337;
- vi. Accelerated Depreciation - If, and only if, an RE project fails to receive an ITH before full operation, it may apply for accelerated depreciation in its tax books and be taxed based on such;
- vii. Zero Percent VAT Rate - The sale of fuel or power generated from renewable sources of energy shall be subject to 0% VAT;
- viii. Cash Incentive of RE Developers for Missionary Electrification - An RE developer, established after the effectivity of the Act, shall be entitled to a cash generation-based incentive per kilowatt-hour rate generated, equivalent to 50% of the universal charge for power needed to service missionary areas where it operates the same;
- ix. Tax Exemption of Carbon Credits - All proceeds from the sale of carbon emission credits shall be exempt from any and all taxes; and

Tax Credit on Domestic Capital Equipment and Services - A tax credit equivalent to 100% of the value of the value-added tax and customs duties that would have been paid on the RE machinery, equipment, materials and parts had these items been imported shall be given to an RE operating contract holder who purchases machinery, equipment, materials, and parts from a domestic manufacturer for purposes set forth in the Act.

In addition, to accelerate the development of emerging renewable energy resources, a feed-in tariff system for electricity produced from wind, solar, ocean, run-of-river hydropower and biomass will be promulgated which shall include, but not limited to, the following:

- a. Priority connections to the grid for electricity generated from emerging renewable energy resources;
- b. The priority purchase and transmission of, and payment for, such electricity by the grid system operators; and
- c. Determine the fixed tariff to be paid to electricity produced from each type of emerging renewable energy and the mandated number of years for the application of these rates, which shall not be less than twelve (12) years.



The feed-in tariff to be set shall be applied to the emerging renewable energy to be used in compliance with the renewable portfolio standard as provided for in the Act and in accordance with the feed-in-tariff rules to be promulgated by the Energy Regulatory Commission (ERC) in consultations with the National Renewable Energy Board. On July 27, 2012, ERC approved the feed-in tariff of 8.53 kilowatt per hour (kWh) for wind renewable energy resource. The approved subsidy will be reviewed and readjusted, if necessary, after its three-year initial implementation or when the target installed capacity for each renewable resource set by the DOE has been met.

RE developers and local manufacturers, fabricators and suppliers of locally-produced RE equipment shall register with the DOE, through the Renewable Energy Management Bureau (REMB). Upon registration, a certification shall be issued to each RE developer and local manufacturer, fabricator and supplier of locally-produced renewable energy equipment to serve as the basis of their entitlement to the incentives provided for in the Act. All certifications required to qualify RE developers to avail of the incentives provided for under the Act shall be issued by the DOE through the REMB.

Within six (6) months from the effectivity of the Act, the DOE shall, in consultation with the Senate and House of Representatives Committee on Energy, relevant government agencies and RE stakeholders, promulgate the Implementing Rules and Regulations of the Act. On May 25, 2009, the DOE issued the Implementing Rules and Regulations of the Act which became effective on June 12, 2009.

ACEHI and its subsidiaries expect that the Act will impact their future operations and financial results. The impact of the Act will be disclosed as the need arises.

Northwind

On January 18, 2010, Northwind filed its intent with the REMB for the conversion of its Negotiated Commercial Contract into Wind Energy Service Contract and Registration as RE Developer as provided for under the Act. On November 9, 2010, the DOE issued a Provisional Certificate of Registration as an RE Developer in favor of Northwind, subject to negotiation and execution of a Wind Energy Service Contract to replace the Negotiated Commercial Contract.

On April 6, 2011, Northwind filed with the ERC an application for a Feed-In Tariff (FiT). The FiT will provide for a fixed rate per kilowatt of electricity produced over a period of fifteen years. On June 6, 2011, the ERC granted Northwind a provisional FiT rate of ₱9.30 per kilowatt hour which shall be effective and collected only upon the final approval of the FiT for emerging renewable energy technologies, specifically for wind energy.

On October 10, 2014, the DOE granted Northwind a Certificate of Endorsement for Feed-In Tariff (FiT) Eligibility (COE-FiT No. 2014-10-001) for its Phase III expansion project. The endorsement qualifies the Phase III expansion under the FiT System and accordingly, will be granted the national FiT for wind projects amounting to 8.53/kWh. The endorsement shall be the basis for the Energy Regulatory Commission (ERC) to issue a FiT Certificate of Compliance.

On November 11, 2014, commercial operations of the wind farm projects started in accordance with the COE. On April 13, 2015, the FiT COC was subsequently issued for both the 19-MW wind farm expansion in Bangui under Northwind and the 81-MW wind farm in Caparispisan, Pagudpud under NLREC for a period of 20 years. The FiT rate covers the period October 10, 2014 to October 9, 2034 for Northwind's 19MW Phase III wind farm and November 11, 2014 to November 10, 2034 for NLREC's 81MW project.

For the period from November 11, 2014 to December 31, 2014, the Northwind generated 30.07 million kilowatt-hours of electricity from the Wind Farm Project which was entirely sold to WESM. Such generation resulted to revenue (earned from WESM) amounting to ₱75.21 million (Ph2.50/kWh) from November 11 to December 31, 2014. The Actual FiT Differential amounted to ₱183.02 million.

On June 5, 2015, Northwind and NLREC collected the first FiT differential payment from Transco.



Monte Solar

On June 13, 2016, the DOE, through its issuance of the Certificate of Endorsement, certified the Montesolar's Solar Farm Project as an eligible project under the FiT system. On July 14, 2016, the ERC issued a provisional authority to operate until January 31, 2017. On December 28, 2016, Montesolar received another provisional authority to operate by the ERC dated December 8, 2016 but this time, as a renewable energy generation company, which allows Monte Solar to be entitled to a FiT rate of ₱8.69/Kwh for a period of twenty (20) years from March 13, 2016.

On August 8, 2017, Montesolar collected the first FIT differential payment from Transco.

As of December 31, 2017, Montesolar recognized FIT differential totalling ₱233.3 million covering the period March to August 2016 and January to September 2017.

38. Events after the Reporting Period

Parent Company

- a) On January 19, 2018, the BOD of the Parent Company approved the restructuring of ACEHI which will result to two wholly-owned subsidiaries. The restructuring will be undertaken through the following:
- i. Creation of a new holding company, AC Renewables, Inc.;
 - g. Transfer of renewable assets to AC Renewables, Inc.; and
 - h. Renaming of Presage Corporation to ACE Thermal, Inc.

The Parent Company will retain ACEHI as the holding company for its power generation business units which will primarily consist of AC Renewables Inc. and ACE Thermal Inc.

- b) On January 30, 2018, the Parent Company signed the following loan facilities with BPI:
- ₱1.9 billion 10-year loan facility with ALI shares as collateral (70% of outstanding loan on 2:1 collateral ratio); and
 - ₱10.0 billion 10-year loan facility with US\$ deposits as collateral (1:1 ratio).

On February 26, 2018, the Parent Company drew down the full amount of the ₱1.9 billion loan.

- c) On February 23, 2018, the Parent Company drew down ₱2.5 billion from its ₱10.0 billion 3-year floating rate loan facility with BDO.

ALI Group

- a) SIAL CVS Retailers, Inc., FamilyMart Co., Ltd., and ITOCHU Corporation have concluded the transaction to sell 100% of the outstanding shares of Philippine FamilyMart CVS, Inc. (PFM) to P-H-O-E-N-I-X Petroleum Philippines, Inc. (PNX), further to a Memorandum of Agreement (MOA) entered into by the parties last October 30, 2017.

PFM is the official Area Franchisee of the Family Mart brand of convenience stores in the Philippines, with a current network of 67 company-owned and franchised stores all over the country. PNX is the leading independent and fastest-growing oil company in the Philippines, with a wide network of retail stations and commercial and industrial clients all over the Philippines. Prior to this transaction, SIAL CVS Retailers, Inc., a 50-50 joint venture company between ALI Capital Corp. (a 100% subsidiary of ALI) and SSI Group, Inc. (SSI), owned 60% of PFM, while Japanese companies, FamilyMart Co., Ltd. and ITOCHU Corporation, owned 37.6% and 2.4% respectively.

The transaction was approved by the PCC last January 3, 2018.



- b) On January 2, 2018, ALI Group through RWIL signed a share purchase agreement to acquire an additional 17.24% share in MCT from Barry Goh Ming Choon for a total cost of RM202.5m, subject to completion of certain conditions, which were eventually complied with on January 5, 2018. This brought ALI's shareholding in MCT to 50.19% from 32.95%.

This transaction obliged RWIL to conduct a mandatory take-over offer (MO) from the period January 26 to February 19, 2018, in accordance with the laws of Malaysia. Acceptances for 295,277,782 shares were received from the MO, equivalent to 22.12% of the total outstanding shares of MCT.

This eventually increased ALI's ownership stake in MCT from 50.19% to 72.31% as of February 19, 2018. This increase in ownership will strengthen ALI's commitment to enhance MCT's operations and expand its business further. This will also provide ALI with a greater opportunity to take advantage of the growth potential and long-term prospects of the real estate sector in Malaysia and will affirm ALI's role as a key player in the ASEAN Property Sector. Disclosures on the acquisition date fair value and carrying value of the assets acquired and liabilities assumed of MCT and any goodwill or gain from bargain purchase are not yet available as of the report date.

- c) On January 26, 2018, ALI purchased additional 202,774,547 common shares of POPI from Genez Investments Corporation for ₱497.7 million which raised ALI's effective ownership interest from 63% to 67% of the total POPI's outstanding capital stock.
- d) On February 20, 2018, the BOD of ALI approved the following:
- i. Declaration of cash dividends amounting to ₱0.252 per outstanding common share. These will be paid on April 3, 2018 to shareholders on record as of March 12, 2018. Further, on the same date, the BOD of ALI declared an annual cash dividends of 4.74786% p.a. per share to all shareholders of ALI's unlisted voting preferred shares. These will be paid out on June 29, 2018 to shareholders on record as of June 15, 2018.
 - ii. Raising of up to ₱20.0 billion through (a) retail bonds listed in the Philippine Dealing and Exchange Corporation and (b) bilateral term loan/s to partially finance general corporate requirements. The retail bonds will be issued under the Corporation's ₱50.0 billion Debt Securities Program as approved by the SEC in March 2016.
 - iii. Raising of up to ₱5.0 billion through the issuance of Qualified Buyer Notes with a tenor of up to 5 years to refinance ALI's short-term loans.
- e) On February 20, 2018, the PCC approved the setting up of a joint venture between ALI and Royal Asia Land, Inc. to acquire, own, and develop a 936-hectare commercial and residential project in Silang and Carmona, Cavite. Both firms will own 50% equity in the joint venture vehicle while Royal Asia Land will receive a consultation fee of 2% of the joint venture firm's gross revenue for its participation in the planning and development of the property. ALI, meanwhile, will develop and market the project and receive a management fee of 12% and sales and marketing fee of 5% of the gross revenue. The PCC has deemed that the transaction does not result in a substantial lessening of competition because it will not have a structural effect on the market.
- f) On March 6, 2018, ALI received the approval of the PCC to acquire 290 hectares of land owned by Central Azucarera de Tarlac. The acquisition is not yet final and is subject to closing conditions.



MWC Group

- a) Effective January 1, 2018, BIWC implemented the second tranche of tariff increase of 15.80% as approved by TIEZA on December 15, 2017 arising from its 2017 rate rebasing.
- b) On January 26, 2018, MWC and MWPVI (collectively the "Consortium") received the Notice of Award (the Notice) from the City of Ilagan Water District (CIWD) for the implementation of the joint venture project for the development, financing, operation and management of a raw water source, provision of bulk water supply with system expansion, and the development of septage management in the City of Ilagan, Isabela (the "Project").

Upon completion of the conditions precedent specified in the Notice, the Consortium and CIWD shall enter into a joint venture agreement to establish a joint venture corporation that will implement the Project. Consequently, the joint venture corporation will enter into a Bulk Water Sales and Purchase Agreement and Septage Management Agreement with CIWD.

- c) On March 1, 2018, the BOD of MWC approved the following:
- Allotment of 300.00 million common shares for the purpose of exchanging such shares for assets and/or raising funds to acquire assets needed for the business of MWC; and
 - Amendment of MWC's Articles of Incorporation to exclude the 300.00 million common shares from the pre-emptive rights of existing stockholders.
- d) On March 1, 2018, the BOD of MWC approved the conversion of MWC's receivables from MWPVI amounting to ₱53.84 million into additional equity in MWPVI.
- e) On February 19, 2018, MWC signed a SPA with Electricity Generating Public Company Limited (EGCO) to acquire EGCO's 18.72% equity in Eastern Water Resources Development and Management Public Company Limited (East Water). The closing of the acquisition is subject to the fulfillment of certain conditions precedent. The MWC intends to finance the transaction through internally generated funds and bank debt.

East Water is a publicly listed company whose shares are traded in the Stock Exchange of Thailand. It is engaged in the provision of raw water and tap water since 1992 in the eastern seaboard of Thailand.

- f) PT. Manila Water Indonesia (PT MWI), a subsidiary of MWC in Indonesia, has paid the purchase price of 4,478 shares of PT. Sarana Tirta Ungaran (PT STU) following the signing of the Share Purchase Agreement with PT. Triguna Rapindo Mandiri which will allow PT MWI to own twenty percent (20%) of the outstanding capital stock of PT STU. The total cost of acquisition is IDR10 billion (approximately ₱40.0 million) that was paid through internally generated funds.

PT STU is a bulk water supply company servicing PDAM Kabupaten Semarang and industrial customers in Bawen, located in Ungaran area of Semarang Regency, Central Java Province, Indonesia, with a capacity of 21.5 million liters per day. Its customers include PT. APAC Inti Corpora, a 100-hectare textile and garment manufacturing company.

Disclosures on the acquisition date fair value and carrying value of the assets acquired and liabilities assumed of EGCO and PT STU and any goodwill or gain from bargain purchase are not yet available as of the report date.

IMI Group

- a) On January 5, 2018, the 33% share transfer related to the sale by STSN of STSZ to Jinnuo Century Trading Limited was approved by the government. The remaining share transfers are still in process (see Note 9).



- b) On January 30, 2018, IMI obtained the approval of PSE for a stock rights offer of up to 350 million new common shares to eligible shareholders in order to raise up to ₱5.0 billion proceeds. Under the rights offer, each shareholder is entitled to subscribe to one rights share for every 5.3551 existing common shares held as of record date February 14, 2018. The offer price was determined to be at ₱14.28 per rights share which was based on the 30-day volume-weighted average price of IMI common shares listed at PSE as of February 7, 2018 at a discount of 25.3%. The listing of the shares was completed on March 2, 2018. As a result of the transaction, the ownership interest of the Group increased from 50.7% to 52.1%
- c) On February 20, 2018, the BOD of IMI approved the following:
 - i. Declaration of cash dividend of US\$0.00458 or ₱0.235 per share to all outstanding common shares as of record date of March 7, 2018 payable on March 21, 2018.
 - ii. Increase of IMI's authorized capital stock from ₱2.45 billion to ₱3.0 billion, and the corresponding amendment of the Seventh Article of the Articles of Incorporation. This will be presented to the stockholders for approval at the annual meeting on April 13, 2018.

ACEHI Group

- a) In January 2018, ACEHI, in partnership with BIM Group of Vietnam, agreed to jointly develop over 300MW of solar power projects in Ninh Thuan province, Vietnam.
- b) Effective January 29, 2018, AMPLC became the legal and registered owner of the limited partnership interest in GMCP.

AITHI Group

- a) On February 5, 2018, AITHI, through one of its subsidiaries, received notice from Kia Motors Asia Regional headquarters that it has considered the Ayala Group as "the preferred bidder" to start negotiations for the Kia distributorship in the Philippines. However, no definitive terms have been reached as of report date.
- b) On February 24, 2018, AITHI, through its subsidiary ACI Solar, completed its acquisition of a controlling stake in Merlin. ACI Solar previously acquired an 8.2% stake in Merlin in 2016 (see Note 16). Following completion of the transaction and other related activities, AITHI will have an ownership interest of 78.2% in Merlin.

Disclosures on the acquisition date fair value and carrying value of the assets acquired and liabilities assumed of Merlin and any goodwill or gain from bargain purchase are not yet available as of the report date.

BHL Group

- a) On March 8, 2018, AINA, a wholly-owned subsidiary of BHL, through its subsidiary PFIL North America, Inc. (PFIL NA), sold 70% interest of RETC for a total consideration of US\$10.8 million to Marubeni Corporation (see Note 23). As a result of the transaction, BHL Group's ownership interest in RETC decreased from 100% to 30%.

AC Infra Group

- a) On February 12, 2018, the NAIA Consortium composed of Aboitiz InfraCapital, Inc., AC Infrastructure Holdings Corporation, Alliance Global Group Inc., AEDC, Filinvest Development Corporation, JG Summit Holdings, Inc. and Metro Pacific Investments Corporation submitted its unsolicited proposal for the rehabilitation, upgrade, expansion, operation, and maintenance of the Ninoy Aquino International Airport.

The consortium has engaged Changi Airports Consultants Pte. Ltd., a wholly-owned subsidiary of Changi Airports International Pte. Ltd. (and its affiliates, together "CAI Group") and a leading airport consultant and manager in the global aviation market, to provide technical support in the areas of master planning, operations optimization, and commercial development.



- b) On February 13, 2018, AC Infra signed an Investment Agreement to invest in a company that will engage in the provision of fulfillment solutions services. AC Infra will hold up to 60% of the outstanding common shares of the said company while the remaining 40% is to be held by ZALORA's affiliate, Brillant 1257 GmbH & Co. Vierte Verwaltungs Kg, a corporation duly organized under the laws of Germany, subject to certain closing conditions.

This investment forms part of Ayala's strategy to develop infrastructure that will result in better efficiencies and improve the fulfillment goals of its existing businesses in real estate, banking, telecommunications, and e-commerce.

AEI

- a) On January 8, 2018, AEI and iPeople, inc. (iPeople), the listed holding company for the education sector of House of Investments Inc., a member of the Yuchengco Group of Companies, executed a Non-Binding term sheet for their potential merger. Under the Non-Binding term sheet, the parties agreed to an exclusivity period to complete due diligence, and to finalize the terms and conditions of the proposed merger within the first quarter of 2018.
- b) In January 2018, AEI subscribed to and paid the amount of ₱82.4 million to APEC Schools, increasing its ownership interest to 70.64% from 67.14%.
- c) On February 8, 2018, AEI and shareholders of National Teachers College (NTC) executed a Share Purchase Agreement for the acquisition of shares in NTC subject to certain closing conditions. Through this transaction, AEI will own approximately 96% of NTC. NTC is located at Nepomuceno Street, Quiapo, Manila and was founded in 1928, as the first school in the country to offer General Education leading to a Bachelor of Science in Education. It has almost 10,000 students from Basic to Higher education which include Bachelor programs in Elementary and Secondary Education, and over 3,500 Education students in both college and graduate programs. NTC has also established growing Colleges of Accountancy & Business, Arts & Science, Hospitality Management and Information Technology, and a School of Advanced Studies.

Disclosures on the acquisition date fair value and carrying value of the assets acquired and liabilities assumed of NTC and any goodwill or gain from bargain purchase are not yet available as of the report date.

AVHC

- a) On January 12, 2018, AVHC, through Total Jade Group Ltd., a wholly-owned subsidiary of BHL, invested an additional US\$0.77 million to Alibaba's New Strategic Retail Opportunities Fund (see Note 9).
- b) As of January 31, 2018, the parties, BF Jade, AVHC, ALI, Kickstart and BPI Capital, completed the post-closing conditions of the acquisition of BF Jade and made their respective capital contributions to BF Jade. AVHC paid ₱334.7 million while AMSI, Inc., BPI Capital and Kickstart paid ₱14.8 million respectively.

BPI

- a) On January 17, 2018, the BOD of BPI approved the offering for subscription of up to 567.0 million shares of BPI by way of a stock rights offering of up to ₱50.0 billion.



39. Approval of the Consolidated Financial Statements

The consolidated financial statements of Ayala Corporation and Subsidiaries (the Group) as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 were endorsed for approval by the Audit Committee on March 7, 2018 and authorized for issue by the Board of Directors (BOD) on March 9, 2018.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Ayala Corporation
32F-35F Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue, Makati City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Ayala Corporation and its subsidiaries as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 and have issued our report thereon dated March 9, 2018. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Schedules A to D listed in the Index to the Consolidated Financial Statements are the responsibility of the Company's management. These schedules are presented for purposes of complying with the requirements of the Securities and Exchange Commission and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Lucy L. Chan
Partner
CPA Certificate No. 88118
SEC Accreditation No. 0114-AR-4 (Group A),
January 7, 2016, valid until January 6, 2019
Tax Identification No. 152-884-511
BIR Accreditation No. 08-001998-46-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621239, January 9, 2018, Makati City

March 9, 2018



INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

- A.** Amounts receivable from / payable to related parties which are eliminated during the consolidation of financial statements
- B.** Reconciliation of retained earnings available for dividend declaration
- C.** Map of relationships of the companies within the Group
- D.** Schedule of all effective standards and interpretations
- E.** Financial ratios



X AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE A.1 - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING
CONSOLIDATION OF FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2017
(in thousand Pesos)

Creditor	Creditor's Relationship to the Reporting Co.	Account Type	Beginning Balance	Movement	Ending Balance	Nature of Accounts
AC	Parent	Dividends receivable	84,649.90	(39,849.90)	44,800.00	Dividends from AGCC and DADC
AC	Parent	Other receivable	71,572.66	(28,290.12)	43,282.55	Rental fees, with interest on overdue accounts; other receivables
AAC	Subsidiary	Subscription receivable	16,660.00	(16,660.00)	-	Deposits on subscriptions, non-interest bearing
ACIFL	Subsidiary	Other receivable	110,994.58	468.80	111,463.38	Other receivables from AIVPL
ACIFL	Subsidiary	Other receivable	6,563,040.00	(6,563,040.00)	-	Other receivables from ACEHI
AC Ventures	Subsidiary	Subscription receivable	-	568,824.80	568,824.80	Deposits on subscriptions, non-interest bearing
AGCC	Subsidiary	Trade receivable	0.01	30,100.66	30,100.67	Legal fees
AIVPL	Subsidiary	Other receivable	-	77,530.01	77,530.01	Other receivables from BHL
ALI	Subsidiary	Accounts receivable	168,053.70	(18,378.32)	149,675.38	Advances, non-interest bearing and retention accounts for construction projects
AYC	Subsidiary	Other receivable	17,520,107.19	2,706,454.15	20,226,561.34	Mainly non-interest bearing receivable from ACIFL (for various investment initiatives)
IMI	Subsidiary	Other receivable	24,006.99	(8,110.19)	15,896.80	Advances, non-interest bearing
BHL	Subsidiary	Other receivable	1,858,363.12	(1,858,363.12)	-	Other receivables from ACIFL
PFIL	Subsidiary	Other receivable	76,555.75	323.34	76,879.10	Other receivables from ACIFL
Others	Subsidiary	Other receivable	73,115.29	9,044.96	82,160.25	Reimbursement of expenses, etc.
TOTAL			26,567,119.20	(5,139,944.93)	21,427,174.28	

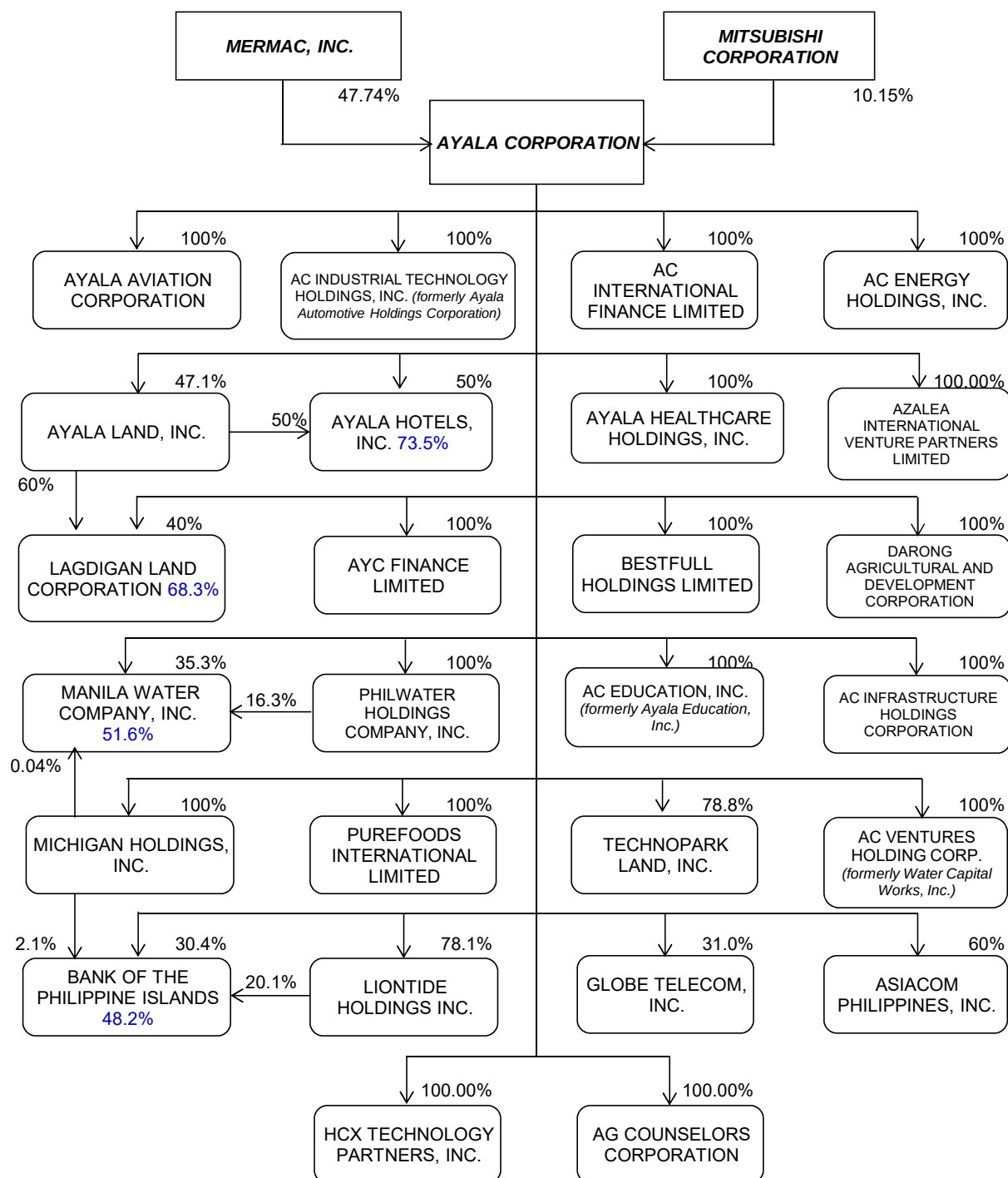
AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE A.2 - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED DURING
CONSOLIDATION OF FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2017
(in thousand Pesos)

Debtor	Debtor's Relationship to the Reporting Co.	Account Type	Beginning Balance	Movement	Ending Balance	Nature of Accounts
AC	Parent	Accounts payable	123,833.91	1,073,630.87	1,197,464.77	Advances, non-interest bearing
AC	Parent	Subscription payable	16,660.00	552,164.80	568,824.80	Deposits on subscriptions, non-interest bearing
AAHC	Subsidiary	Accounts payable	37,292.80	19,740.46	57,033.26	Rental fees, with interest on overdue accounts
ACEHI	Subsidiary	Accounts payable	24,006.99	(24,006.99)	-	Other payables to IMI
ACEHI	Subsidiary	Accounts payable	6,563,040.00	(6,563,040.00)	-	Other payables to ACIFL
						Non-interest bearing payable to AYC (for various investment initiatives)
ACIFL	Subsidiary	Accounts payable	17,520,107.19	1,656,560.15	19,176,667.34	Other payables to BHL
ACIFL	Subsidiary	Accounts payable	1,858,363.12	(1,858,363.12)	-	Other payables to PFIL
ACIFL	Subsidiary	Accounts payable	76,555.75	323.34	76,879.10	Rental fees, with interest on overdue accounts
AGCC	Subsidiary	Accounts payable	21,768.38	1,819.01	23,587.39	Dividends
AGCC	Subsidiary	Dividends payable	30,000.00	5,000.00	35,000.00	Other payables to ACIFL
AIVPL	Subsidiary	Other payables	110,994.58	468.80	111,463.38	Advances, non-interest bearing
ALI	Subsidiary	Other payables	5,239.87	5,454.32	10,694.19	Other payables to AIVPL
Bestfull	Subsidiary	Accounts payable	-	77,530.01	77,530.01	Dividends
DADC	Subsidiary	Dividends payable	14,600.00	(4,800.00)	9,800.00	Other payables to AC
IMI	Subsidiary	Accounts payable	29,039.99	(29,039.99)	-	Retention accounts for construction projects
MWCI	Subsidiary	Retention payable	22,451.42	(20,097.29)	2,354.12	Dividends
PHI	Subsidiary	Dividends payable	40,000.00	(40,000.00)	-	Reimbursement of expenses, etc.
Others	Subsidiary	Other payables	73,165.21	6,710.71	79,875.91	
TOTAL			26,567,119.20	(5,139,944.93)	21,427,174.28	

AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE B - RECONCILIATION OF RETAINED EARNINGS FOR DIVIDEND
DISTRIBUTION As of December 31, 2017 and December 31, 2016
(In thousand Pesos)

	December 31, 2017		December 31, 2016	
Unappropriated retained earnings, as adjusted to available for dividend distribution, beginning*		P 30,518,035		P 29,271,260
Add: Net income actually earned/realized during the period - Parent co.		8,061,091		6,288,408
Add (Less):				
Dividend declarations during the period	P	(5,584,124)	P	(4,857,415)
Deferred tax asset during the period		184,218		(184,218)
		(5,399,906)		(5,041,633)
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND*		P 33,179,220		P 30,518,035
*Reconciliation of consolidated retained earnings to retained earnings available for dividend follows:				
	January 1, 2017	December 31, 2017	January 1, 2016	December 31, 2016
Consolidated retained earnings balance	P 145,622,311	P 170,302,028	P 124,468,464	P 145,622,311
Accumulated equity in net earnings of subsidiaries, associates and joint ventures	(112,620,058)	(134,822,808)	(92,897,204)	(112,620,058)
Deferred tax	(184,218)	-	-	(184,218)
Treasury shares balance	(2,300,000)	(2,300,000)	(2,300,000)	(2,300,000)
Retained Earnings available for dividends	P 30,518,035	P 33,179,220	P 29,271,260	P 30,518,035

AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE C - CORPORATE ORGANIZATIONAL CHART
As of December 31, 2017

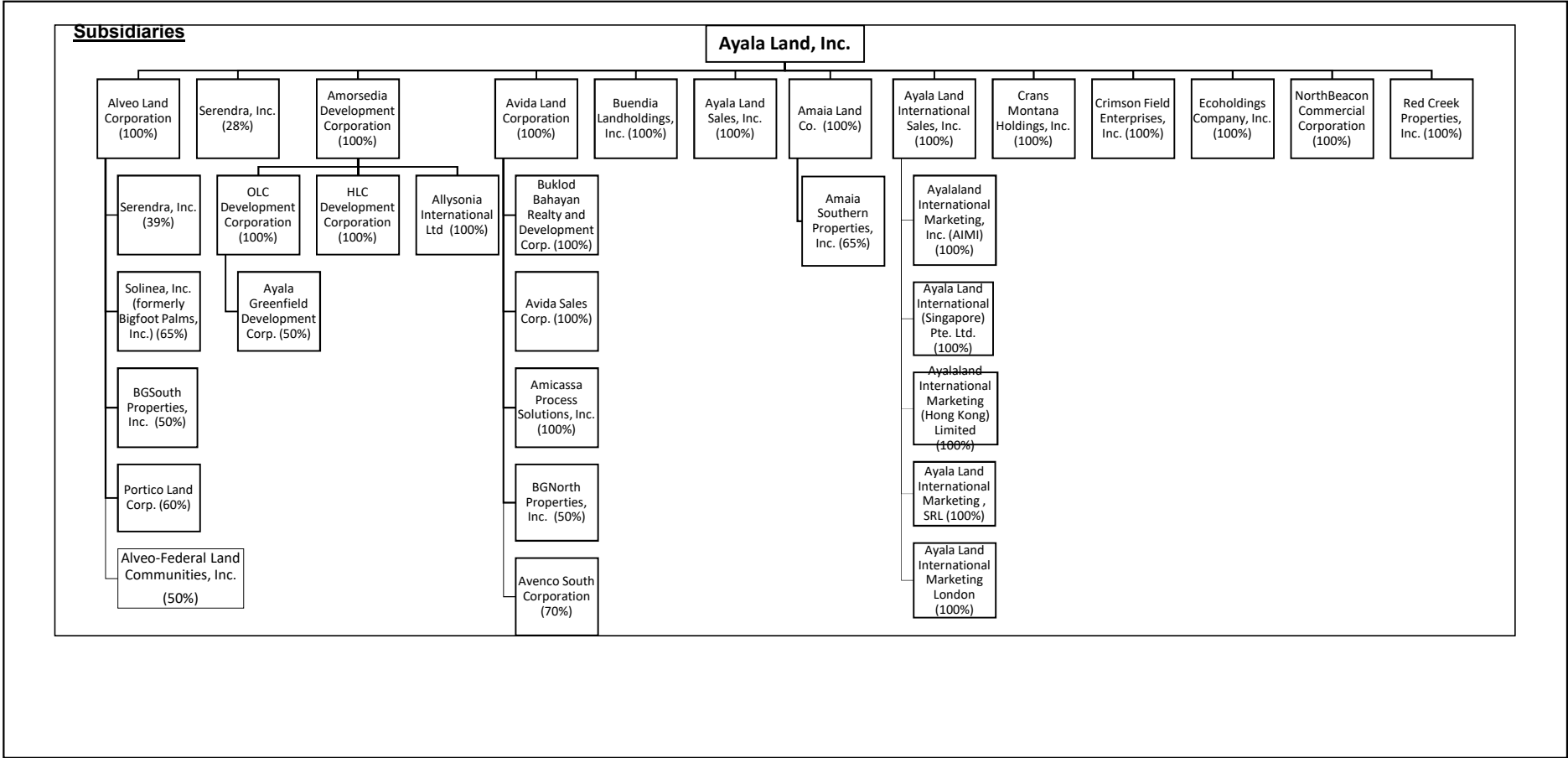


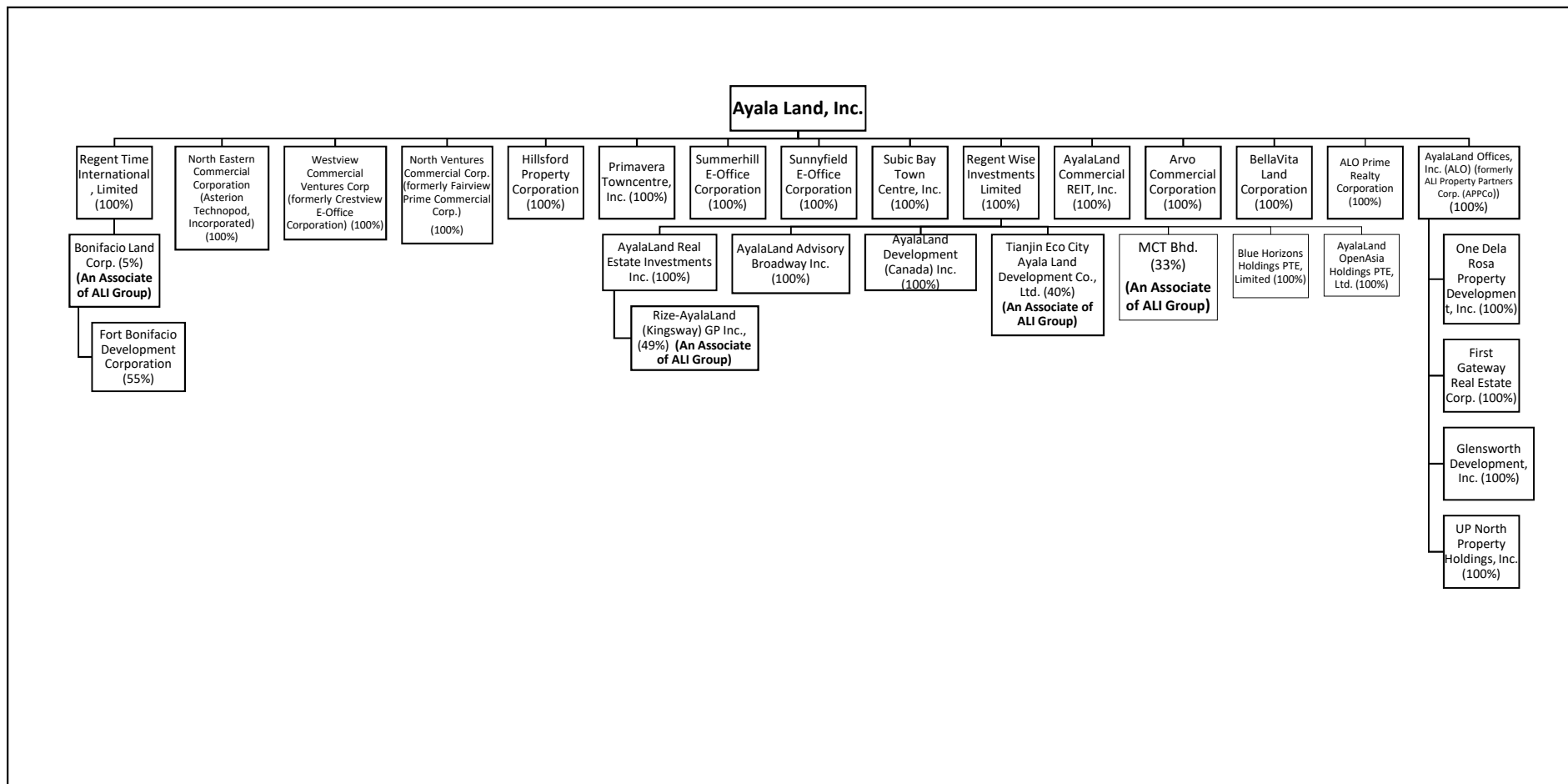
Legend:

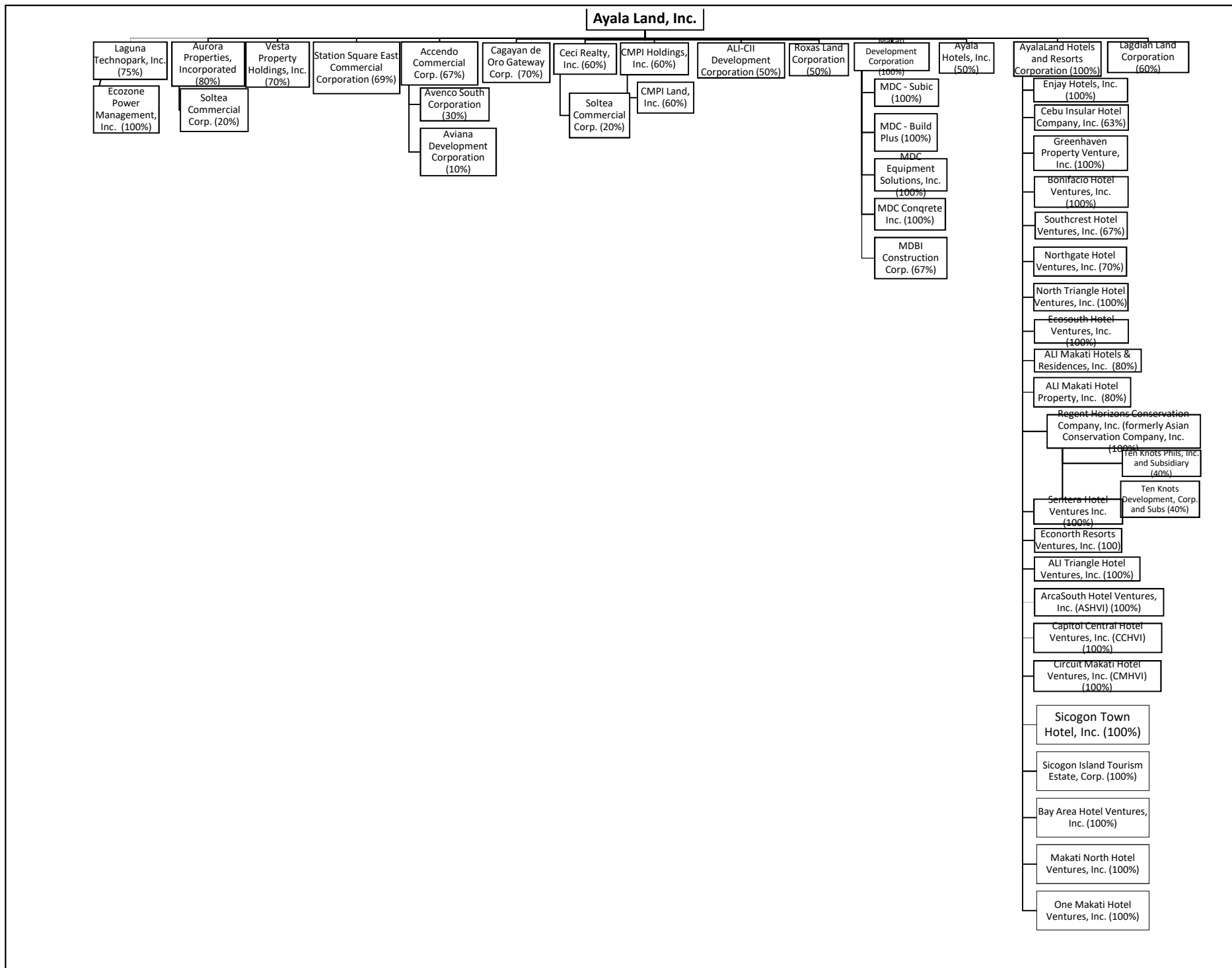
% of ownership appearing on top of the box - direct economic % of ownership

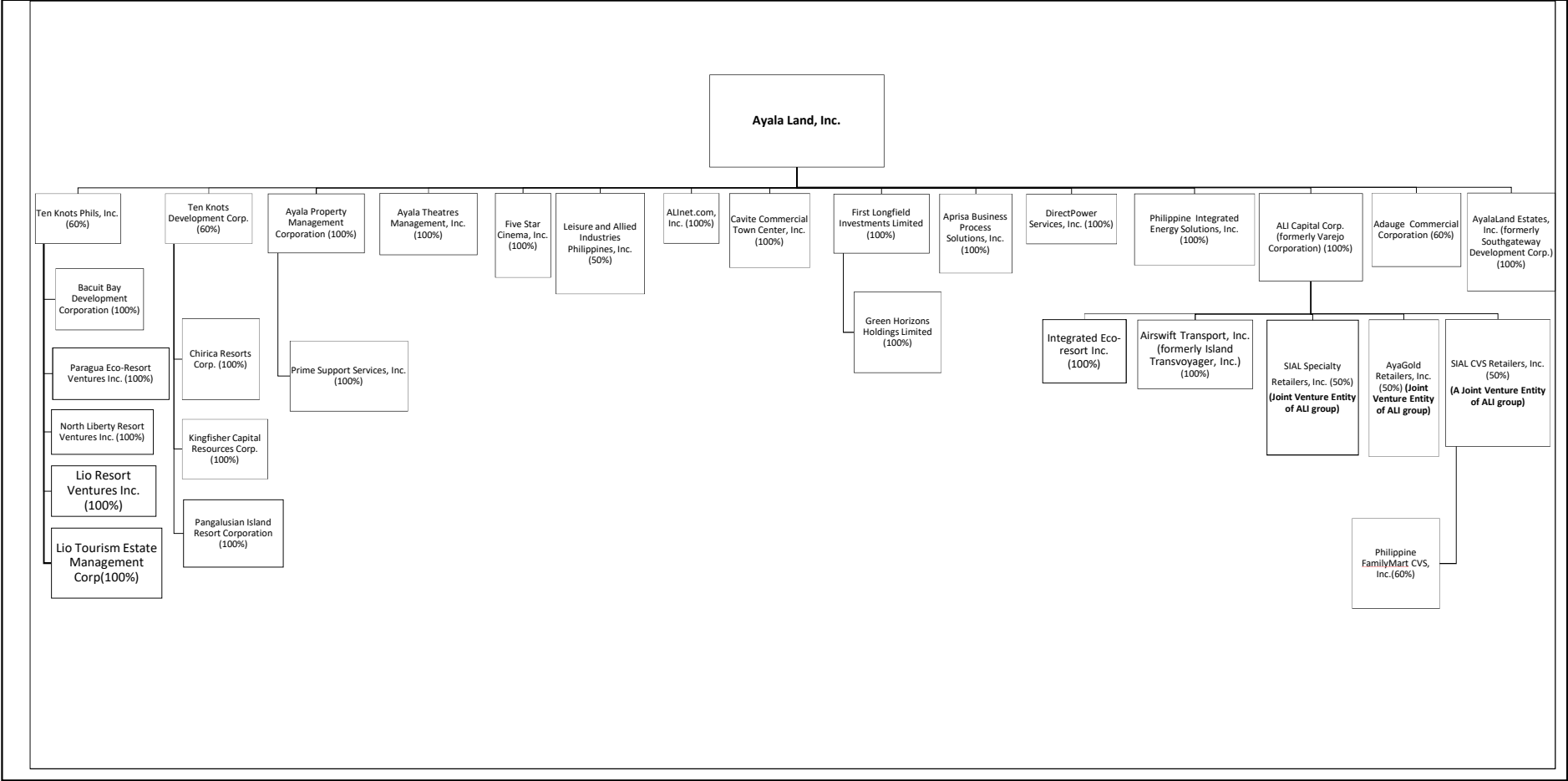
% of ownership appearing inside the box - effective % of economic ownership

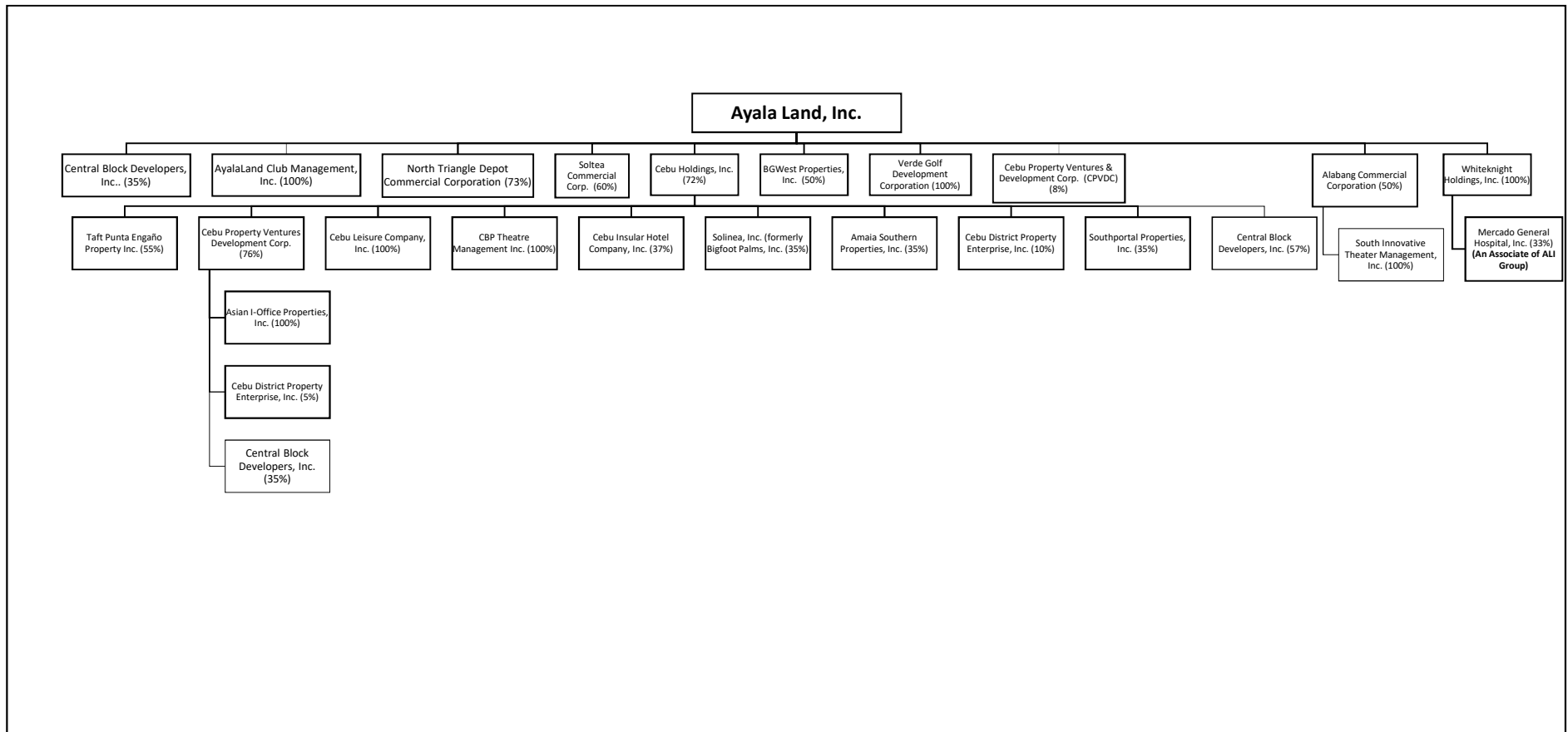
AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE C - CORPORATE ORGANIZATIONAL CHART
As of December 31, 2017

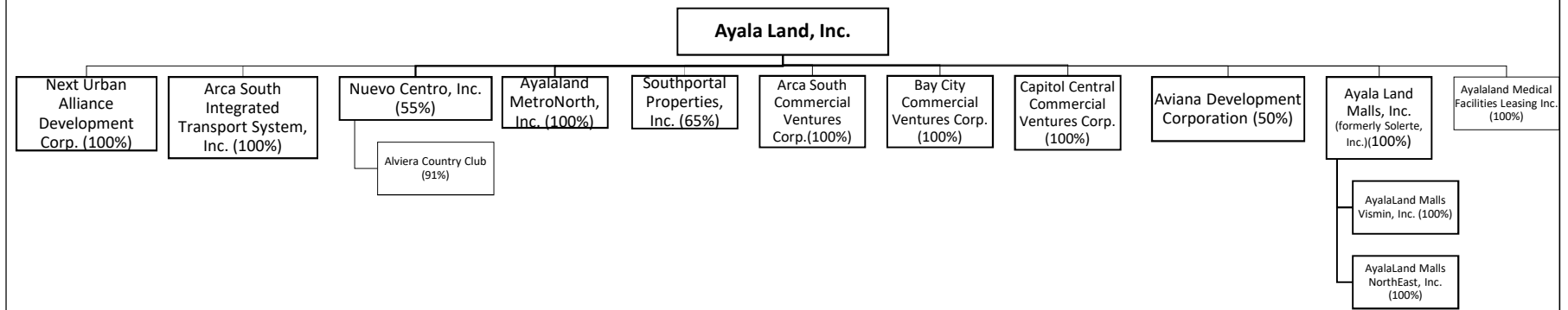


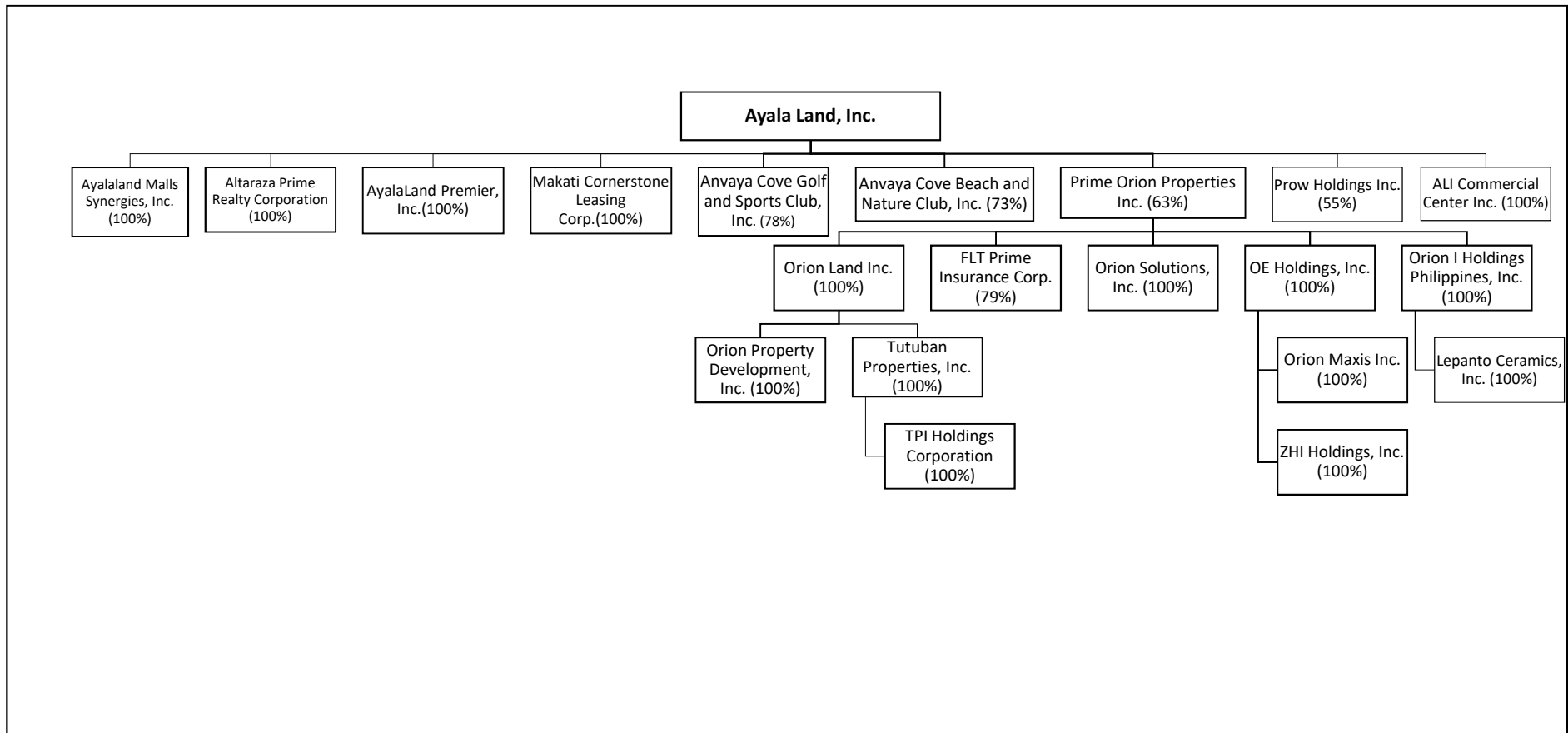




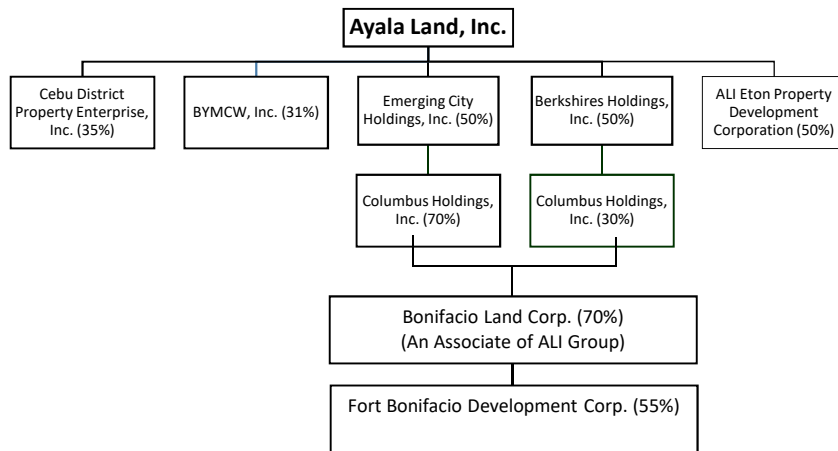




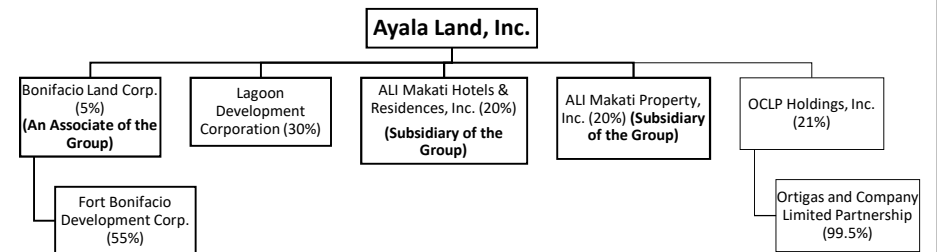




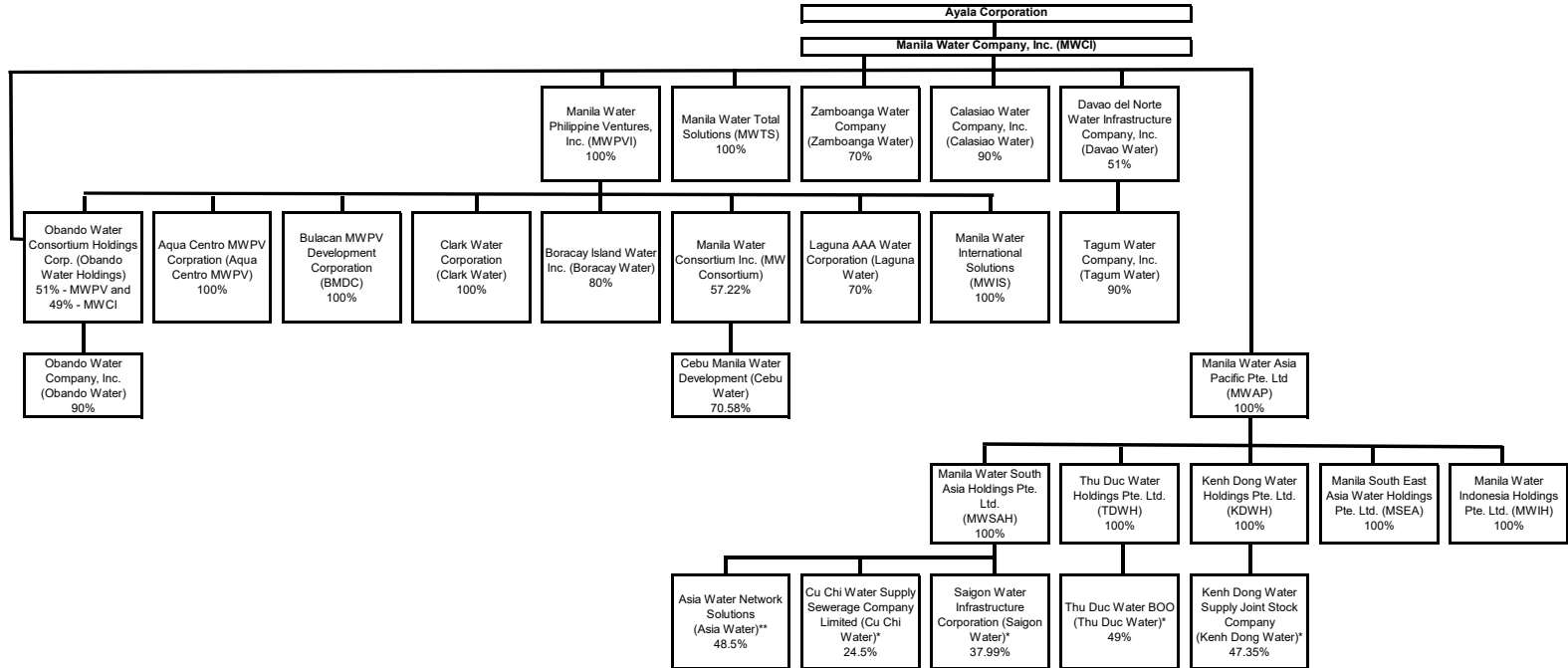
Direct Investments in Joint Ventures



Direct Investments in Associates



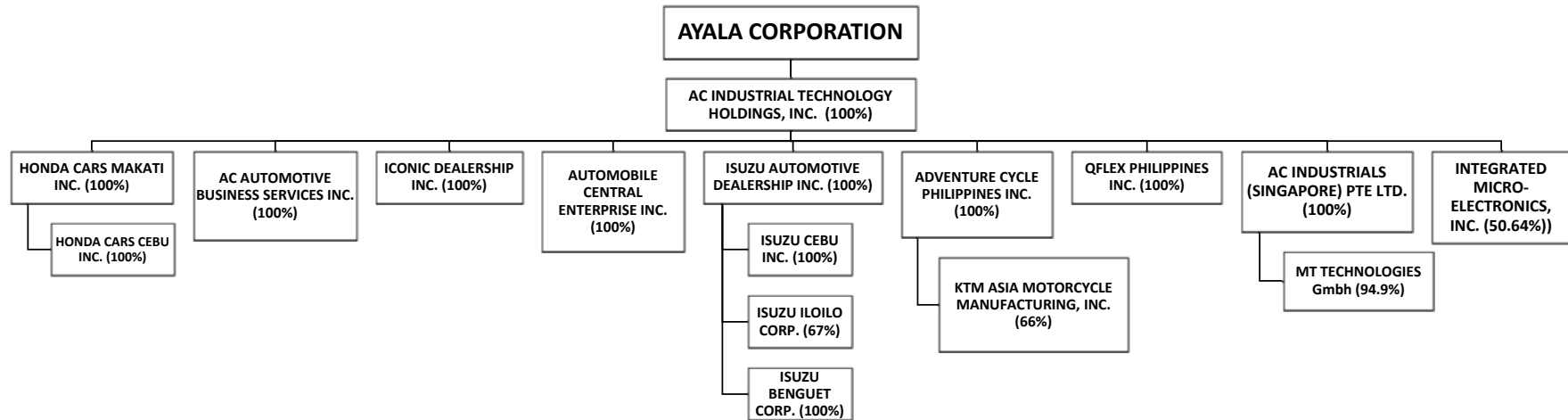
AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE C - CORPORATE ORGANIZATIONAL CHART
As of December 31, 2017



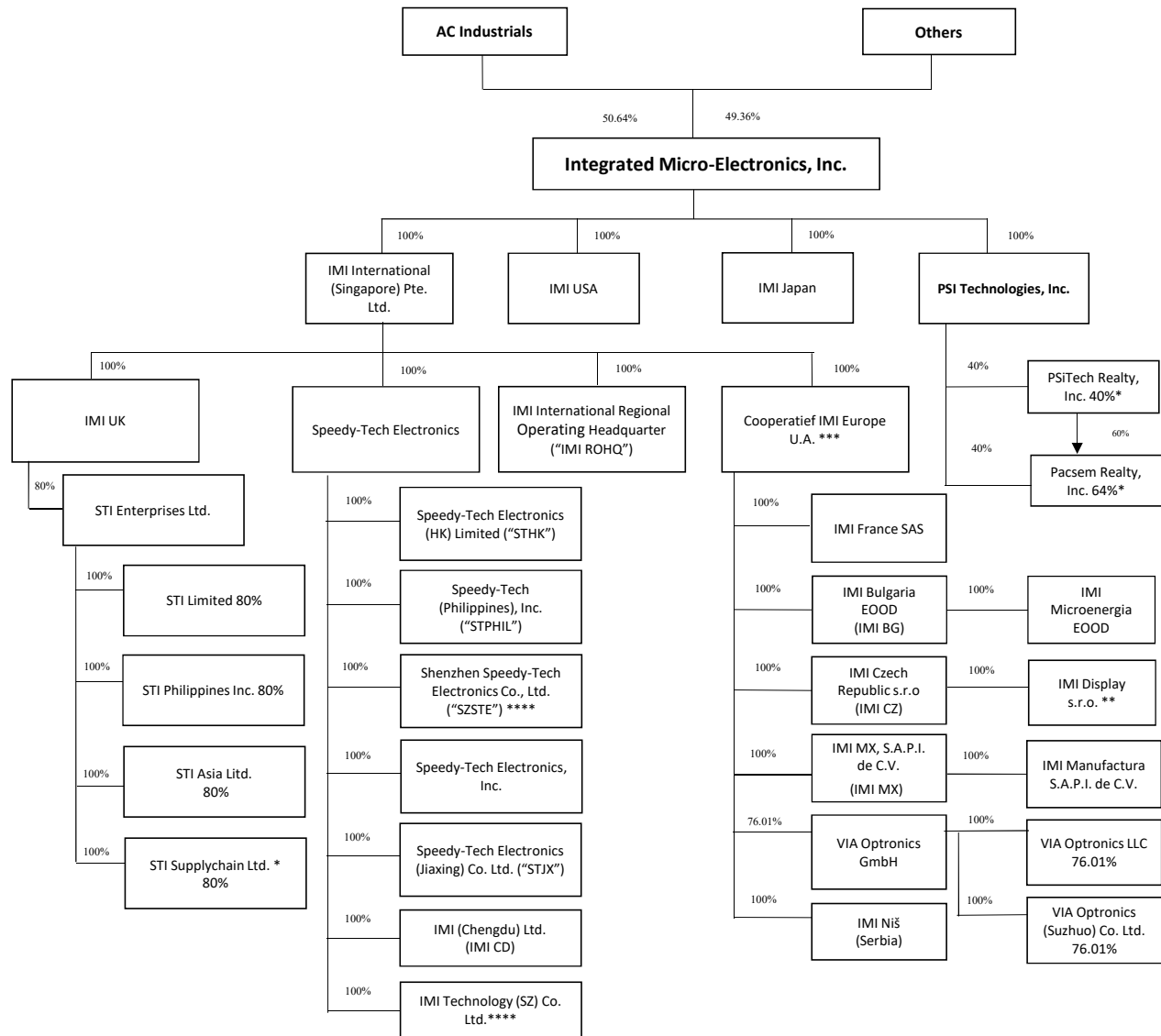
*Associates

**Asia Water is 51.0% owned by Saigon Water and 48.50% owned by MWSAH.

AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE C - CORPORATE ORGANIZATIONAL CHART
As of December 31, 2017



AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE C - CORPORATE ORGANIZATIONAL CHART
As of December 31, 2017



* In the process of liquidation.

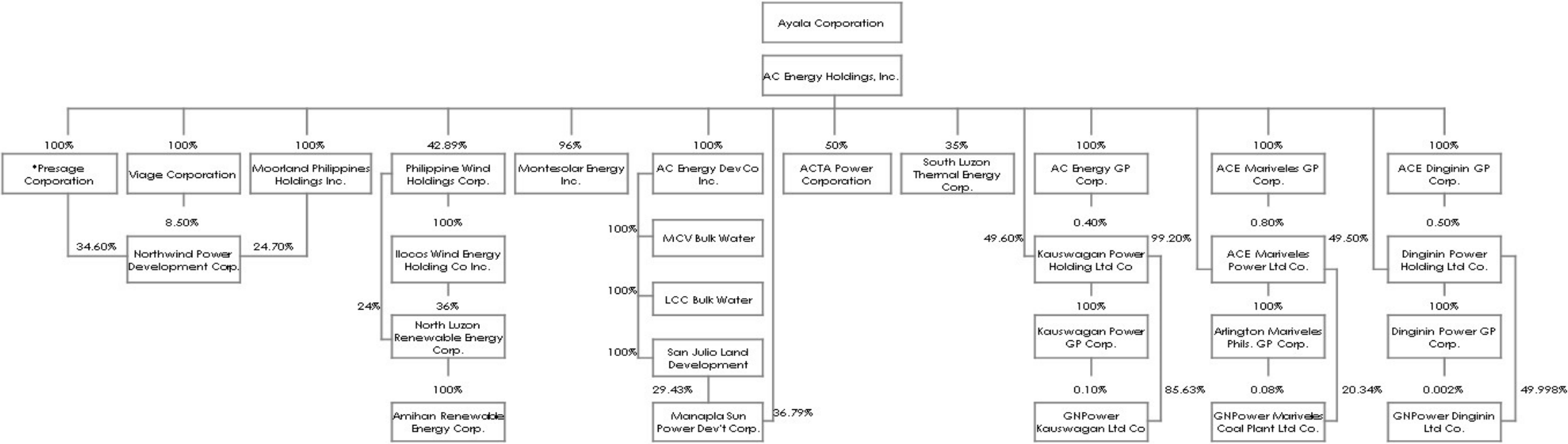
** No active operations.

*** Previously under Monarch Elite Ltd. In June 2017, Monarch agreed to sell its net target assets and transfer its membership rights to IMI Singapore.

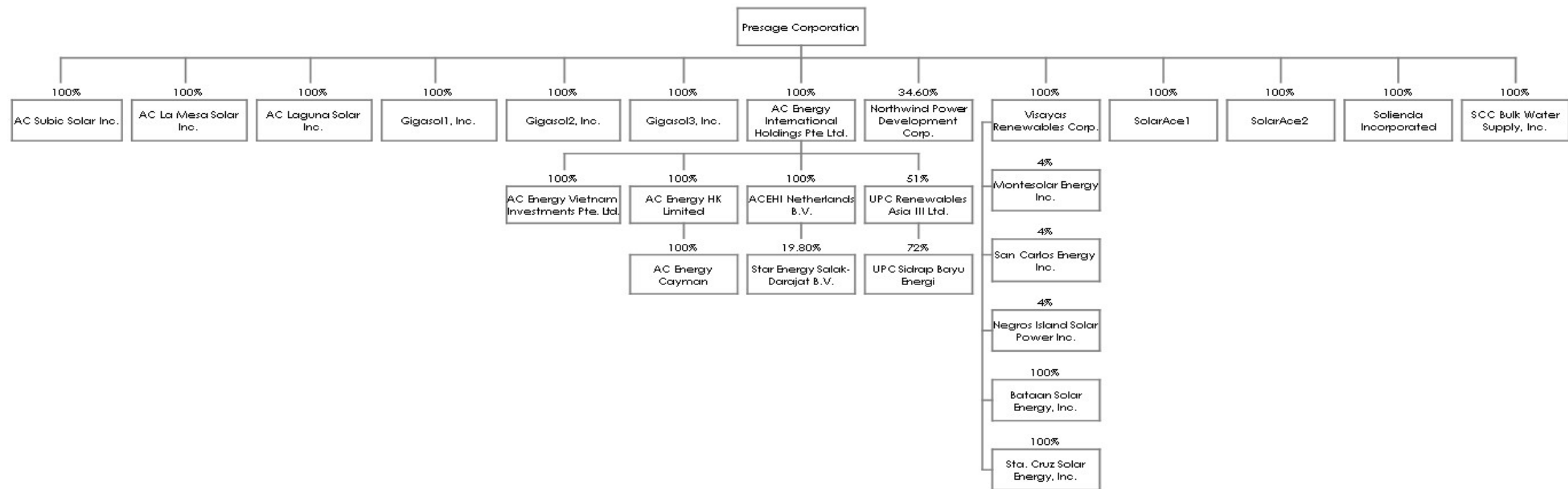
Monarch is in the process of liquidation.

**** New entity incorporated in Shenzhen which now runs the manufacturing operations of Pingshan and Kuichong. SZSTE being sold to a third party.

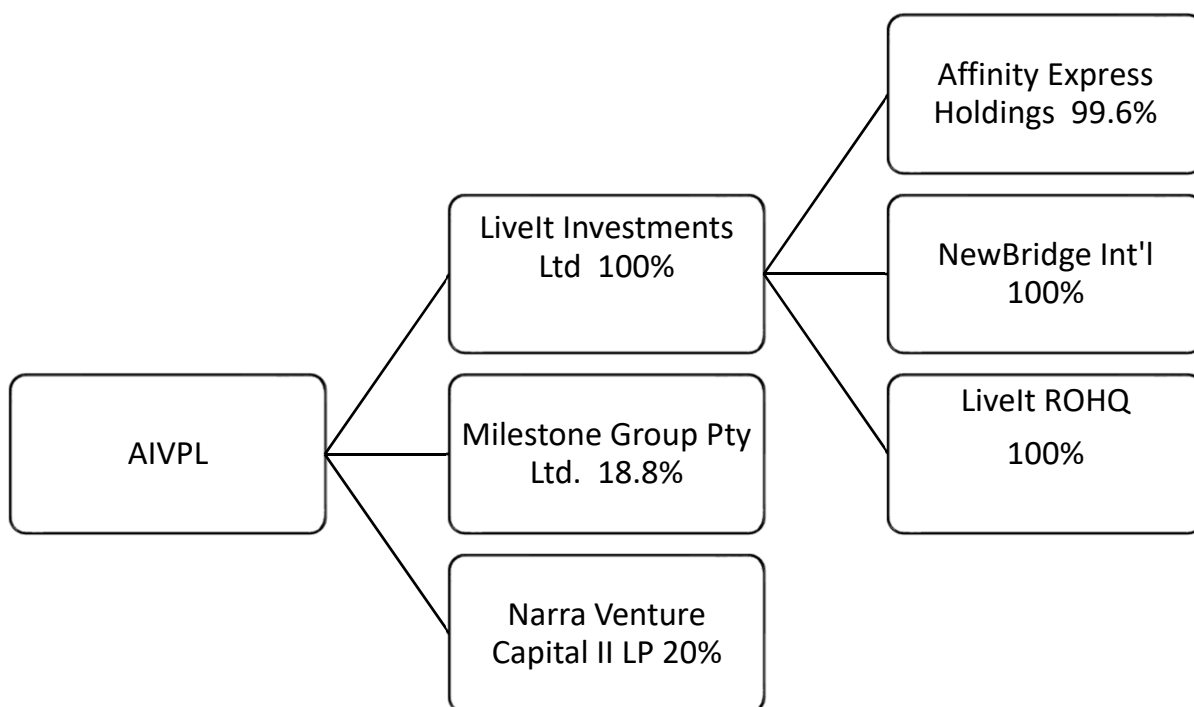
AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE C - CORPORATE ORGANIZATIONAL CHART
As of December 31, 2017



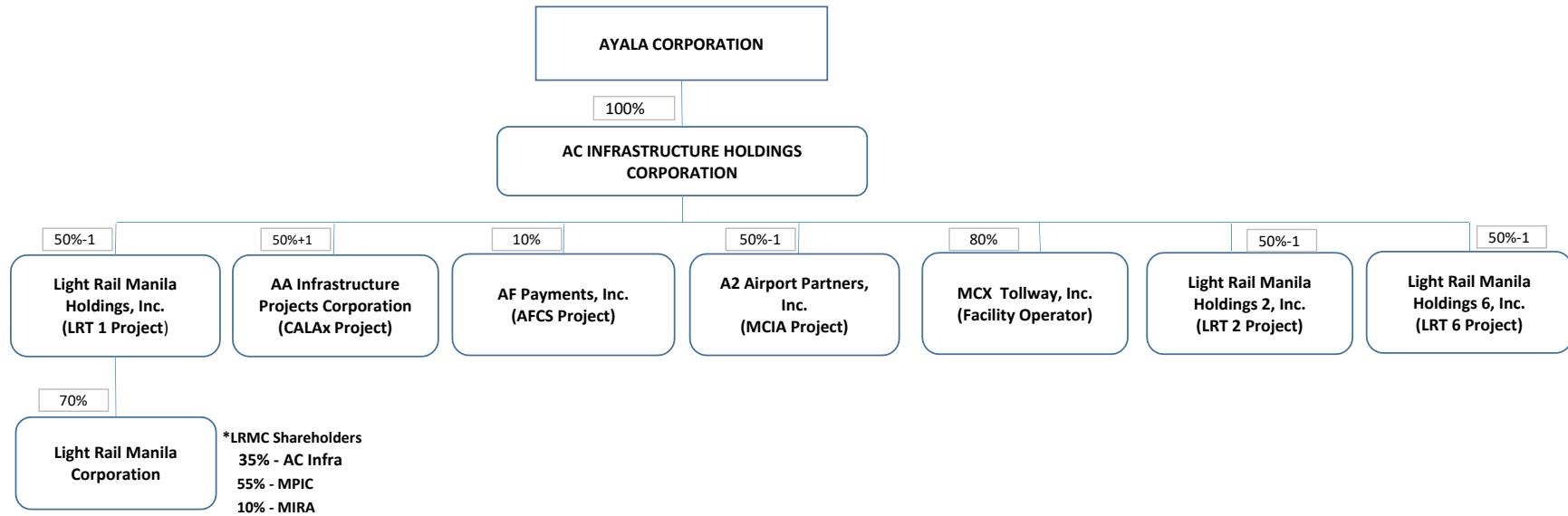
* please see next sheet for the subsidiaries of Presage Corp.



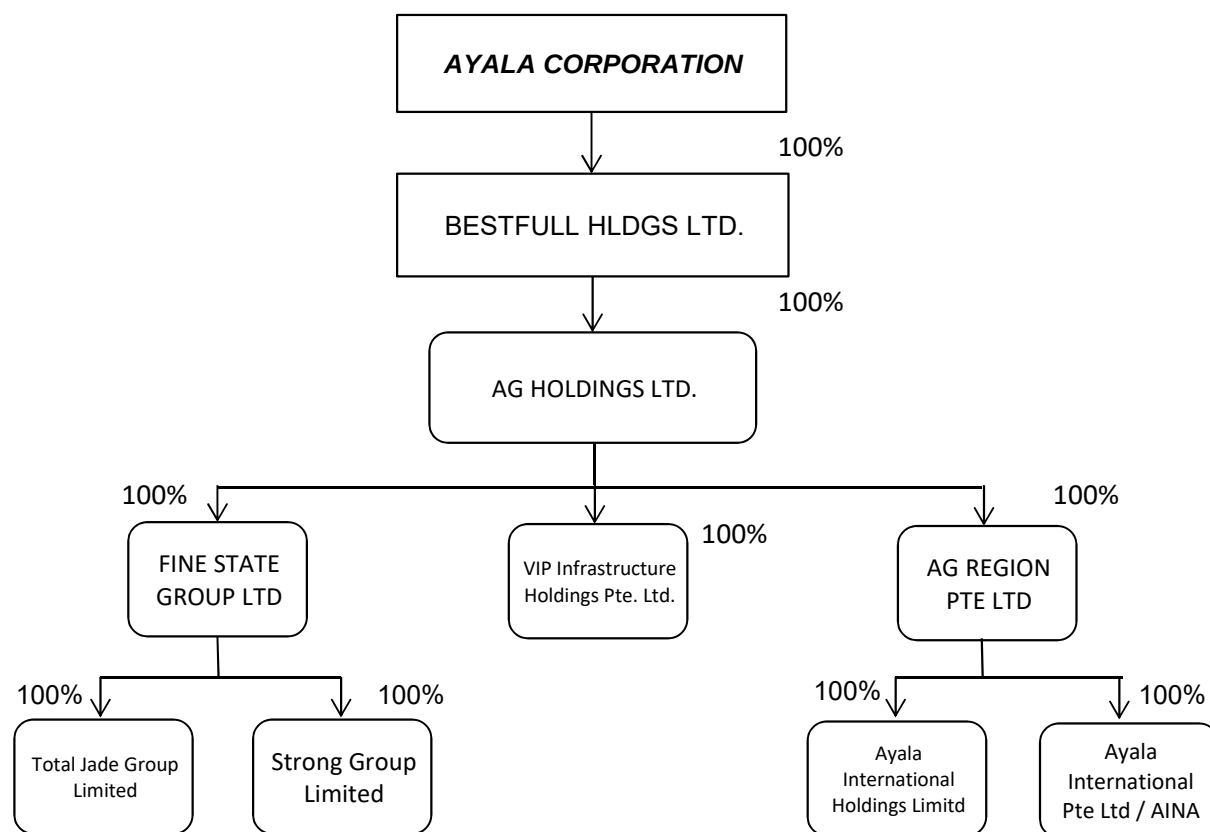
AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE C - CORPORATE ORGANIZATIONAL CHART
As of December 31, 2017



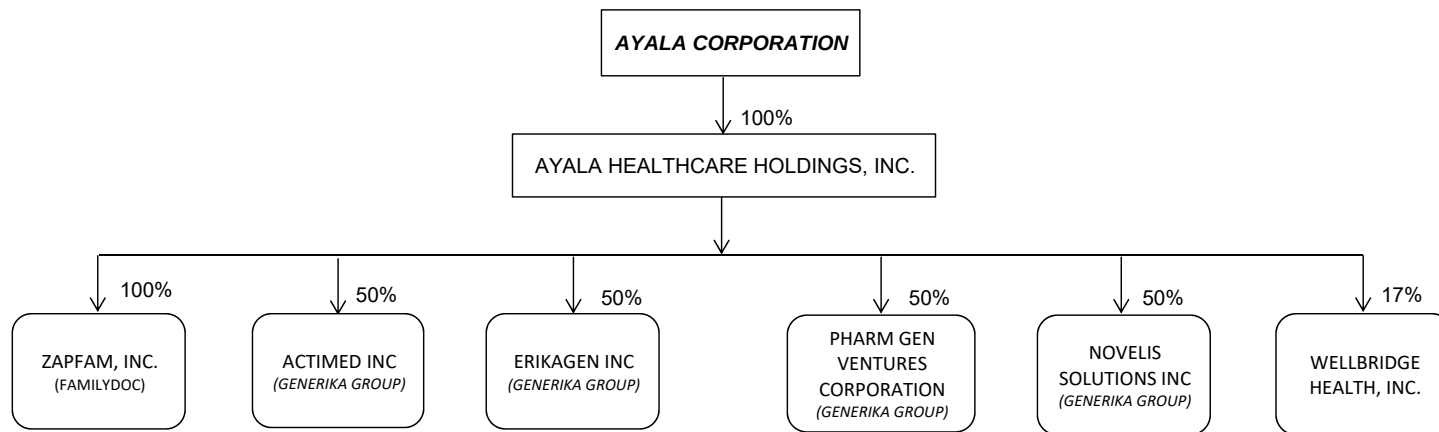
AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE C - CORPORATE ORGANIZATIONAL CHART
As of December 31, 2017



AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE C - CORPORATE ORGANIZATIONAL CHART
As of December 31, 2017

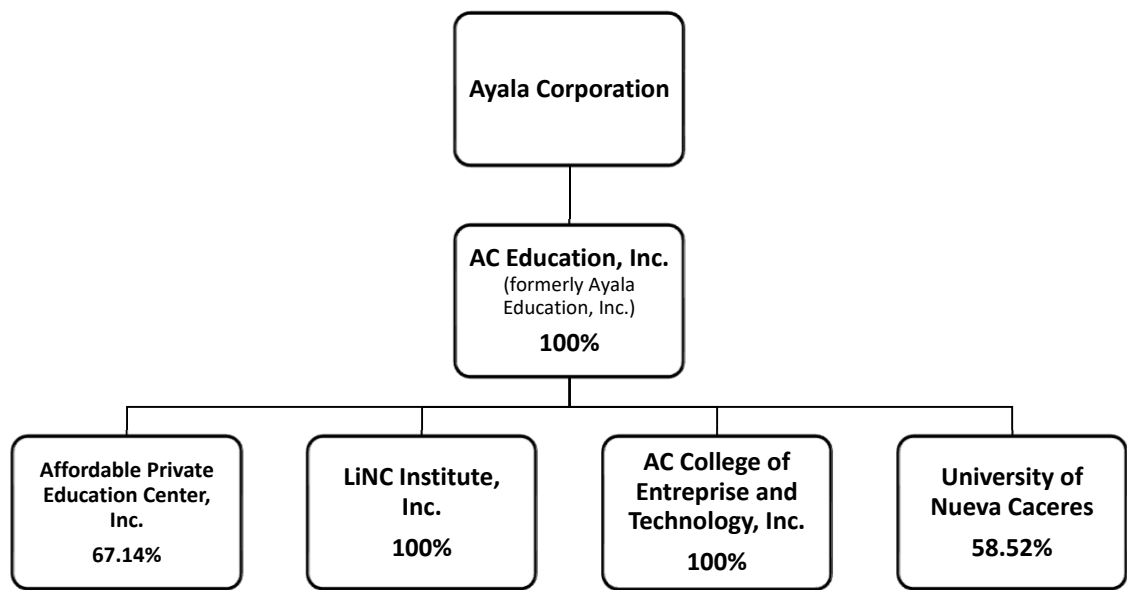


AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE C - CORPORATE ORGANIZATIONAL CHART
As of December 31, 2017

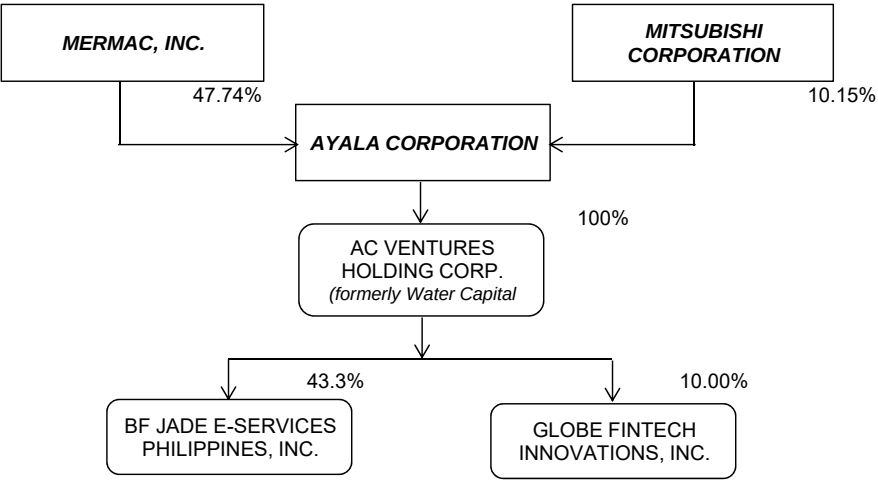


Note: Entities under dissolution
Talentworks Asia, Inc.
Wireless Internet Sol, Inc.
Cng Global Data Hub
Ayala Port, Inc.

AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE C - CORPORATE ORGANIZATIONAL CHART
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SCHEDULE C - CORPORATE ORGANIZATIONAL CHART
As of December 31, 2017



AYALA CORPORATION AND SUBSIDIARIES

SCHEDULE D-SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRSs) AS OF DECEMBER 31, 2017

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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 4	Insurance Contracts	✓		
	Amendments to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4	Not early adopted		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Amendments to PFRS 5: Changes in Methods of Disposal	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Disclosures - Servicing Contracts			✓
	Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Not early adopted		
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments	Not early adopted		
	Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39	Not early adopted		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Not early adopted		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation	Not early adopted		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10, Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 10, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not early adopted		
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓
	PFRS 12, Clarification of the Scope of the Standard	Not early adopted		
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Short-term receivable and payables	✓		
	Amendments to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	Not early adopted		
PFRS 16	Leases	Not early adopted		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the requirements for comparative information	✓		
	Presentation of Financial Statements – Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	PAS 7, Statement of Cash Flows, Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets	✓		
	PAS 12, Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of servicing equipment	✓		
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization			✓
	Amendment to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendment to PAS 16: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
	Amendments to PAS 19: Regional Market Issue regarding Discount Rate			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27 (Amended)	Amendments to PAS 27: Separate Financial Statements	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓

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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property	✓		
	Amendment to PAS 40: Interrelationship between PFRS 3 and PAS 40	✓		
	PAS 40, Investment Property, Transfers of Investment Property	Not early adopted		
PAS 41	Agriculture			✓
	Amendment to PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	<i>Determining Whether an Arrangement Contains a Lease</i>	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓
IFRIC 7	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
IFRIC 8	<i>Scope of PFRS 2</i>	✓		

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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓
PIC 2016-02	PAS 32 and PAS 38: Accounting Treatment of Club Shares Held by an Entity	✓		

**Effectivity has been deferred by the Securities and Exchange Commission and FRS*

AYALA CORPORATION AND SUBSIDIARIES
SCHEDULE E - FINANCIAL RATIOS
As of December 2017 and December 2016

Ratio	Formula	December 2017	December 2016
Liquidity Ratio	$\frac{\text{Cash/ Cash equivalents + Short-term cash investments}}{\text{Current Liabilities}}$	0.29	0.26
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	1.31	1.22
Solvency Ratio	$\frac{\text{After-Tax Net Profit + (Depreciation + Amortization)+ Provision for Bad Debts}}{\text{Total Liabilities}}$	0.07	0.07
Debt-to-Equity Ratio (Total SHE)	$\frac{\text{Long-term Loans + Short Term Loans}}{\text{Total Stockholders' Equity}}$	0.85	0.80
Assets- to-Equity Ratio	$\frac{\text{Total Assets}}{\text{Equity Attributable to Owners of the Parent}}$	3.98	3.95
Interest Expense Coverage Ratio	$\frac{\text{EBITDA}}{\text{Interest Expense}}$	6.16	5.59
Return on Equity	$\frac{\text{Net Income to Owners of the Parent}}{\text{Equity Attributable to Owners of the Parent (Average)}}$	12.4%	11.8%
Return on Common Equity	$\frac{\text{Net Income to Owners of the Parent Less Dividends on Preferred Shares}}{\text{Common Equity Attributable to Owners of the Parent (Average)}}$	13.2%	12.6%
Return on Assets	$\frac{\text{Net Income}}{\text{Total Assets}}$	4.9%	4.8%