COVER SHEET

3 4 2 1 8

AYALA CORPORATION AND SUBSIDIARIES

(Company's Full Name)

32F TO 35F, TOWER ONE AND EXCHANGE PLAZA, AYALA TRIANGLE, AYALA AVENUE, MAKATI CITY

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

Josephine G. De Asis	908-3000
Contact Person	Company Telephone Number

12	31	17-A	04	20
Month	*Day*		*Month*	*Day*
Fiscal Year			Annual Meeting	

Secondary License Type, if Applicable

CFD

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

6587	P 40 B. bonds	
Total No. Of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. Use black ink for scanning purposes

SEC No. 34218
File No. _____

AYALA CORPORATION

(Company's Full Name)

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

(Company's Address)

908-3000

(Telephone Number)

December 31, 2017

(Fiscal Year Ending)
(Month & Day)

SEC Form 17- A

(Form Type)

SECURITIES AND EXCHANGE COMMISSION (SEC)

SEC FORM 17-A

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

1. For the fiscal year ended: **December 31, 2017**

2. SEC Identification No.: **34218**

3. BIR Tax Identification No. **000-153-610-000**

4. Exact name of the registrant as specified in its charter: **AYALA CORPORATION**

5. Province, country or other jurisdiction of incorporation or organization: **Makati City, Philippines**

6. Industry Classification Code: _______ (SEC Use Only)

7. Address of principal office: **32F to 35F, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City** Postal Code: **1226**

8. Registrant's telephone number: **(632) 908-3000 / 908-3357**

9. Former name, former address, former fiscal year: **Not applicable**

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

Title of each class	Number of shares issued & outstanding As of December 31, 2017
Preferred A	12,000,000*
Preferred B Series 1	28,000,000**
Preferred B Series 2	30,000,000***
Voting Preferred	200,000,000
Common	621,292,010

** all are in treasury shares*
*** of which 8,000,000 shares are in treasury*
**** of which 3,000,000 shares are in treasury*

Amount of debt outstanding as of December 31, 2017: **₱40 billion in bonds******

*****amount represents only debt of Ayala Corporation registered with Philippine SEC. The debt of subsidiaries registered with SEC are reported in their respective SEC17A report.*

11. Are any or all of these securities listed in the Philippine Stock Exchange? Yes **[x]** No [ ]

As of December 31, 2017, 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 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.

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11 (a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):
Yes **[x]** No [ ]

(b) has been subject to such filing requirements for the past 90 days: Yes **[x]** No [ ]

13. Aggregate market value of the voting stock held by non-affiliates: About ₱243.8 billion (based on bid stock prices of Ayala Corporation common shares as of March 28, 2018 and outstanding shares owned by the public as of December 31, 2017).

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEEDING FIVE YEARS

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission. **Not applicable**

Yes [ ]   No [ ]

DOCUMENTS INCORPORATED BY REFERENCE

15. Briefly describe documents incorporated by reference and identify the part of the SEC Form 17-A into which the document is incorporated:

2017 Consolidated Financial Statements of Ayala Corporation and Subsidiaries

2017 Consolidated Financial Statements of Bank of the Philippine Islands and Subsidiaries

2017 Consolidated Financial Statements of Globe Telecom, Inc. and Subsidiaries

2017 Opinion on and Individual Supplementary Schedules

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Ayala Corporation (the Company or Ayala) is the holding company of one of the oldest and largest business groups in the Philippines that traces its history back to the establishment of the Casa Roxas business house in 1834. The Company was incorporated in January 23, 1968, and its Class A Shares and Class B Shares were first listed on the Manila and Makati Stock Exchanges (the predecessors of the PSE) in 1976. In 1997 the Company's Class A and Class B Shares were declassified and unified as Common Shares.

As of December 31, 2017, the Company is 47.74% owned by Mermac, Inc., 10.15% owned by Mitsubishi Corporation and the rest by the public. Its registered office address and principal place of business is 32F to 35F, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City.

The Company is a limited liability corporation having a renewable term of 50 years. On April 15, 2016 during its annual meeting of stockholders, the stockholders ratified the amendment of the Fourth Article of the Articles of Incorporation to extend the corporate term for 50 years from January 22, 2018. The extension of corporate life was approved by SEC on April 5, 2017.

The Company is organized as a holding company holding equity interests in subsidiaries, associates and joint ventures that compose the Ayala Group (the Group). The Group is one of the most significant business groups in the Philippines. The Group was initially primarily focused on real estate, banking and insurance. In the 1970s and 1980s, the Group expanded its existing businesses through organic growth and acquisitions. During this period, the Group also materially diversified its activities and disposed of interests that it considered peripheral to its business strategy.

In recent years, Ayala's business activities continued to develop to include: (a) real estate, (b) financial services, (c) telecommunications, (d) water infrastructure, (e) electronics manufacturing, (f) power generation (g) transport infrastructure, (h) automotive, (i) international real estate (j) healthcare, and (k) education. In 2016, a new initiative was launched – the establishment of industrial technologies group that will integrate the electronics manufacturing, automotive and potential investments in complementary industrial technologies.

Ayala's real estate business is primarily conducted through its subsidiary, Ayala Land, Inc. ("Ayala Land" or "ALI"), a diversified real estate company in the Philippines. Its involvement in financial services is through an affiliate, the Bank of the Philippine Islands ("BPI"), which, together with its subsidiaries (together, the "BPI Group"), form a universal banking group in the Philippines. Ayala's telecommunications business is carried out through an affiliate, Globe Telecom, Inc. ("Globe"), a leading telecommunications companies in the Philippines. Ayala's investments in water infrastructure is under Manila Water Company, Inc. ("Manila Water" or "MWC"). Its international business in electronics manufacturing services is under Integrated Micro-Electronics, Inc. ("IMI"). Ayala's automotive dealerships are under AC Industrial Technology Holdings Inc. ("AC Industrials") formerly Ayala Automotive Holdings, Corp., while its interests in international real estate assets are held under AG Holdings. Ayala's recent investments in the power sector are held under AC Energy Holdings, Inc. (ACEHI), while its first toll road project (the 4-kilometer Daang-Hari connector road to the South Luzon Expressway) is held under the parent company. The Company has established AC Infrastructure Holdings Corp. ("AC Infra") as its vehicle for transport infrastructure related investments. Ayala's investments in healthcare is conducted through Ayala Healthcare Holdings ("AC Health") while its for-profit education business is operated through AC Education, Inc. ("AC Education").

The lists of subsidiaries and associates and joint ventures are contained in the attached Company's Consolidated Financial Statements for December 31, 2017.

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 (portfolo 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.

Please refer to Note 28 on Operating Segment Information of the Company's Consolidated Financial Statements regarding operating segments which presents assets and liabilities as of December 31, 2017 and 2016 and revenue and profit information for the years ended December 31, 2017, 2016 and 2015.

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.

For the detailed discussion on the specific subsidiaries falling under each business unit as well as the major transactions of the Group, please refer to Note 2 on Group Information of the Consolidated Financial Statements for December 31, 2017 which forms part of the Index of this SEC17A report. Other major transactions and developments were also disclosed in the Company's previously filed SEC17Q and SEC17-C reports, listing of which also forms part of the Index of this SEC17A report.

The consolidated financial statements of the Group as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015 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.

Based on SEC's parameters, the significant subsidiaries of Ayala Corporation as of December 31, 2017 are Ayala Land, Inc. (ALI - organized in 1988), Integrated Micro-Electronics, Inc. (IMI - organized in 1980), Manila Water Co, Inc. (MWC – established in 1997), AC Energy Holdings, Inc. (ACEHI – established in 2005) and AC Industrial Technology Holdings Inc. (AC Industrials – organized in 1991). Except as stated in the succeeding paragraphs and in the discussion for each of the Company's significant subsidiaries, there has been no other business development such as bankruptcy, receivership or similar proceeding not in the ordinary course of business that affected the registrant for the past three years.

As to the material reclassification, merger, consolidation or purchase or sale of a significant amount of assets:
For detailed discussion as to material reclassification, merger, consolidation and purchase transactions with subsidiaries and investees, please refer to Note 2 Group Information, Note 11 Investments in Associates and Joint Ventures and Note 23 on Business Combinations and Transactions with Non-controlling Interest of the Company's Consolidated Financial Statements for December 31, 2017 which forms part of the Index of this SEC17A report.

Distribution methods of the company's products and services
This is not applicable to the Company being a holding company. The Company's operating companies, however, have their respective distribution methods of products and services. Please refer to Significant Subsidiaries, Associates and Joint Ventures portion below.

Competition
The Company is subject to significant competition in each of the industry segments where its subsidiaries operate. Please refer to Significant Subsidiaries, Associates and Joint Ventures portion below for a discussion on Ayala Land, Inc. (ALI), Integrated Micro-Electronics, Inc. (IMI), and Manila Water Company, Inc. (MWC) significant subsidiaries, and Bank of the Philippine Islands (BPI), and Globe Telecom (Globe), significant associates and joint ventures.

Transactions with related parties
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.

Related party transactions are further discussed in the Note 30 of the accompanying consolidated financial statements of the Company.

Developmental and Other Activities
Being a holding company, the Company has no material patent, trademark, or intellectual property right to a product or any of its direct services. The Company's operating companies, however, may have these material intellectual property rights, but the dates and terms of their expiration or renewal is not perceived to have a material adverse effect on the Company. The Company complies with all existing government regulations and environmental laws, the costs of which are not material. As a holding company, it has no material development activities.

Employees
Ayala is committed to promoting the safety and welfare of the employees. It believes in inspiring the employees, developing their talents, and recognizing their needs as business partners. Strong and open lines of communication are maintained to relay Ayala's concern for their and safety, and deepen their understanding of Ayala's value-creating proposition.

The Company has a total workforce of 149 employees as of December 31, 2017, classified as follows:

Staff	53
Managers and Executives	86
Consultants	10
	149

The Company expects to increase its number of employees in the next 12 months. The Company has an existing Collective Bargaining Agreement (CBA) with the Ayala Corporation Employees Union for a period of 3 years, from January 2017 until December 2019. The CBA generally provides for improvement in compensation and benefits. Union and Management relations continue to be harmonious. The Company's management had not encountered difficulties with its labor force, nor have strikes been staged in the past.

In addition to the basic salary and 13th month pay, other supplemental benefits provided by the Company to its employees include: mid-year bonus, performance bonus, retirement benefit, life and health insurance, medical and dental benefits, and various loan facilities.

Risks
For detailed discussion on Risks, please refer to Note 31 on Financial Instruments of the Company's Consolidated Financial Statements for December 31, 2017 which form part of the Index of this SEC17A report.

SIGNIFICANT SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

AYALA LAND, INC.

Background and Business

Ayala Land, Inc. (alternately referred to as “ALI”, Ayala Land or “the Company” in the entire discussion of Ayala Land, Inc.) is the real estate arm of the Ayala Group. Its defining project was the 1948 development of a planned mixed-use community on 930 hectares of swamp and grassland in the Makati district of Metro Manila. Over the course of the following 25 years, the Ayala Group transformed Makati into the premier central business district of the Philippines and a site of some of Metro Manila’s most prestigious residential communities. Ayala Land has become the largest real estate company in the Philippines engaged principally in the planning, development, subdivision and marketing of large-scale communities having a mix of residential, commercial, leisure and other uses.

Ayala Land was organized in 1988 when Ayala Corporation decided to spin off its real estate division into an independent subsidiary to enhance management focus on its real estate business. ALI went public in July 1991 when its Class “B” Common shares were listed both in the Manila and Makati Stock Exchanges (the predecessors of the Philippine Stock Exchange - PSE). On September 12, 1997, the Securities and Exchange Commission (SEC) approved the declassification of the Company’s common class “A” and common class “B” shares into common shares.

Ayala Land is the largest and most diversified real estate conglomerate in the Philippines engaged in the planning and development of large scale, integrated estates having a mix of use for the sale of residential lots and buildings, office buildings and commercial and industrial lots, leasing of commercial and office spaces and the development, operation and management of hotels and resorts. The Company also develops commercial and industrial parks and is also engaged in property management, construction and other businesses like retail and healthcare.

Products / Business Lines

To carry on its business in an organized and efficient manner, Ayala Land structured its operations into key strategic business lines such as Property Development, Commercial Leasing, Hotels and Resorts and Services.

Property Development

The Residential Business Group handles the sale of high-end residential lots and units (including leisure community developments), office spaces, commercial and industrial lots, middle-income residential lots and units, affordable lot units and house and lot packages, economic housing units and house and lot packages, and socialized housing packages, and the lease of residential units and marketing of residential developments. The products developed and sold are further classified into the following brands: AyalaLand Premier (“ALP”) for high-end village lots and condominium units, Alveo Land Corp. (“Alveo”) for upscale village lots, condominium and office units, Avida Land Corp. (“Avida”) for middle-income village lots, house and lot packages, condominium and office units, Amaia Land Corp. (“Amaia”) for economic house and lot packages, and BellaVita Land Corp. (“BellaVita”) for the socialized house and lot packages.

Strategic Landbank Management and Visayas-Mindanao - acquisition, development and sale of large, mixed-use, masterplanned communities; sale of override units or Ayala Land's share in properties made available to subsidiaries for development; lease of carparks; development, sale and lease of the Company and subsidiaries' product offerings in key cities in the Visayas and Mindanao regions.

Commercial Leasing

Shopping Centers - development of shopping centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts, entertainment facilities and carparks in these shopping centers; management and operations of malls which are co-owned with partners.

Office Leasing - development and lease of office buildings and lease of factory buildings.

Hotels and Resorts - development, operation and management of branded and owner-operated hotels; lease of land to hotel tenants; development, operation and management of eco-resorts.

Services

Construction – land development and construction of ALI and third-party projects.

Property Management – facilities management of ALI and third-party projects; operation of water and sewage treatment facilities in some ALI projects; distribution of district cooling systems; bulk purchase and supply of electricity for energy solutions.

In addition to above business lines, Ayala Land also derives other income from its investment activities and sale of non-core assets.

Products / Business Lines (with 10% or more contribution to 2017 consolidated revenues before intercompany adjustments):

Property Development	68%
(Sale of residential lots and units, office spaces and commercial and industrial lots)	
Commercial Leasing	22%
(Shopping Centers, Office Leasing and Hotels and Resorts Operations)	
Services	10%
(Construction and Property Management)	

<u>Distribution Methods of Products</u>

The Company's residential products are distributed to a wide range of clients through various sales groups.

Ayala Land (parent company) has its own in-house sales team. In addition, it has a wholly-owned subsidiary, Ayala Land Sales, Inc. ("ALSI"), which employs commission-based sales people.

The overseas Filipino (OF) market is being pursued through award-winning websites, permanent sales offices or broker networks, and regular roadshows with strong follow-through marketing support in key cities abroad. Ayala Land International Sales, Inc. ("ALISI"), created in March 2005, led the marketing, sales and channel development activities and marketing initiatives of the Ayala Land's residential brands abroad. Currently, ALISI has established marketing offices in San Francisco, Hong Kong, Singapore, Dubai and Italy.

Separate sales groups have also been formed for certain subsidiaries which cater to different market segments under Bellavita (socialized housing), Amaia (economic housing), Avida (affordable housing) and Alveo (middle-income housing). To complement these sales groups, Ayala Land and its subsidiaries also tap external brokers.

Effective second half of 2008, residential sales support transactions of ALP, Alveo, Avida, Amaia and BellaVita is being undertaken by the shared services company Amicassa Process Solutions, Inc. ("APSI") put up by the Company. In 2011, Aprisa Business Solutions, Inc. (APRISA) completed its full roll-out to handle transactional accounting processes across the Ayala Land group.

Development of the business of ALI and its key operating subsidiaries/associates and joint ventures during the past three years

Ayala Land, Inc. - parent company (incorporated in 1988), is a diversified property developer in the Philippines with a track record in developing large-scale, integrated, mixed-use and sustainable estates. With 10,285 hectares of land bank, Ayala Land is present in 55 growth centers across the country, offering a balanced and complementary mix of residential spaces, shopping centers, offices, hotels and resorts, and other businesses. Following the success of the Makati Central Business District (Makati CBD), Ayala Alabang, Cebu Park District, Bonifacio Global City (BGC) and Nuvali, Ayala Land continues to develop estates in key growth centers around the country including Vermosa in Cavite, Alviera in Pampanga, Altaraza in Bulacan, Atria in Iloilo, Capitol Central in Bacolod and Abreeza in Davao, among others. It recently launched three new estates which are, Evo City in Cavite, Azuela Cove in Davao, and Seagrove in Cebu. As of end December 31, 2017, Ayala Land had a total of 24 estates.

<u>Property Development</u>

Ayala Land Premier continues to lead in the luxury segment with the launch of its high-value residential lots and condominiums. Projects launched in the past three years include residential lots namely

Riomonte in Nuvali, Laguna and The Courtyards in Vermosa, Cavite, and residential condominiums such as East and West Gallery Place at Bonifacio Global City, Park Central South Tower and Two Roxas Triangle in Makati, and Arbor Lanes in Arca South.

Alveo Land Corp., 100% owned subsidiary, offers various residential lots, and residential and office for sale tower products in the middle-income segment. Projects launched in the past three years include Ardia in Vermosa, Montala in Alviera, Mondia in Nuvali, Aveia 1 in Laguna, The Gentry Residences and Callisto Tower One in Makati, Alveo Park Triangle in BGC, North Veranda in Arca South, and Patio Suites in Abreeza.

Avida Land Corp., a 100% owned subsidiary, continued to develop affordable housing projects which offer house-and lot packages and residential lots, and residential and office for sale tower products to affordable income segment. Projects launched in the past three years include Avida Sola Tower 1 in Vertis North, Avida One Union Place in Arca South, Avida Prime Taft Tower 3 in Manila, Avida One Antonio Place in Makati, Avida Settings in Lipa, and Avida Atria Tower 2 in Iloilo.

Amaia Land Corp., wholly owned subsidiary of Ayala Land, was established to pursue a planned expansion of residential development operations to cater to the country's economic housing segment. Projects launched in the past three years include Amaia Scapes Bauan, Amaia Scapes San Fernando, Amaia Scapes Bulacan, Amaia Steps Altaraza and Amaia Steps Capitol Central among others.

BellaVita Land Corp. a wholly owned subsidiary of Ayala Land, aims to establish the country's first social enterprise community development targeting minimum wage earners and members of the informal business sector. Its first project in General Trias, Cavite was launched in December 2011. Projects launched in the past three years include San Miguel, Iloilo, Lian, Batangas and Porac, Pampanga among others.

Serendra, Inc., 28%-owned by ALI and 39%-owned by Alveo, is engaged in residential developments. In 2004, it launched Serendra, a residential complex at the BGC in Taguig.

Solinea (formerly Bigfoot Palms, Inc.), a landholding entity, was acquired on March 05, 2011 through Alveo Land Corporation through acquisition of 65% shares of stock. The remaining 35% was acquired by Cebu Holdings, Inc., a subsidiary of the Group.

Portico Land Corp., a subsidiary of Alveo was incorporated on October 2, 2013. Portico is 60% owned by Alveo and 40% by Mitsubishi Corporation. The subsidiary was organized to develop and operate a mixed-use development located near Ortigas center.

Roxas Land Corp., 50% owned, sold-out One Roxas Triangle in 2007.The project was started in 1996 and was completed in September 2001. Two Roxas Triangle was launched in November 2014 and is fully sold-out.

Ayala Greenfield Development Corporation ("AGDC"), 50-50% owned by Ayala Land and Greenfield Development Corporation, started developing Ayala Greenfield Estates, a high-end residential leisure subdivision located in Calamba, Laguna in 1999. Over the past twelve years, AGDC continued to develop and sell lots of this high-end residential subdivision.

BG West Properties, Inc., BG South Properties, Inc. and BG North Properties, Inc. were incorporated to engage in the development of high-end, middle-end and affordable residential and office for sale projects, respectively, in Bonifacio Global City. Projects launched in the past three years include The Suite, Park Triangle Residences and Corporate Plaza, One and Two Meridian and East and West Gallery.

Avencosouth was incorporated in the Philippines and is currently engaged in condominium development operations. Ayala Land holds 90% indirect interest in Avencosouth as of December 31, 2012, from the 70% ownership by Avida (a wholly owned subsidiary of Ayala Land), and from the 30% ownership of Accendo (which is 67% owned by Ayala Land). Avencosouth was registered with the SEC on April 26, 2012 and started commercial operations on August 11, 2012. Avida Towers Davao Project is under Avencosouth.

Verde Golf Development Corporation, a wholly owned subsidiary of the Company, was registered on August 8, 2013 primarily to develop, maintain, operate, manage and carry on the business, operation and management of the Southlinks golf facilities for the amusement, entertainment, recreation, leisure and athletic activities of the general public.

Ayala Land International Marketing, Inc., a wholly owned subsidiary of ALISI, was incorporated on February 28, 2012 to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

Ayala Land International (Singapore) Pte. Ltd was incorporated by ALISI on April 7, 2013 with the same objectives as ALIM.

Ayala Land International Marketing (Hong Kong) Ltd. was incorporated by ALISI when it further expanded by acquiring First Folio Limited in Hong Kong on November 20, 2013.

Ayala Land International Marketing, SRL was organized when ALISI bought ownership interests in Italy and Ayala Land International Marketing, Inc. in London from Avida Sales Corporation on April 9, 2014 and December 10, 2014, respectively. ALISI continues to widen the range of exposure of all ALI residential brands by its marketing partners.

Amaia Southern Properties, Inc. was organized and incorporated on February 12, 2013 by Amaia together with Cebu Holdings Inc. (CHI), primarily to purchase and develop new real estate properties for planned projects in the south. ASPI is 65%-owned by Amaia and 35% by CHI.

Southportal Properties, Inc. was incorporated on December 1, 2014. It is 65% owned by the Company and the remaining 35% is held by CHI. The primary purpose of the Group is to develop, sell and manage the operations for 1016 Residences, an Ayala Land Premier project in Cebu.

Southgateway Development Corporation, a wholly owned subsidiary of Ayala Land, was incorporated on October 19, 2012 primarily to develop of Cloverleaf estate located in Balintawak in Quezon City.

<u>Strategic Land Bank Management</u>

Aurora Properties, Inc incorporated in December 3, 1992, *Vesta Property Holdings, Inc.* incorporated in October 22, 1993 and *Ceci Realty, Inc.* incorporated in August, 22 1974, are owned by Ayala Land 80%, 70% and 60%, respectively. These companies are in joint venture with the Yulo Family, for the development of nearly 1,700 hectares of land in Canlubang, Laguna.

Emerging City Holdings, Inc. and Berkshires Holdings, Inc., both 50% owned, served as Ayala Land's corporate vehicles in the acquisition of a controlling stake in Bonifacio Land Corp. / Fort Bonifacio Development Corp. ("FBDC") through Columbus Holdings, Inc. in 2003. FBDC continues to sell commercial lots and condominium units and leases-out retail and office spaces in Bonifacio Global City.

Regent Time International Limited, 100% owned by Ayala Land, also owns a stake at Bonifacio Land Corp. / Fort Bonifacio Development Corp.

Nuevo Centro, Inc. and Prow Holdings, Inc., 55% owned by Ayala Land, was established primarily to develop Alviera, a 1,100-hectare estate in Porac, Pampanga. Some of its projects include residential lots such as Avida Settings Alviera and Alveo's Montala as well as recreational facilities like the Alviera Country Club.

ALI-ETON Property Development Corporation was incorporated on March 13, 2016. The company is a joint venture between Ayala Land, Inc. 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.

Next Urban Alliance Development Corp. is a wholly owned subsidiary of ALI and was incorporated on May 4, 2015. Its purpose is to develop, invest, own or acquire commercial, and residential lands.

<u>LEASING</u>

<u>Shopping Centers</u>

North Beacon Commercial Corporation, formerly Alabang Theatres Management Corporation, is Ayala Land's wholly owned vehicle for its MarQuee Mall in Pampanga, which commenced development in March 2007 and began operations in September 2009.

Station Square East Commercial Corporation, a 69% owned subsidiary of Ayala Land, broke ground in 2002 for Market! Market!, a 150,000-square meter mall along C-5 Road in Taguig. It opened Phase 1A of the mall in 2004 and Phase 1B in 2005.

Accendo Commercial Corp., with a 67% stake, ALI entered into a joint venture agreement with Anflo Group to develop a mixed-use project in Davao City.

ALI-CII Development Corporation, a 50-50% joint venture with Concepcion Industries, continued to operate Metro Point, a mid-market mall at the corner of EDSA and Taft Avenue, which was completed in the fourth quarter of 2001.

Alabang Commercial Corporation, 50% owned by Ayala Land, continued to manage and operate the Alabang Town Center.

ALI Commercial Center, Inc. is a wholly owned subsidiary and was incorporated on October 10, 2014. ALI Commercial Center, Inc. manages the operations of Glorietta and Greenbelt malls in Ayala Center, Makati.

North Triangle Depot Commercial Corporation, 73% owned by Ayala Land, commenced development of TriNoma (formerly referred to as North Triangle Commercial Center), a 191,000-sqm mall constructed at the main depot of MRT-3 in Quezon City. TriNoma broke ground in June 2005 and began operations in May 2007.

Subic Bay Town Centre, Inc., 100% owned by Ayala Land, was incorporated on March 9, 2010 for the planning, development management of a mall to be located in Subic Bay Freeport Zone.

Ayala Theaters Management, Inc., 100% owned, continued to manage and operate theaters at the Ayala Center in Makati.

Five Star Cinema, Inc., also wholly owned, continued to manage and operate theaters at the Alabang Town Center.

Leisure and Allied Industries Phils. Inc., a 50-50% joint venture of Ayala Land with Australian company, LAI Asia Pte. Ltd., continued to operate family entertainment centers called Time Zone in various Ayala malls, as well as other malls.

Cagayan De Oro Gateway Corp. was established to pursue a mixed-use development with a 47,000 sqm regional mall as its center piece. A 150-room boutique hotel shall be located on top of the mall, while a single tower residential condominium with 21 floors and 522 rooms shall be located right beside the mall. The project is strategically located in the economic hub of Cagayan de Oro City.

Arvo Commercial Corporation(ACC), a wholly owned subsidiary of the Ayala Land, was established primarily to develop and operate shopping malls within the ALI identified growth areas across the country.

Soltea Commercial Corp., a joint venture between the Company (60%), Ceci Realty, Inc. (20%) and Aurora Properties, Inc. (20%), was incorporated on June 13, 2013. Currently, its main purpose is the development of Solenad 3 project in Sta. Rosa, Laguna.

North Ventures Commercial Corporation, 100% wholly owned subsidiary to handle the development of Fairview Terraces.

Ayala Land Commercial REIT, Inc., a wholly owned subsidiary of Ayala Land was formed in September as a vehicle through which Ayala Land will own and operate select investment properties and which Ayala Land intends to undertake an IPO under Republic Act No. 9856 or the Philippines Real Estate Investment Trust ("REIT") Law. Said investment properties shall include prime shopping center and office assets currently owned by the Company which are mature, have recurring income streams and have achieved stable occupancy rates.

Ayala Land Metro North Inc. was incorporated in November 29, 2012 and is a wholly owned subsidiary of the Company. It is established primarily to develop and operate shopping malls and offices.

Ayala Land Malls, Inc., a wholly owned subsidiary of the Company, was incorporated this year as a shared-service entity to provide manpower services to the Ayala Malls Group.

Ayala Land Malls North East, Inc. was registered on October 15, 2015. The Company is a wholly owned subsidiary of ALMI with primary purpose of conducting general contracting services and other support service, including performance of technical support services to North East Manila malls.

Ayala Land Malls VisMin, Inc. was registered on October 15, 2015. The Company is a wholly owned subsidiary of ALMI with primary purpose of conducting general contracting services and other support service, including performance of technical support services to VisMin malls.

Ayala Land Malls Synergies, Inc. is a wholly owned subsidiary of the Company and was incorporated on June 1, 2016. AMSI houses the Commercial Business Group's allied businesses such as but not limited to the partnership with Meralco, LED, operation of upcoming mall's foodcourt.

Corporate Business

Laguna Technopark, Inc., 75% owned, continued to sell industrial lots to local and foreign company locators.It also leases ready-built factory units within the Laguna Technopark.

Asian I-Office Properties, Inc, the Company was invited by CPVDC, an ALI subsidiary, to be a partner in the Asian i-Office Properties, Inc. ("AiO") for a 60% stake in 2008. It manages and operates two BPO buildings located in the Asiatown IT Park in Cebu (eBloc and Peak Building A). In 2013, Ayala Land sold its 60% interest in Asian I-Office Properties, Inc. to Cebu Property Ventures and Development Corporation.

Sunnyfield E-Office Corporation, Asterion Technopod, Inc., Crestview E-Office Corporation, Summerhill E-Office Corporation and Hillsford Property Corp., are wholly owned entities established to handle, develop and manage all future BPO buildings located at various growth centers within the Philippines.

Ayala Land Offices, Inc. (ALO), is the Company's 100%-owned vehicle owns and operates various BPO projects and buildings which include UP Technohub BPO Offices.

ALO Prime Realty Corporation (APRC) is the Company's 100%-owned vehicle which owns and operates Aegis People Support building along Villa Street, Cebu IT Park, Lahug, Cebu City. The building is a certified LEED-Gold Office with a gross leasable area of 18,092 square meters and is largely occupied by Teleperformance under a long-term lease.

Altaraza Prime Realty Corporation, a wholly owned subsidiary of the Company, was incorporated on March 9, 2016 to develop Altaraza IT Park, Bulacan.

Hotels and Resorts

Ayala Hotels, Inc., 50% owned, currently manages hotel land lease operations and Ayala Land Premier's Park Central Towers.

Ayala Land Hotels and Resorts Corporation (AHRC), a wholly owned subsidiary of Ayala Land, serves as a holding company for the Group's hotels and resorts operations.

Ten Knots Philippines, Inc. (TKPI) and Ten Knots Development Corporation (The Ten Knots Group), is 60% owned by Ayala Land in partnership with Asian Conservation Company Inc. In 2013, the Hotels and Resorts Group signed an agreement with Asian Conservation Company, to acquire 40% stake in El Nido Resorts.

Greenhaven Property Venture, Inc., 100% owned by Ayala Land through AHRC was established to plan, develop and manage Holiday Inn and Suites Glorietta.

North Liberty Resort Ventures, Inc. is a wholly owned subsidiary of TKPI. The Company was incorporated on October 27, 2015 and was primarily organized to own, use, improve, develop, subdivide, sell, lease & hold for investment or otherwise real estate of all kinds.

Lio Resort Ventures, Inc. is a wholly owned subsidiary of TKPI. The Company was incorporated on October 27, 2015 and was primarily organized to own, use, improve, develop, subdivide, sell, lease & hold for investment or otherwise real estate of all kinds.

Paragua Eco-Resort Ventures, Inc. is a wholly owned subsidiary of TKPI. The Company was incorporated on October 27, 2015 and was primarily organized to own, use, improve, develop, subdivide, sell, lease & hold for investment or otherwise real estate of all kinds.

Pangulasian Island Resort Corporation is a wholly owned subsidiary of TKPI. The Company was incorporated on September 18, 2015 and was primarily organized to plan, develop, construct, own and operate sports, vacation, recreation and resort facilities and other related business activities.

Regent Horizons Conservation Company Inc. and Subsidiary. On November 19, 2013, AHRC, a wholly owned subsidiary of the Company entered into an agreement to acquire 100% interest in ACCI, which effectively consolidates the remaining 40% interest in TKDC and TKPI (60%-owned subsidiary of the Company prior to this acquisition). This acquisition is in line with the Company's thrust to support the country's flourishing tourism industry.

Sentera Hotel Ventures, Inc. was registered on June 19, 2014. It is a wholly owned subsidiary of AHRC with purpose of managing the hotel operation of SEDA Iloilo.

Econorth Resorts Ventures, Inc. is a wholly owned subsidiary of AHRC with the primary purpose of engaging in real estate and hospitality activities in Seda Lio, Palawan. It was registered on October 8, 2014.

ALI Triangle Hotel Ventures, Inc. was registered on March 4, 2014. It is a wholly owned subsidiary of AHRC with the primary purpose of managing the activities of the new Mandarin Hotel which has recently broke ground and will be completed by 2020.

Circuit Makati Hotel Ventures, Inc. was registered on October 20, 2014. It is a wholly owned subsidiary of AHRC, with primary purpose of developing and managing the hotel operations in Circuit Makati.

Capitol Central Hotel Ventures, Inc. was registered on October 20, 2014. It is a wholly owned subsidiary of AHRC, with the purpose of developing and managing the hotel activities of SEDA Bacolod.

Arca South Hotel Ventures, Inc. was registered on October 17, 2014. It is a wholly owned subsidiary of AHRC, with main purpose of developing and managing the hotel operations of Arca South project in Taguig.

Sicogon Island Tourism Estate Corp. is a wholly owned subsidiary of ALI Capital Corp. which was incorporated with the SEC on July 8, 2015. The company was organized to engage in land and real estate business development in Sicogon Island, Iloilo.

Sicogon Town Hotel, Inc., a wholly owned subsidiary of *Ayala Land Hotels and Resorts Corporation* registered on September 29, 2015, with primary purpose of engaging in the general business in hotel in Sicogon Island, Iloilo.

Visayas-Mindanao

Cebu Holdings, Inc., 67% owned by Ayala Land, continued to manage and operate the Ayala Center Cebu and sell residential condominium units and lots within the Cebu Business Park. The company's projects include the Alcoves, Park Point Residences and 1016 Residences among others.

Adauge Commercial Corporation, a 60% owned subsidiary of Ayala Land, was incorporated on September 5, 2012 for the development of Atria Mall and Avida Towers Iloilo among others.

Aviana Development Corporation, incorporated on September 17, 2013, is a 50-50 joint venture company between the Ayala Land (10%-owned by Accendo) and the Alcantara Group. It will develop the approximately 27-hectare waterfront property in Lanang, Davao City.

Lagdigan Land Corp. (Lagdigan) is a 60:40 joint venture between Ayala Land and Ayala Corporation. It was incorporated on March 17, 2014 and its main purpose is to develop Laguindingan's 500-hectare property owned by Ayala Corporation. The vision is to develop it into a mixed-use area that will be the primary growth area in Misamis Oriental.

Taft Punta Engaño Property Inc. (TPEPI) was incorporated on September 8, 2011, a wholly owned subsidiary of Taft Property Venture Development Corporation (TPVDC). TPEPI's primary purpose is to create a mixed-use commercial and residential district within a 12-hectare property in Lapu-Lapu City.

A joint venture agreement was entered into last April 26, 2013 between TPVDC and Ayala Land. Under the agreement, Ayala Land will own 55% of TPEPI and TPVDC will own the remaining 45% of TPEPI. Ayala Land's rights to the venture were subsequently transferred to CHI on September 18, 2013 to enhance the latter’s portfolio and operations. It is consistent with the thrust of CHI to expand its business.

Central Block Developers, Inc (CBDI) is a subsidiary of the Ayala Land with pro-rata ownership of the Group’s Cebu Companies, CPVDC and CHI. The project of CBDI is called Central Bloc and is located at the core of Cebu IT Park. The development includes two BPO towers, an Ayala branded hotel, and a 5-storey mall. CBDI was registered with the SEC on July 28, 2015 and has not yet started commercial operations.

Cebu District Property Enterprise, Inc. (CDPEI) was incorporated on February 20, 2014 and is a 50:50 joint venture between Ayala Land, Inc. 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.

International

First Longfield Investments Limited is wholly owned by Ayala Land. On March 7, 2011, Ayala Land, Ayala Corp and The Rohatyn Group completed an exchange of ownership interests in Arch Capital and Arch Capital Asian Partners G.P (a Cayman Islands company), with proceeds and carrying value of the investments as of the date of exchange amounting to US$3.8 million and US$0.4 million, respectively, resulted to a gain of US$2.9 million, net of transaction costs. The exchange in ownership interest resulted in TRG acquiring ALI’s 17% stake and Ayala Corp’s 33% interest. The completed exchange of ownership interests did not change the activities, management, focus and shareholder structure of the ARCH Fund, with the Company retaining its current 8% interest in the fund

Regent Wise Investments Limited (Regent Wise), a wholly owned subsidiary of Ayala Land is registered in Hongkong and holds 32.95% in MCT BHd, Malaysian development and construction company; a 40% investment in Tianjin Eco-city Ayala Land Development Co., Ltd., for the development and sale of residential condominium in Tianjin, China, and in British Columbia, Canada.

AyalaLand Real Estate Investments Inc. was incorporated on February 4, 2013 under the laws of British Columbia, Canada. It is 100%-owned by the Company through RegentWise. It is the beneficiary of the Trust and a Shareholder of Rize-AyalaLand (Kingsway) GP Inc. As of December 31, 2014 and 2013, it is a party to the Rize-AyalaLand (Kingsway) Limited Partnership.

AyalaLand Advisory Broadway Inc. was incorporated on February 4, 2013 under the laws of British Columbia, Canada. It is a wholly owned subsidiary of the Company through Regent Wise.

AyalaLand Development (Canada) Inc. was incorporated on February 15, 2013 under the laws of British Columbia, Canada. It is a wholly owned subsidiary of the Company through Regent Wise. It is a party to the Management Services Agreement between Rize-AyalaLand (Kingsway) Limited Partnership, Rize-AyalaLand (Kingsway) GP Inc., Rize Alliance Properties Ltd. and AyalaLand Development (Canada) Inc.

Prime Orion Philippines Inc. (POPI) – On February 24, 206, Ayala Land purchased 51% interest in POPI. POPI owns Tutuban Center, a retail complex with a gross leasable area of 55,680 sqm in Divisoria. Tutuban Center, which sits on a 20-hectare property. It will be the location of the planned LRT2 Grand Central Station.

Construction

Makati Development Corporation, 100% owned by Ayala Land, engages in engineering, design and construction of horizontal and low-rise vertical developments. It servicea site development requirements of Ayala Land-related projects while providing services to third-parties in both private and public sectors.

MDC Build Plus was formed to cater primarily to Ayala Land’s residential brands Amaia and BellaVita.

MDC Conqrete, Inc. (MCI), a wholly owned subsidiary of MDC was incorporated on August 12, 2013 primarily to manufacture, facilitate, prepare, ready-mix, pre-cast and pre-fabricate floor slabs, wall panels and other construction materials and to manufacture, buy, sell and deal with cement and other related products.

MDC Equipment Solutions, Inc. (MESI) is a wholly owned subsidiary of MDC, incorporated on September 16, 2013 primarily to acquire, manage, and operate tools, heavy equipment and motor vehicles.

MDC Subic Inc. is a wholly owned subsidiary of MDC primarily to develop ALI projects in Subic including Harbor Mall.

Other Businesses

Aprisa Business Process Solutions, Inc., a wholly owned subsidiary of Ayala Land that manages and handles transactional accounting processes and services across the Ayala Land group.

ALI Capital Corp, a wholly owned subsidiary of the Company, was incorporated with the Securities and Exchange Commission (SEC) on June 25, 2012. It is the holding company of the Company for its retail-related initiatives. In 2012, the Company formed a partnership with Specialty Investments, Inc. (SII) to pursue opportunities in the Philippine retail sector. SII is a wholly owned subsidiary of Stores Specialists, Inc. (SSI), one of the largest retail companies in the Philippines, with the exclusive rights to sell, distribute and market in the country a variety of brands from around the world. The partnership with SII will enable the Company to support its mixed-use developments and, at the same time, grow its recurring income portfolio.

Integrated Eco-Resort, Inc. was incorporated with the SEC on May 27, 2015. It is a wholly owned subsidiary of ALI Capital Corp. incorporated to engage in land and real estate business development particularly the Caliraya Lake project.

Whiteknight Holdings, Inc. (WHI) was registered on May 14, 2013. The Company entered into an agreement with the Mercado family to acquire WHI in July 2013. The transaction was consummated in November 2013, thereby making WHI a wholly owned subsidiary of the Company. WHI owns 33% equity stake in Mercado General Hospital, Inc., owner and operator of the Daniel O. Mercado Medical Center in Tanauan, Batangas, the University Physicians Medical Center through its subsidiary Mercado Ambulatory and Surgical Centers, Inc., DMMC - Institute of Health Sciences, Inc. and Panay Medical Ventures, Inc.

Prime Support Services, Inc. is a wholly owned subsidiary of APMC and was incorporated on October 14, 2015. It is a company that provides technical and administrative services but not limited to the maintenance and the improvement of the physical aspects of the administered properties.

Arca South Integrated Terminal, Inc. is a wholly owned subsidiary of ALI which was incorporated on November 27, 2015. It is organized to finance, design, construct and manage the South Transport System Terminal Project located in Bicutan (formerly FTI). It is a project to be rolled out by the Department of Transportation and Communications which involves the development of mass transportation intermodal terminal at the southern outskirts of Metropolitan Manila to provide effective interconnection between transport modes and services.

AyalaLand Medical Facilities Leasing, Inc. is a wholly owned subsidiary of Ayala Land, Inc. It was incorporated with SEC on April 13, 2015 to engage primarily in developing and lease of Built-to-suit structure for ALI's hospital operations and retail.

Island Transvoyager, Inc., a wholly owned subsidiary Ayala Land thru ALI Capital Corp. (formerly Varejo Corp.). ITI was incorporated on October 2, 2002 with the primary purpose of carrying on the general business of a common carrier and/or private carrier. ITI is the only airline commercially flying from Manila to Lio in El Nido, Palawan. It is expected to be a key player in the industry as it flies to more tourism destinations not serviced by the bigger commercial airlines.

Bankruptcy, Receivership or Similar Proceedings
None for any of the subsidiaries and affiliates above.

Material Reclassification, Merger, Consolidation or Purchase or Sale of a Significant Amount of Assets (not ordinary) over the past three years

On February 26, 2018, the Board of Directors of Cebu Holdings, Inc. (CHI) during its meeting, approved the merger of Cebu Property Ventures Development Corp. (CPVDC) with CHI as the surviving entity. The merger will consolidate CHI's portfolio under one listed entity, creating a unified portfolio for its investments and is expected to result in operational synergies, efficient funds management and simplified reporting to government agencies, as a result of the merger. The plan of merger shall be submitted for approval of the stockholders of the two companies during their respective annual stockholders' meeting to be held on April 10, 2018. It will then be filed with the Securities and Exchange Commission (SEC) and is expected to be approved within the next two months.

On January 2, 2018, Ayala Land, through its wholly-owned subsidiary Regent Wise Investments Limited, signed a share purchase agreement to acquire an additional 17.24% share in MCT, raising ALI's total shareholding in MCT to 50.19%. As a result of this transaction, an unconditional mandatory take-over offer was dispatched to the shareholders of MCT which commenced in January 26 and ended last February 19, 2018. Ayala Land received acceptances equivalent to 22.12% of MCT's outstanding shares, increasing ALI's shareholdings in MCT to 72.31%.

On October 30, 2017, SIAL CVS Retailers, Inc., FamilyMart Co., Ltd., and ITOCHU Corporation have entered into a Memorandum of Agreement (MOA) 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). SIAL CVS Retailers, Inc., (a 50-50 joint venture company between ALI Capital Corp. (a 100% subsidiary of Ayala Land, Inc.) and SSI Group, Inc.), owned 60% of PFM, while Japanese companies, FamilyMart Co., Ltd. and ITOCHU Corporation, own 37.6% and 2.4% respectively.

On February 23, 2017, Ayala Land together with BPI Capital Corporation and Kickstart Ventures, Inc. signed an investment agreement to acquire ownership stakes in BF Jade E-Service Philippines, Inc, owner and operator of online fashion platform, Zalora Philippines. ALI will own 1.91% of Zalora Philippines through this transaction.

On February 20, 2017, The Board of Directors during its meeting approved the raising of up to ₱20.00 billion through (i) retail bonds, (ii) corporate notes and/or (iii) bilateral term loans with a term of up to ten (10) years, to partially finance general corporate requirements. The Board also approved the raising of up to ₱10.00 billion through the issuance of short dated notes with a tenor of up to 21 months to refinance the Corporation's short-term loans.

On August 19, 2016, The Board of Directors during its meeting approved the terms and conditions of the ₱7.0 billion third tranche of the Fixed-rate Bonds Series and ₱3.0 billion Homestarter Bonds under the Corporation's ₱50.0 Billion Debt Securities Program as approved by the SEC in March 2016.

On June 1, 2016, Ayalaland Mall Synergies, Inc., a wholly owned subsidiary of Ayala Land, Inc, was incorporated. The company will house the Commercial Business Group's allied businesses such as but not limited to the partnership with Mercato, LED, and operations of upcoming mall's foodcourt.

On May 19, 2016, additional ESOWN shares were subscribed under the ESOWN totaling 3,110,756 common shares.

On May 18, 2016, additional ESOWN shares were subscribed totaling 293,919 common shares at P26.27 per share by four (4) grantees.

On May 11, 2016, 137 ESOWN grantees subscribed to 13,646,546 common shares at P26.27 per share.

On April 12, 2016, the Board of Directors during its meeting approved the terms and conditions of the P7.0 billion second tranche of the Fixed-rate Bonds Series under the Corporation's P50.0 Billion Debt Securities Program as approved by the SEC in March 2016. The 9.5-year Fixed-rate Bonds was priced at a rate of 4.75% per annum. The Fixed-rate Bonds was issued on April 25, 2016 and will mature in 2025.

In March 2016, ALI bought additional 200,953,364 common shares of CHI. This increased the Company's stake from 56.40% to 66.87% of the total outstanding capital stock of CHI.

On March 14, 2016, the Company acquired 55% interest in Prow Holdings, Inc. for a purchase price of P150 million. The acquisition was made in line with the Company's partnership with Leonio Land, Inc. to develop a mixed-use community in Porac, Pampanga.

On March 1, 2016, SIAL Specialty Retailers, Inc. ("SIAL"), a joint venture company between ALI and the SSI Group, Inc., entered into a Deed of Absolute Sale with Metro Retail Stores Group, Inc. to sell fixed assets including fit-outs, furniture, fixtures and equipment in SIAL's department stores located at Fairview Terraces and UP Town Center.

In March 2016, the Company acquired an 18% stake in OCLP Holdings, Inc. (OHI), consistent with its thrust of expanding operations into other areas within and outside Metro Manila through partnerships. OHI holds 99.51% equity interest in Ortigas & Company Limited Partnership (OCLP), an entity engaged in real estate development and leasing businesses.

On February 24, 2016, ALI and POPI executed a Deed of Subscription and a Supplement to the Deed of Subscription whereby ALI subscribed to 2.5 billion common shares of stock of POPI, which will represent 51.06% of the total outstanding shares of POPI. The consideration for the ALI subscription is ₱2.25 per share or a total subscription price of ₱5.6 billion of which 25% or ₱1.4 billion was paid and the balance of 75% to be paid upon fulfillment of certain terms and conditions.

In February 2016, the Company purchased additional 906,000 common shares of CHI from BPI Securities totaling ₱4.06 million. This brings ALI's ownership from 56.36% to 56.40% of total outstanding capital stock of CHI.

On January 21, 2016, ALI and LT Group, Inc. ("LTG") entered into an agreement 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.

On January 12, 2016, the Company has entered into a partnership with Manila Water Philippine Ventures, Inc., a wholly owned subsidiary of Manila Water Company, Inc., for the waterworks of ALI's projects nationwide. The MOA was signed by ALI and its subsidiaries and affiliates, Cebu Holdings, Inc. ("CHI") and Cebu Property Ventures and Development Corp.

On October 15, 2015, ALI, through its wholly-owned subsidiary, Regent Wise Investments Limited, exercised its option to acquire additional shares of Malaysian development and construction company, MCT, Bhd. (MCT) for a total cost of US$92Mn, to bring its total shareholding in MCT from 9.16% to 32.95%.

On August 13, 2015, ALI entered into an agreement with Prime Orion Philippines, Inc. (POPI) to subscribe 2,500,000,000 common shares of stock or 51.36% interest in POPI for a total consideration of P5.6 billion, subject to certain terms and conditions. POPI is listed in the Philippine Stock Exchange and is the owner of Tutuban Center in Manila City through its wholly owned subsidiary Tutuban Properties, Inc.

On August 11, 2015, ALI has won the bid for the Integrated Transport System Project – South Terminal ("ITS South Project"). ALI will be 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 former Food Terminal Inc. property on which the future transport terminal will be built.

On June 30, 2015, Ayala Land, Inc., through SM-ALI Group consortium, participated and won in the bidding for Lot No. 8-B-1, containing an area of 263,384 square meters, which is a portion of Cebu City-owned lot located at the South Road Properties, Cebu City covered by Transfer Certificate of Title No. 107-2011000963 (the "Property").

On April 08, 2015, ALI purchased all of the 8.2 million common shares of Aegis PeopleSupport Realty Corporation amounting to P435M. Aegis PeopleSupport Realty Corporation is a PEZA-registered entity and the owner of Aegis building along Villa Street, Cebu IT Park, Lahug, Cebu City.

On April 06, 2015, ALI through its wholly-owned subsidiary, Regent Wise Investments Limited, has acquired 9.16% of the shares of Malaysian company GW Plastics Holdings Bhd., to be renamed MCT Bhd., through a private placement for a total amount of US$43 Mn or P1.9 Bn. y partnering with a company such as MCT, Bhd., ALI will be expanding its footprint in Southeast Asia in line with its diversification goals and sets the platform for growth in Malaysia.

On February 06, 2015, ALI purchased the combined remaining interest of Allante Realty and Development Corporation (Allante) and DBH, Inc. (DBH) in North Triangle Depot Commercial Corporation (NTDCC) consisting of 167,548 common shares and 703,904 preferred shares amounting to PhP229M. This brings ALI's ownership in NTDCC from 70.36% to 73.24% of the total outstanding capital stock of NTDCC.

On February 06, 2015, ALI purchased its proportionate share in DBH Inc and Allante Realty who owns 4.08% each in NTDCC for a total of ₱422.5 million. This transaction increased ALI's stake in NTDCC from 58.53% to 63.82%.

Various diversification/ new product lines introduced by the company during the last three years

New Businesses

Ayala Land ventured into maiden businesses to further complement and enhance the value proposition of its large scale, master planned, integrated mixed-use estate developments. The introduction of these new formats is likewise seen to boost the Company's recurring income base.

Hospitals/Clinics

Ayala Land entered into a strategic partnership with the Mercado Group in July 2013 to establish hospitals and clinics located in the Company's integrated mixed-use developments. The Company enhances its communities with the introduction of healthcare facilities under the QualiMed brand. In 2014, QualiMed opened three (3) clinics in Trinoma, Fairview Terraces, McKinley Exchange Corporate Center, and Qualimed General Hospital in Atria Park, Iloilo while UP Town Center Clinic in Quezon City was opened in the end of 2015. In the 2nd Quarter of 2016, Qualimed opened a hospital in Altaraza San Jose Del Monte Bulacan. In the 3rd Quarter of 2017, Qualimed opened its 102-bed hospital in Nuvali, Sta. Rosa, Laguna.

Supermarkets

ALI Capital Corporation (formerly Varejo Corporation), a subsidiary of Ayala Land, entered into a joint venture agreement with Entenso Equities Incorporated, a wholly-owned entity of Puregold Price Club, Inc., to develop and operate mid-market supermarkets for some of Ayala Land's mixed-use projects branded as Merkado Supermarket. The first supermarket was opened in the 3rd quarter of 2015 at UP Town Center while its second store was opened in December 2017 at Ayala Malls Vertis North.

Competition

Ayala Land is the only full-line real estate developer in the Philippines with a major presence in almost all sectors of the industry. Ayala Land believes that, at present, there is no other single property company that has a significant presence in all sectors of the property market. Ayala Land has different competitors in each of its principal business lines.

With respect to its shopping center business, Ayala Land's main competitor is SM which owns numerous shopping centers around the country. Ayala Land is able to effectively compete for tenants given that most of its shopping centers are located inside its mixed-used estates, populated by residents and office workers. The design of Ayala Land's shopping centers also features green open spaces and parks.

For office rental properties, Ayala Land sees competition in smaller developers such as Kuok Properties (developer of Enterprise Building), Robinsons Land (developer of Robinsons Summit Center) and non-traditional developers such as the AIG Group (developer of Philam Towers) and RCBC (developer of RCBC towers). For BPO office buildings, Ayala Land competes with the likes of Megaworld, SM and Robinsons Land. Ayala Land is able to effectively compete for tenants primarily based upon the quality and location of its buildings, reputation as a building owner and the quality of support services provided by its property manager, rental and other charges.

With respect to residential lots and condominium products, Ayala Land competes with developers such as Megaworld, DMCI Homes, Robinsons Land, and SM Development Corporation. Ayala Land is able to effectively compete for purchasers primarily on the basis of reputation, price, reliability, and the quality and location of the community in which the relevant site is located.

For the middle-income/affordable housing business, Ayala Land sees the likes of SM Development Corp, Megaworld, Filinvest Land and DMCI Homes as key competitors. Alveo and Avida are able to effectively compete for buyers based on quality and location of the project and availability of attractive in-house financing terms.

For the economic housing segment, Amaia competes with Camella Homes, DMCI Homes, Filinvest, Robinsons Land and SM Development Corporation.

BellaVita, a relatively new player in the socialized housing market, will continue to aggressively expand its geographical footprint with product launches primarily located in provincial areas.

Suppliers

The Company has a broad base of suppliers, both local and foreign. The Company is not dependent on one or a limited number of suppliers.

Customers

Ayala Land has a broad market base including local and foreign individual and institutional clients. The Company does not have a customer that will account for twenty percent (20%) or more of its revenues.

Transactions with related parties

Please refer to Item 12 of this report ("Certain Relationships and Related Transactions).

Government approvals/regulations

The Company secures various government approvals such as the environmental compliance certificate, development permits, license to sell, etc. as part of the normal course of its business.

Employees

Ayala Land has a total workforce of 399 regular employees as of December 31, 2017.

The breakdown of the ALI - Parent Company employees according to category is as follows:

Senior Management	25
Middle Management	226
Staff	148
Total	399

Employees take pride in being an ALI employee because of the company's long history of bringing high quality developments to the Philippines. With the growth of the business, career advancement opportunities are created for employees. These attributes positively affect employee engagement and retention.

The Company aims that its leadership development program and other learning interventions reinforce ALI's operating principles and provide participants with a set of tools and frameworks to help them develop skills and desired qualities of an effective leader. The programs are also venues to build positive relations and manage networks within the ALI Group.

ALI has a healthy relation with its employees' union. Both parties openly discuss employee concerns without necessity of activating the formal grievance procedure.

Further, employees are able to report fraud, violations of laws, rules and regulations, or misconduct in the organization thru reporting channels under the ALI Business Integrity Program.

Risks

Ayala Land is subject to significant competition in each of its principal businesses of property development, commercial leasing and services. In property development, Ayala Land competes with other developers to attract condominium and house and lot buyers. In commercial leasing, it competes for shopping center and office space tenants, as well as customers of the retail outlets, restaurants, and hotels and resorts across the country.

However, Ayala Land believes that, at present, there is no single property company that has a significant presence in all sectors of the property market.

High-End, Middle-Income, Affordable Residential, and Economic and Socialized Housing Developments

With respect to high-end and middle-income land and condominium sales, Ayala Land competes for buyers primarily on the basis of reputation, reliability, price, quality, and the location of the community in which the relevant site is located. For the affordable, economic and socialized housing markets, Ayala Land competes for buyers based on quality of projects, affordability of units and availability of in-house financing. Ayala Land is also actively tapping the overseas Filipino market. In addition it has seen demand from foreign buyers both residing in the country and abroad.

Shopping Center, Office Space and Land Rental

For its shopping centers, Ayala Land competes for tenants primarily based on the ability of the shopping center to attract customers. This is typically hinged on the location and the tenant-mix of the retail center, the reputation of the retail center owner, as well as rental and other charges. The market for shopping centers has become competitive and with the growing number of pipeline and new shopping center openings across the country. Some competing shopping centers are located within relatively close proximity of Ayala Land's commercial centers.

With respect to its office rental properties, Ayala Land competes for tenants primarily based on the quality and location of the relevant building, reputation of the building's owner, quality of support services provided by the property manager, and rental and other charges. The Company is addressing the continuing demand from BPOs and corporate by providing fully integrated and well maintained developments (high rise or campus facility) in key locations in the country.

Hotel and Resort Operations

The local hotel and resort sector is largely driven by foreign and local travel for leisure or business purposes. Any slowdown in tourism and business activity due to global financial and local political turmoil and security concerns could potentially limit growth of the Company's hotels and resorts.

Construction

Ayala Land's construction business is benefiting from the improved performance of the construction industry, particularly from an uptick in development activities mostly from the residential and retail sector. With booming construction across the country, Ayala Land must manage the risk of providing enough skilled workers to deploy to its various projects. Any slowdown in the construction business could potentially cap growth of the Company's construction arm.

Property Management

Ayala Land directly manages its properties as well as other third-party properties through Ayala Property Management Corporation. Its employees directly interface with customers and must ensure that Ayala Land’s brand, quality and reputation are upheld in the regular upkeep of managed properties. Employees must continuously be trained to be able to provide high-quality service in order to preserve Ayala Land’s brand equity.

Other risks that the company may be exposed to are the following:

- Changes in Philippine and international interest rates happening at a swift pace
- Changes in the value of the Peso
- Changes in construction material and labor costs, power rates and other costs
- Changes in laws and regulations that apply to the Philippine real estate industry
- Changes in the country's political and economic conditions
- Changes in the country’s liquidity and credit exposures

To mitigate the above mentioned risks, Ayala Land shall continue to adopt appropriate risk management tools as well as conservative financial and operational controls and policies to manage the various business risks it faces.

Working Capital

Ayala Land finances its working capital requirements through a combination of internally-generated cash, pre-selling, joint ventures agreements, borrowings and issuance of bond proceeds from the sale of non-core assets.

Domestic and Export Sales

The table below illustrates the amounts of revenue, profitability, and identifiable assets attributable to domestic and foreign operations for the years ended December 31, 2016, 2015, 2014, 2013: (in ₱'000)

	2017	2016	2015	2014
Consolidated revenues				
Domestic	133,097,831	117,700,488	107,182,940	95,197,046
Foreign	-	-	-	-
Net operating income				
Domestic	37,990,640	32,663,447	27,750,804	23,856,787
Foreign	-	-	-	-
Net Income Attributable to Equity Holders of ALI				
Domestic	25,304,965	20,908,011	17,630,275	14,802,642
Foreign	-	-	-	-
Total Assets				
Domestic	573,992,334	536,432,995	442,341,800	388,944,463
Foreign	-	-	-	-

Property development business contributed 64% for 2016 and 68% for 2017. Property development includes development and sale of residential lots, residential and office units, leisure properties, middle-income, affordable and economic housing and socialized housing.

For further information on ALI, please refer to its 2017 Financial Reports and SEC17A which are available in its website www.ayalaland.com.ph.

INTEGRATED MICRO-ELECTRONICS, INC.

Background and Business

Established in 1980, Integrated Micro-Electronics, Inc. (alternately referred to as IMI or "the Company" in the entire discussion of Integrated Micro-Electronics, Inc), has grown into a global company offering core manufacturing capabilities as well as higher value competencies in design, engineering, prototyping and supply chain management. IMI is a vertically integrated EMS provider to leading global original equipment manufacturers ("OEMs") across industries including computing, communications, consumer, automotive, industrial and medical electronics segments, as well as emerging industries like renewable energy. IMI also provides power semiconductor assembly and test services.

(1) Business Development

Integrated Micro-Electronics, Inc. (IMI or the Parent Company), a stock corporation organized and registered under the laws of the Republic of the Philippines on August 8, 1980, has four wholly-owned subsidiaries, namely: IMI International (Singapore) Pte. Ltd. (IMI Singapore), IMI USA, Inc. (IMI USA), IMI Japan, Inc. (IMI Japan) and PSi Technologies, Inc. (PSi) (collectively referred to as the Group). The Parent Company was previously 50.64% owned by AYC Holdings, Ltd. (AYC), a corporation incorporated in the British Virgin Islands and a wholly-owned subsidiary of AC International Finance Ltd. under the umbrella of Ayala Corporation (AC), a corporation incorporated in the Republic of the Philippines and listed in the Philippine Stock Exchange (PSE).

On March 29, 2017, AYC, transferred its 50.64% ownership in the Parent Company to AC Industrial Technology Holdings, Inc. (AC Industrials), also a wholly-owned subsidiary of AC, through a special block sale of the shares of the Parent Company on March 29, 2017 as approved by the PSE on the same date. This transaction was granted exemptive relief from the application of the mandatory tender offer rules by the Philippine Securities and Exchange Commission on March 21, 2017.

AC is 47.74% owned by Mermac, Inc., 10.15% owned by Mitsubishi Corporation and the rest by the public.

The registered office address of the Parent Company is North Science Avenue, Laguna Technopark-Special Economic Zone (LT-SEZ), Bo. Biñan, Biñan, Laguna.

The Parent Company was listed by way of introduction in the PSE on January 21, 2010. It has completed its follow-on offering and listing of 215,000,000 common shares on December 5, 2014.

The Parent Company is registered with the Philippine Economic Zone Authority (PEZA) as an exporter of printed circuit board assemblies (PCBA), flip chip assemblies, electronic sub-assemblies, box build products and enclosure systems. It also provides the following solutions: product design and development, test and systems development, automation, advanced manufacturing engineering, and power module assembly, among others. It serves diversified markets that include those in the automotive, industrial, medical, storage device, and consumer electronics industries, and non-electronic products (including among others, automobiles, motorcycles, solar panels) or parts, components or materials of non-electronic products.

IMI Singapore is a strategic management, investment and holding entity that owns operating subsidiaries of the Group and was incorporated and domiciled in Singapore. Its wholly-owned subsidiary, Speedy-Tech Electronics Ltd. (STEL), was incorporated and domiciled also in Singapore. STEL, on its own, has subsidiaries located in Hong Kong, China, and the Philippines. STEL and its subsidiaries (collectively referred to as the STEL Group) are principally engaged in the provision of electronic manufacturing services (EMS) and power electronics solutions to original equipment manufacturers (OEMs) in the automotive, consumer electronics, telecommunications, industrial equipment, and medical device sectors, among others.

In 2009, IMI Singapore established its Philippine Regional Operating Headquarters (IMI International ROHQ or IMI ROHQ). It serves as an administrative, communications and coordinating center for the affiliates and subsidiaries of the Group.

In 2011, the Parent Company, through its indirect subsidiary, Cooperatief IMI Europe U.A. (Cooperatief) acquired Integrated Micro-Electronics Bulgaria EOOD (formerly EPIQ Electronic Assembly EOOD) (IMI BG), Integrated Micro-Electronics Czech Republic s.r.o. (formerly EPIQ CZ s.r.o.) (IMI CZ) and Integrated Micro-Electronics Mexico, S.A.P.I. de C.V. (formerly EPIQ MX, S.A.P.I. de C.V.) (IMI MX) (collectively referred to as the IMI EU/MX Subsidiaries). IMI EU/MX Subsidiaries design and produce PCBA, engage in plastic injection, embedded toolshop, supply assembled and tested systems and sub-systems which include drive and control elements for automotive equipment, household appliances, and industrial equipment, among others. IMI EU/MX Subsidiaries also provide engineering, test and system development and logistics management services.

In 2016, Cooperatief acquired a 76.01% ownership interest in VIA Optronics GmbH (VIA), a Germany-based company with operations in Germany and China and sales offices in the USA and Taiwan. VIA is a leading provider for optical bonding, a key technology to lower reflections thus enabling sunlight readability and increasing robustness, which is mandatory to allow thinner and lighter portable display solutions. The acquisition will allow the Group to strengthen its partnerships with customers by offering complementary automotive camera and display monitor solutions for advanced driver assistance systems. The Group together with VIA will have the scale to introduce patented technology into automotive camera monitor systems for increased safety.

In 2016, IMI acquired a property in the Republic of Serbia to strengthen its global footprint and support the growing market for automotive components in the European region. The manufacturing plant is still under construction and is expected to commence production by 2018.

In 2017, IMI, through its indirect subsidiary Integrated Micro-electronics UK Limited (IMI UK), acquired an 80% stake in Surface Technology International Enterprises Limited (STI), an EMS company based in the United Kingdom. STI has factories in the UK and Cebu, Philippines. STI provides electronics design and manufacturing solutions in both PCBA and full box-build manufacturing for high-reliability industries. The acquisition of STI will help strengthen the Group’s industrial and automotive manufacturing competencies, broaden its customer base, and will also provide access to the UK market. Further, the partnership allows the Group’s entry into the aerospace, security and defense sectors.

IMI USA acts as direct support to the Group’s customers by providing program management, customer service, engineering development and prototype manufacturing services to customers, especially for processes using direct die attach to various electronics substrates. It specializes in prototyping low to medium PCBA and sub-assembly and is at the forefront of technology with regard to precision assembly capabilities including, but not limited to, surface mount technology (SMT), chip on flex, chip on board and flip chip on flex. IMI USA is also engaged in advanced manufacturing process development, engineering development, prototype manufacturing and small precision assemblies.

IMI Japan was registered and is domiciled in Japan to serve as IMI’s front-end design and product development and sales support center. IMI Japan was established to attract more Japanese OEMs to outsource their product development to IMI.

PSi is a power semiconductor assembly and test services company serving niche markets in the global power semiconductor market. PSi provides comprehensive package design, assembly and test services for power semiconductors used in various electronic devices.

Please refer to Index to Financial Statements and Supplementary Schedules, Schedule J – Map of Relationships of the Companies within the Group (IMI portion) for the organizational chart of IMI which is part of this SEC 17A report.

(2) Business and Operations

Principal Products and Services

Design & Development (D&D)

In 2017, the D&D group had complex automation deployments in various internal segments, business units, and external customers. These include applications such as automated handling, dispensing, screwing, and customized auto feeding system for mass production. Overall, seven successful deployments were conducted in 2017.

Camera Vision Technology (CVT) Group

To provide greater focus on IMI’s automotive camera development, the CVT group was spun off from D&D in 2016. The group focuses on camera platform development and design services for automotive cameras. In 2017, the group synced with Advanced Manufacturing Engineering (AME) and Test and

Systems Development (TSD) group to become a one-stop shop solution for camera design, prototype development and mass production.

Analytical Testing & Calibration (ATC) Laboratory

In 2017, ATC Laboratory Failure Analysis & Calibration passed the ISO/IEC 17025 accreditation, conducted by the Philippine Accreditation Bureau. The laboratory also invested in additional capabilities in 2017 with the purchase of three new high temperature ovens for reliability testing to support current customers.

Advanced Manufacturing Engineering (AME)

As automotive and medical products get smaller, IMI USA continues to provide value to product miniaturization. IMI's global AME focused on several industrial microelectromechanical systems-based inertial measurement unit modules, commercial laser display modules, and automotive camera modules, including the IMI minicube camera platform. AME also developed a fully automated assembly line that manufactures a complex electro-mechanical assembly for automotive safety and security electronic control at IMI Jiaxing as well as in IMI Mexico. High-power modules for automotive and industrial applications, from design and development, and NPI to mass production are growing briskly.

AME also collaborates with D&D on a low cost automotive camera using Himax and flip chip technologies, and also works with D&D Europe on the power module – which are used primarily in power management platforms for partial to full vehicle electrification.

Test & Systems Development (TSD)

With the major shift in complexity of test requirements for new and emerging technology products, IMI's TSD group expanded the development and application of fully automated test systems that integrate common backend process requirements—product marking, automated inspection, and unit sorting. In 2017, TSD expanded its footprint in innovative test solutions for automotive electronics, EV vehicle boards and power electronics. It has designed and implemented a new line of testers for power module devised and collaborated with a customer to build a fully automated tester for power train boards for EV which will be launched in China.

Automation

IMI's global Automation group continues to expand in IMI Czech Republic, Mexico, China, and the Philippines, developing fully automated production lines as well as cost-effective automation systems to help drive cost reduction efforts. In 2017, the Automation Backend (ABE) and Jiaxing team developed and deployed over a dozen of related products that integrate function testing, machine vision inspection, laser marking and out handing using robots of various automotive electronic PCB assemblies like EAIs, window lifters, rotor position sensors, hall devices and light controllers for major OEMs.

Product Capabilities

IMI has experience in working with some of the world's leading companies in the following products:

Automotive Electronics

Safety

- Electronic Power Steering
- Communication Power
- Electronic Stability Program (ESP)
- Body Control Module (BCM)
- Headlight
- Backlight
- Switch and Fan Controller
- HVAC control panel

Advanced Driver Assistance Systems

- Front Vision
- Surround View
- Rear View Camera
- Mirror Replacement Systems
- ADAS ECUs

Sensors
- Tire Pressure Sensor
- Temperature and Humidity Sensor
- Rotor Position Sensor (RPS)

Others
- Anti-fogging system
- Wiper
- Gear box shift
- Window lifter

Industrial Electronics

Security
- Electronic Door Access System
- Biometrics
- Asset tracking

Automation
- System Integration (Robotics)
- Automated Meter Readers

Power Management and Smart Grid
- Modules for Renewable Energy Generation, Transmission and Conversion
- Solar Panel
- Solar Inverters
- EV Charging Systems
- Power module

Controls and Sensors
- Printer Control
- Power Amplifier
- DC-DC Power Converter
- Engine Controllers
- Mirror Controls
- Industrial system and switch
- Anti-pitch sensors

Others
- LED lighting
- Aircon damper
- Accelerometer

Medical Electronics

Diagnostics
- Static detectors for fix and mobile RAD exams
- Auto Body Contouring Imaging Equipment
- Defibrillator Component
- Biomedical and Laboratory Equipment
- Centrifuge Control
- Fitness Equipment Control

Dental
- Imaging System

Hearing Aids

Communications Electronics

Telecom Equipment and Devices
- Cellular alarm communicators for LTE networks
- Back Panel
- Fiber to "X" (FFTx) systems
- Booster Amplifier
- GPON (Gigabit Passive Optical Network) Systems
- Base Station Power Supply

- Digital Station Control
- Power Transistors for amplifiers in cellular base stations
- Power Conversion ICs in adapters and chargers for cell phones and cordless phones
- DC Port and USB Port Protection for cell phones and satellite radio peripherals

Consumer Electronics

White goods

- Gas Ignitor and Re-Ignitor
- Air-Conditioning (HVAC) Controller
- Refrigerator and Cooker Hood Control
- Power Management & Home Appliance
- Household Metering Device
- Electric Drive Control for Home Appliances
- Programmable Timer
- Pressure Cookers
- Washing Machine controllers
- Coffee Machines

Personal devices and lighting

- Ultrasonic Toothbrush
- Projector Lamp Drivers
- Bluetooth Headset
- Main Power Supply for Flat-panel TV
- Power Supply for Game Consoles and Entertainment Electronics
- High Voltage Power Conversion ICs in Adapters and Chargers for Personal Electronics

Power Semiconductor

- Low-Medium Power Packages
- Medium-High Power Packages
- Small Signal Packages

Optical Bonding and Display Solutions (VIA)

- Sunlight readable interactive or non-interactive LCD systems
- Custom cover lens and custom mechanical design
- Touchpanel assemblies
- LCD-Touch Assemblies
- Display Head Assemblies and Hinge-Up Monitors
- Optical bonding services

Precision Machining

- Conventional machines
- CNC Turning with Milling function
- CNC Vertical Machining center (3 axis, 5 axis)
- Coordinate Measuring Machine (CMM)
- Hydraulic Press Brake and Hydraulic Shear

Aviation

- Fuel Computers
- Brake by Wire
- Entertainment Controls
- Satellite Communications
- Inflight internet systems
- Lighting Retro-fit
- Safety equipment
- Captor Radar
- Navigation and Communications Systems
- Cockpit Displays

Except as otherwise disclosed as above, there are no other publicly-announced new products or services during the year.

Segment Information

Management monitors operating results per geographical area for the purpose of making decisions about resource allocation and performance assessment. It evaluates the segment performance based on gross revenue, interest income and net income before and after tax of its major manufacturing sites. Philippine operation is further subdivided into the Parent Company and PSi, IMI BG and IMI CZ are combined under Europe based on the industry segment and customers served, VIA and STI are combined under Germany/UK representing newly-acquired subsidiaries, IMI USA, IMI Japan and IMI Singapore/ROHQ are combined being the support facilities for strategic management, research and development, engineering development and sales and marketing.

Prior period information is consistent with the current year basis of segmentation.

Intersegment revenue is generally recorded at values that approximate third-party selling prices.

Please refer to Note 19 (“Segment Information”) of the Notes to Consolidated Financial Statements of the 2017 Audited Consolidated Financial Statements which is incorporated herein as Exhibit 1.

Revenue Contribution by Industry Segment (in US$)

	2017	2016	2015
Automotive	**$446,460,645**	$377,639,245	$343,772,744
Industrial	**221,670,425**	177,267,436	145,487,460
Consumer	**188,760,154**	71,038,949	80,348,722
Telecommunication	**121,639,521**	131,304,615	132,929,944
Aerospace/Defense	**24,973,446**	–	–
Medical	**19,303,996**	21,280,959	26,607,884
Multiple market/others	**67,780,002**	64,435,220	85,217,350
	$1,090,588,189	$842,966,424	$814,364,104

Revenue Contribution by Customer Nationality (in US$)

	2017	2016	2015
Europe	**$519,149,422**	$458,851,700	$426,440,705
America	**240,888,727**	204,853,252	205,280,233
Japan	**42,842,182**	40,861,642	52,900,214
Rest of Asia/Others	**287,707,858**	138,399,830	129,742,952
	$1,090,588,189	$842,966,424	$814,364,104

Foreign Subsidiaries’ Contribution

	2017		**2016**		**2015**	
	Revenue	**Net Income***	**Revenue**	**Net Income***	**Revenue**	**Net Income***
Foreign Subsidiaries:						
China/SG	25%	9%	31%	-12%	34%	2%
Europe/Mexico	33%	76%	39%	93%	33%	75%
Germany/UK (VIA/STI)	18%	15%	2%	-1%	-	-
TOTAL	**76%**	**101%**	**72%**	**80%**	**67%**	**77%**

* *Attributable to equity holders of the Parent Company*

Revenues are attributed to countries on the basis of the customer’s location. Certain customers that are independent of each other but within the same group account for 12.58%, 14.97% and 13.29% of the Group’s total revenue in 2017, 2016 and 2015, respectively.

Sales and Distribution

The Company’s global presence allows it to provide solutions to OEMs catering to regional and international markets. Given the Company’s presence worldwide, it is able to provide its customers access to a number of services and resources through its manufacturing facilities, engineering and design centers, and sales networks in Asia (China, Singapore, Taiwan, Japan, and the Philippines), North America (U.S. and Mexico), and Europe (Bulgaria, Czech Republic, France, and Germany).

IMI Japan was registered and is domiciled in Japan to serve as IMI's front-end design and product development and sales support center. IMI Japan was established to attract more Japanese OEMs to outsource the product development and manufacturing to IMI.

Mergers and Acquisition

As part of our strategic initiatives, IMI acquired an 80% stake in STI, in 2017 a private limited company based in the United Kingdom which provides electronics design and manufacturing solutions in both printed circuit board assembly and full box-build manufacturing for high-reliability industries. The company currently has two factories in the United Kingdom in Hook and Poynton as well as one in Cebu, Philippines and operates a design center in London. The acquisition will enable IMI to expand into the aerospace and defense markets while strengthening the industrial segment in manufacturing as well as in technology development and engineering.

Competition

IMI is one of the leading global manufacturing solutions experts that provide electronics manufacturing services (EMS) and provide power semiconductor assembly and test services (SATS). IMI primarily serves original equipment manufacturers (OEMs) in diversified markets, including those in the automotive, industrial, telecommunications infrastructure, consumer, medical and avionics industries.

IMI specializes in highly reliable and quality electronics for long product life cycle segments such as automotive and industrial electronics.

For the automotive segment, IMI delivers customized solutions for safety and security, among others. It supplies cameras that are integral technology to the advanced driver assistance systems (ADAS). For the industrial segment, it manufactures security and access control devices, power modules, and building automation, among others. From its manufacturing plants in the Philippines, China, Bulgaria, Czech, Germany, UK, Mexico and United States of America, IMI provides engineering, manufacturing, and support and fulfillment capabilities to diverse industries globally.

IMI ranks 20th in the list of Top 30 EMS providers in the world by Manufacturing Market Insider, determined based on 2016 EMS-related revenues. It also ranks 6th among the top automotive EMS providers in world based on the 2016 automotive EMS revenues per electronics market research firm New Venture Research.

IMI competes worldwide, with focus on Europe, North America and Asia.

The Company's performance is affected by its ability to compete and by the competition it faces from other global EMS companies. While it is unlikely for EMS companies to pursue identical business activities, the industry remains competitive. Competitive factors that influence the market for the Company's products and services include: product quality, pricing and timely delivery.

The Company is further dependent on its customers' ability to compete and succeed in their respective markets for the products that the Company manufactures.

There are two methods of competition: a) price competitiveness; and b) robustness of total solution (service, price, quality, special capabilities or technology). IMI competes with EMS companies original design manufacturer (ODM) manufacturers all over the world. Some of its fierce EMS provider competitors include Flex, HonHai, and Plexus.

HonHai/Foxconn is a Taiwanese company with revenues of US$160.3 billion in 2017, up 8.1% compared in 2016. HonHai is a competitor of IMI in the computing and telecommunication infrastructure markets.

Flextronics is a Singapore-headquartered company with annual revenues of US$23.9 billion in 2017; its cost structure is very competitive it is vertically integrated as well. Flextronics poses competition to IMI in the automotive space.

Plexus, a U.S.-based EMS, recorded US$2.5 billion revenues in 2017. Plexus is a key EMS player in industrial and medical sectors, which are target markets of IMI.

Principal Suppliers

IMI's suppliers are situated globally and are managed by the Global Procurement organization. The Company's top 10 suppliers in 2017 comprise about 24% of global purchases. Purchases from suppliers generally comprise of electronic components processed by our facilities. The Company strives to manage the quality of the products supplied to ensure strict adherence to quality standards and only purchase from suppliers whose product meet all applicable health and safety standards.

Transactions with Related Parties

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 subsidiaries, affiliate, and other related parties principally consisting of advances, loans and reimbursement of expenses. Sales and purchases of goods and services as well as other income and expenses to and from related parties are made at normal commercial prices and terms.

Terms and Conditions of Transactions with Related Parties
Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2017, 2016 and 2015, the Group has not recorded any impairment on receivables relating to amounts owed by related parties. Impairment assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

For more information on Related Party Transactions, refer to Note 31 ("Related Party Transactions") of the IMI's Notes to Consolidated Financial Statements of the 2017 Audited Consolidated Financial Statements which is incorporated herein as Exhibit.

Intellectual Property

The table below summarizes the intellectual properties registered with the Patent and Trademark Offices in the United States and Singapore:

- Auto camera – Minicube filed in December 2013
- In addition to certain patents, know-how and expertise is critical
- IMI is able to leverage its extensive experience in unique applications to other relevant products

Existing / Pending Patents	Descriptions	Location / Filing Date	Expiration Date
United States Patent 9,839,142	Vacuum Pallet Reflow, a soldering device and method of soldering enabling vacuum reflow while using a standard reflow oven conveyor.	Dec 2017	
Pending **USPTO 13457670**	Used for die attach of power devices that require very minimal voiding between device and substrate to avoid localized heating and potential failure. Describes a new process to perform soldering in a vacuum environment to promote minimal voiding without the use of specialized and expensive equipment, solder preform and gas atmospheres, but with the efficiency of a standard reflow soldering process.	April 2012	In Process
Pending PCT/US12/51573	A flip chip video camera mounted on a flexible substrate with glass stiffener	August 2012	In Process
Pending USPTO 14109918	Unique construction of camera module that enhances the dissipation of heat generated by the image sensor while being easy to manufacture.	December 2013	In Process
United States Patent 6,571,468 6,846,701	A method for forming a fine-pitch flip chip assembly interconnects fine pitch devices after they have been connected to a carrier substrate.	California, USA, 2001	2021

United States Patent 6,776,859	An improved anisotropic bonding system and method connects two conductive surfaces together using an anisotropic material having elastic conductive particles dispersed in an insulating heat-curable carrier.	California, USA, 2000	2020
United States Patent 6,648,213	A method for manufacturing a chip assembly that includes the steps of applying a controlled amount of flux to plurality of solder balls on a die, applying a non-fluxing underfill material to a substrate, and assembling the die and substrate together to form the chip assembly such that the non-fluxing underfill material is trapped between the die and the substrate.	California, USA and Singapore, 2001	2021
United States Patent 6,414,859	A passive component circuit comprising a bridge rectifier that is coupled in parallel to three capacitors.	Singapore, 2000	2020
United States Patent 7,787,265 B2	A dual switch forward power converter, and a method of operating the same, employs a self-coupled driver to achieve among other advantages higher efficiency, lower part count and component cost.	Singapore, 2007	2027
United States Patent 8,937,432 B2	Light Source Having LED Arrays for Direct Operation in Alternating Current Network and Production Method Thereof.	USA, 2015	2031
Japan - Applied	Bezelless display system	Divisional application filed	In Process
Taiwan - I 444 942		November 2014	July 2017
USA - US7924362		April 2011	October 2018
China - Applied	Nozzle to apply dry bonding preform	April 2014	In Process
Germany – 102013219628B4		August 2016	September 2017
South Korea – 10-1 703 383		January 2017	January 2020
Taiwan – I 530 330		April 2016	April 2018
Europe - EP2137570A1	Enhanced liquid crystal display system and methods	Published	In Process
Japan - JP 5513136		April 2014	April 2018
Taiwan - I 437 068		May 2014	May 2018
USA – 9 348 167		May 2016	November 2019
Germany – 600 42 590.8-08	SBLR (Super Bright Low Reflectance	July 2009	January 2018
Canada – 2 359 228		August 2005	January 2018
Taiwan – I 280 443		May 2007	April 2018
USA – 6 181 394		January 2001	January 2019
USA – 7 405 779		July 2008	January 2017
USA – 6 933 991		August 2005	January 2021
USA – 7 649 577		January 2010	July 2017
China - CN103820041A	Method for bonding two substrates used during manufacturing process of display device	May 2014	
Germany – Filed		Filed	
South Korea - 10-2014-0063470		May 2014	
Taiwan - 2014 32008		August 2014	

Government Regulations and Approvals

IMI complies with all existing government regulations applicable to the company and secures all government approvals for its registered activities. Currently, there are no known probable governmental regulations that may significantly affect the business of the Company.

IMI is subject to various national and local environmental laws and regulations in the areas where it operates, including those governing the use, storage, discharge, and disposal of hazardous substances in the ordinary course of its manufacturing processes. If more stringent compliance or cleanup standards under environmental laws or regulations are imposed, or the results of future testing and analyses at IMI's manufacturing plants indicate that it is responsible for the release of hazardous substances, IMI may be exposed to liability. Further, additional environmental matters may arise in the future at sites where no problem is currently known or at sites that IMI may acquire in the future.

IMI closely coordinates with various government agencies and customers to comply with existing regulations and continuously looks for ways to improve its environmental and safety standards.

Below is the detailed enumeration of its permits and licenses together with its pertinent details:

License/Permit Name	Regulatory Body
SEC Certificate of Registration	Securities and Exchange Commission
PEZA Certificate of Registration - Export Enterprise	Philippine Economic Zone Authority
PEZA Certificate of Registration - Facilities Enterprise	Philippine Economic Zone Authority
BIR Form 2303 - Certificate of Registration	Bureau of Internal Revenue
Permit to Use Computerized Accounting System	Bureau of Internal Revenue
Permit to Use Loose-leaf Invoices	Bureau of Internal Revenue
Authority to Print Invoices	Bureau of Internal Revenue 1. Sales Invoice; Official Receipt (back up invoices during system downtime 2. Billing Invoice; Collection Receipt (back up invoices during system downtime) 3. Official Receipt; Service Invoice; Acknowledgement Receipt 4. Debit Memo; Credit Memo
Barangay Business Clearance	Barangay Binan
Business Permit	City of Binan
Environmental Clearance (for Business Permit)	City of Binan
Engineering Clearance (for Business Permit)	City of Binan
Zoning Clearance (for Business Permit)	City of Binan
Sanitary Permit (For Business Permit)	City of Binan
Environmental Compliance Certficate	Department of Environment and Natural Resources
Laguna Lake Development Authority Discharge Permit	Laguna Lake Development Authority
Permit To Operate - Emission Source Installation	Department of Environment and Natural Resources
CG	
SSCG	
Philippine Drug Enforcement Agency Permit	Philippine Drug Enforcement Agency
License to Operate and X-Ray Facility	Department of Health - Food and Drug Administration
License to Handle Controlled Precursors & Essential Chemicals	Philippine Drug Enforcement Agency
License-to-Possess Explosives (Nitric Acid)	Philippine National Police
CG	
SSCG	
Radioactive Material License	Philippine Nuclear Research Institute

License/Permit Name`	IMI Laguna		
	License/Permit No.	Issue Date	Expiry Date
SEC Certificate of Registration	94419	08/08/1980	
PEZA Certificate of Registration - Export Enterprise	94-59 (Amended)	12/03/2015	
PEZA Certificate of Registration - Facilities Enterprise	11-19-F	11/29/2011	
BIR Form 2303 - Certificate of Registration	OCN 8RC0000039992	12/20/2012	
Permit to Use Computerized Accounting System	1214-116-00171CAS	01/01/2015	
Permit to Use Loose-leaf Invoices	LTAD-LL-09-769-14	09/05/2014	
Authority to Print Invoices	OCN 8AU0000273915 For Sales Invoice; Official Receipt	10/16/2014	10/15/2019
	OCN 8AU0000273913 For Billing Invoice; Collection Receipt	10/16/2014	10/15/2019
Barangay Business Clearance	BBC03718	01/08/2018	12/31/2018
Business Permit	2018-00494	01/09/2018	12/31/2018
Environmental Clearance (for Business Permit)	18-0498	01/09/2018	12/31/2018
Engineering Clearance (for Business Permit)	2018-01-0515	01/09/2018	12/31/2018
Zoning Clearance (for Business Permit)	DZC-00499-2018	01/09/2018	12/31/2018
Sanitary Permit (For Business Permit)	0511-2018	01/09/2018	12/31/2018
Environmental Compliance Certficate	ECC-R4A-1709-0321	09/29/2017	
Laguna Lake Development Authority Discharge Permit			01/16/2019
CG			04/30/2018
SSCG			10/16/2021
Philippine Drug Enforcement Agency Permit			10/06/2018
License to Operate and X-Ray Facility	renewal in process		
License to Handle Controlled Precursors & Essential Chemicals			02/16/2018
CG			02/09/2018

SSCG			05/20/2018
Radioactive Material License			05/31/2018

License/Permit Name	IMI Cavite	
	License No.	Issue Date
PEZA Certificate of Registration - Export Enterprise	94-59 (Amended)	12/03/2015
BIR Form 2303 - Certificate of Registration	OCN 8RC0000039988	12/12/2012
Permit to Use Computerized Accounting System	1214-116-00171CAS	01/01/2015
Permit To Operate - Emission Source Installation		Valid until 8/24/2022
License to Operate and X-Ray Facility	CDRRHR-RRD LTO No. IV-I-0193-18	01/01/2018 – 12/31/2018
License to Handle Controlled Precursors & Essential Chemicals		6/28/2018

License/Permit Name	IMI ROHQ		
	License No.	Issue Date	Expiry Date
SEC Certificate of Registration	FS200905182	04/16/2009	
BIR Form 2303 - Certificate of Registration	OCN 1RC000634390	06/25/2013	
Authority to Print Invoices	OCN 1AU0001692572	09/22/2017	09/21/2022
	OCN 1AU0000999180	06/24/2013	06/24/2018
Barangay Business Clearance	BBC03618	01/08/2018	12/31/2018
Business Permit	2018-00496	01/09/2018	12/31/2018
Environmental Clearance (for Business Permit)	18-0500	01/09/2018	12/31/2018
Engineering Clearance (for Business Permit)	2018-01-0518	01/09/2018	12/31/2018
Zoning Clearance (for Business Permit)	DZC-00600-2018	01/09/2018	12/31/2018
Sanitary Permit (For Business Permit)	0513-2018	01/09/2018	12/31/2018

IMI paid nominal fees required for the submission of applications for the above mentioned environmental laws.

<u>Research and Development Activities</u>

The Design and Development (D&D) Team has significantly enhanced competencies in electronic and mechanical design, and software development while also actively engaging in the development of platforms for the next generation projects. For example, the motor drive platform achieves high quality and reliability; the automotive camera platform offers excellent thermal management properties and optical performance; and the power modules utilize proprietary processes to achieve excellent thermal performance.

The Company has designed and built automated assembly machines incorporating a variety of new technologies including:

- Robotics
- 3D-machine vision systems
- Precision pressfit technology
- Laser marking system

One example of a partially automated production line is a rotary assembly machine, combining eight different production steps into a single, compact footprint. Through various steps, including optical and functional tests with laser precision, the rotary assembly machine ultimately separates the substandard parts from those that passed quality standards. This requires zero manual handling and adds a high-resolution 3D inspection process. Automation strongly supports the zero-defect program implemented by IMI China by improving quality and repeatability at critical process steps.

Another example is dual-robot handler in the plastic injection molding line in IMI Mexico that performs precision based steps with high accuracy that, without automation, would not have been possible to attain the tight tolerance in the insertion process, the high repeatability in the cycle time, and the high up-time of the injection machine.

The Advanced Manufacturing Engineering (AME) group in IMI USA (Tustin, California) continues to offer a unique variety of engineering services, drawing from its long history of leading the industry in fine precision-assembly technologies. AME collaborates with D&D on a low cost automotive camera using Himax and flip chip technologies, and also works with D&D Europe on the power module platform.

To provide greater focus on IMI's automotive camera development, the Camera and Vision Technology (CVT) group was spun off from D&D in 2016. The CVT group engages in platform development and design services of the automotive cameras.

With an extensive understanding of the market, the Company also provides end-to-end services to its customers ranging from simple assembly functions to complex box build services, from design and development, product reliability testing, materials management, logistics solutions and support services. This comprehensive range of capabilities grants greater flexibility and provides focused options for the customers. Its range of capabilities has also enabled the Company to develop a wide skill set and less reliance on a particular service capability. With its end-to-end services, the Company believes that it has become a "one stop shop", able to cater to the various requirements of its customers. By offering a wide array of services, the Company provides its customers with further convenience as they would no longer have to select multiple providers for products, thus enhancing the value that the Company can offer to customers.

IMI spent the following for research and development activities in the last three years:

		% to Revenues
2017	$ 3,506,223	0.32
2016	$ 3,601,736	0.43
2015	$ 3,051,525	0.37

Human Resources

The Company has a total workforce of 14,580 employees as of December 31, 2017, shown in the following table:

	2016	2017	2018 Plan
Managers	425	490	480
Supervisors	1,686	1,950	1,506
Rank-and-File	2,444	3,108	3,351
Technicians/Operators	10,025	11,200	11,267
TOTAL	**14,580**	**16,748**	**16,604**

The relationship between management and employees has always been of solidarity and collaboration from the beginning of its operations up to the present. The Company believes that open communication and direct engagement between management and employees are the most effective ways to resolve workplace issues.

IMI has existing supplemental benefits for its employees such as transportation and meal subsidy, group hospitalization insurance coverage and non-contributory retirement plan.

The Company has or will have no supplemental benefits or incentive arrangements with its employees other than those mentioned above.

Risk Factors

The Company's business, financial condition and results of operation could be materially and adversely affected by risks relating to the Company and the Philippines.

IMI's operating results may significantly fluctuate from period to period

There is a risk that the Company's operating results may fluctuate significantly due to various factors including but not limited to changes in demand for its products and services, customers' sales outlook, purchasing patterns, and inventory adjustments, changes in the types of services provided to customers, variations in the, volume of products, adjustments in the processes and manner of delivery of services, as well as alterations to product specifications on account of complexity of product maturity, the extent to which the Company can provide vertically integrated services for a product. The result is also affected by the Company's effectiveness in managing its manufacturing processes, controlling costs, and integrating any potential future acquisitions, the Company's ability to make optimal use of its available manufacturing capacity, changes in the cost and availability of labor, raw materials, and

components, which affect its margins and its ability to meet delivery schedules, and the ability to manage the timing of its component purchases so that components are available when needed for production while avoiding the risks of accumulating inventory in excess of immediate production needs. Fluctuations in operating results may also be experienced by the Company on account of the advent of new technology and customer qualification of technology employed in the production, and the occurrence of any changes in local conditions or occurrence of events that may affect production volumes and costs of production, such as, but not limited to labor conditions, political instability, changes in law and regulation, economic disruptions or changes in economic policies affecting flow of capital, entry of competition, substantial rate hikes of utilities required for production. The Company may also experience possible business disruptions as a result of natural events such as fire and explosion due to presence and use of flammable materials in the operations, or force majeure.
The factors identified above and other risks discussed in this section affect the Company's operating results from time to time.

Some of these factors are beyond the Company's control. The Company may not be able to effectively sustain its growth due to restraining factors concerning corporate competencies, competition, global economies, and market and customer requirements. To meet the needs of its customers, the Company has expanded its operations in recent years and, in conjunction with the execution of its strategic plans, the Company expects to continue expanding in terms of geographical reach, customers served, products, and services. To manage its growth, the Company must continue to enhance its managerial, technical, operational, and other resources.

The Company's ongoing operations and future growth may also require funding either through internal or external sources. There can also be no assurance that any future expansion plans will not adversely affect the Company's existing operations since execution of said plans may involve challenges. For instance, the Company may be required to be confronted with such issues as shortages of production equipment and raw materials or components, capacity constraints, difficulties in ramping up production at new facilities or upgrading or expanding existing facilities, and training an increasing number of personnel to manage and operate those facilities. Compounding these issues are other restraining factors such as more aggressive efforts of competition in expanding business, volatility in global economies and market and customer requirements. All these challenges could make it difficult for the Company to implement any expansion plans successfully and in a timely manner.

In response to a very dynamic operating environment and intense industry competition, the Company focuses on high-growth/high-margin specialized product niches, diversifies its markets and products, engages in higher value add services, improves its cost structure, and pursues strategies to grow existing accounts.

IMI is highly dependent on an industry that is characterized by rapid technological changes

The demand for the Company's solutions is derived from the demand of end customers particularly for end-use applications in the computing, communications, consumer, automotive, industrial and medical electronics industries. These industries have historically been characterized by rapid technological change, evolving industry standards, and changing customer needs. There can be no assurance that the Company will be successful in responding to these industry demands. New services or technologies may also render the Company's existing services or technologies less competitive. If the Company does not promptly make measures to respond to technological developments and industry standard changes, the eventual integration of new technology or industry standards or the eventual upgrading of its facilities and production capabilities may require substantial time, effort, and capital investment.

The Company is focusing on longer life cycle industries such as automotive, industrial and telecommunication infrastructure to reduce the volatility of model and design changes. The Company also keeps itself abreast of trends and technology development the electronics industry and is continuously conducting studies to enhance its technologies, capabilities and value proposition to its customers. It defines and executes technology road maps that are aligned with market and customer requirements.

The industry where IMI operates in does not serve, generally, firm or long-term volume purchase commitments

Save for specific engagements peculiar to certain products and services required, the Company's customers do not generally contract for firm and long-term volume purchase. Customers may place lower-than-expected orders, cancel existing or future orders or change production quantities. There are no guaranteed or fixed volume orders that are committed on a monthly or periodic basis.

In addition, the Company makes significant investment decisions, including determining the levels of business that it will seek and accept capacity expansion, personnel needs, and other resource requirements. These key decisions are ultimately based on estimates of customer long-term requirements. The rapid changes in demand for its products reduce its ability to estimate accurately long-term future customer requirements. Thus, there is the risk that resource investments are not optimized at a certain period.

In order to manage the effects of these uncertainties, customers are required to place firm orders within the manufacturing lead time to ensure delivery. The Company does not solely rely on the forecast provided by the clients. By focusing on the longer cycle industry segments, the volatility that comes with rapid model changes is reduced and the Company is able to have a more accurate production planning and inventory management process.

Buy-back agreements are also negotiated by the Company in the event there are excess inventory when customer products reach their end-of-life .To the extent possible, the Company's contract include volume break pricing, and materials buy-back conditions to taper the impact of sudden cancellations, reductions, and delays in customer requirements.

IMI may encounter difficulties in connection with its global expansion

The Company's globalization strategy has transformed it from a Philippines-centric company into a global network with manufacturing and engineering facilities as well as sales offices in Asia, Europe, and North America. This global expansion may expose the Company to potential difficulties that include diversion of management's attention from the normal operations of the Company's business, potential loss of key employees and customers of the acquired companies, physical, legal, cultural, and social impediments in managing and integrating operations in geographically dispersed locations, lack of experience operating in the geographic market of the acquired business, reduction in cash balance and increases in expenses and working capital requirements, which may reduce return on invested capital, potential increases in debt, which may increase operating costs as a result of higher interest payments, and complexities in integrating acquired businesses into existing operations, which may prevent it from achieving, or may reduce the anticipated synergy.

The Company's acquisitions of new companies or creation of new units, whether onshore or offshore, may also have an immediate financial impact to the Company due to the dilution of the percentage of ownership of current stockholders if the acquisition requires any payment in the form of equity of the Company, the periodic impairment of goodwill and other intangible assets, and liabilities, litigations, and/or unanticipated contingent liabilities assumed from the acquired companies.

If the Company is not able to successfully manage these potential difficulties, any such acquisitions may not result in material revenue enhancement or other anticipated benefits or even adversely affect its financial and/or operating condition.

To limit its exposure, the Company performs a thorough assessment of the upside and downside of any merger or acquisition. Supported by a team which focuses on business development, finance, legal, and engineering units, the vision, long-term strategy, compatibility with the culture, customer relationship, technology, and financial stability of the company to be acquired is carefully examined thorough due diligence to ensure exposures are mitigated through proper warranties. In addition, the Company looks at acquisitions that are immediately accretive to the P&L of the Company. The decision is then reviewed and endorsed by the Finance Committee, and approved by the Board. The Company carefully plans any merger or acquisition for a substantial period prior to closing date. Prior to closing of transactions, the Company forms an integration team and formulates detailed execution plans to integrate the key functions of the acquired entity into the Company.

IMI may not be able to mitigate the effects of declining prices of goods over the life cycles of its products or as a result of changes in its mix of new and mature products, mix of turnkey and consignment business arrangements, and lower prices offered by competition

The price of the Company's products tends to decline over the later years of the product life cycle, reflecting decreased costs of input components, improved efficiency, decreased demand, and increased competition as more manufacturers are able to produce similar or alternative products. The gross margin for manufacturing services is highest when a product is first developed but as products mature, average selling prices of a product drop due to various market forces resulting in gross margin erosion. The Company may be constrained to reduce the price of its service for more mature products in order to remain competitive against other manufacturing services providers. This is most apparent in the automotive segment, where the reduction has historically been observed to occur between the first two to three years. The Company's gross margin may further decline to be competitive with the lower prices offered by competition or to absorb excess capacity, liquidate excess inventories, or restructure or attempt to gain market share.

The Company is moving towards a higher proportion of contracting under a turnkey production (with the Company providing labor, materials and overhead support), as compared to those under a consignment model, indicating a possible deterioration in its margins. The Company will also need to deploy larger amounts of working capital for turnkey engagements.

To mitigate the effects of price declines in the Company's existing products and to sustain margins, the Company continues to improve its production efficiency by increasing yields, increasing throughputs through LEAN and six sigma manufacturing process. In addition, the Company continues to leverage on its purchase base and supplier programs to avail of discounts and reduced costs in component prices. It also utilizes its global procurement network and supply chain capabilities to reduce logistics costs for components including inventory levels. The Company also intensifies its effort to contract with customers with higher-margin products most of which involve higher engineering value add and more complex box build or system integration requirements.

IMI operates in a highly competitive industry

Some of the Company's competitors in the industry may have greater design, engineering, manufacturing, financial capabilities, or superior resources than the Company. Customers evaluate EMS and ODMs based on, among other things, global manufacturing capabilities, speed, quality, engineering services, flexibility, and costs. In outsourcing, OEMs seek to reduce cost. In addition, major OEMs typically outsource the same type of products to at least two or three outsourcing partners in order to diversify their supply risks. The competitive nature of the industry may result in substantial price competition. The Company faces increasing challenges from competitors who are able to put in place a competitive cost structure by consolidating with or acquiring other competitors, relocating to lower cost areas, strengthening supply chain partnerships, or enhancing solutions through vertical integration, among others. The Company's customers may opt to transact with the Company's competitors instead of the Company or if the Company fails to develop and provide the technology and skills required by its customers at a rate comparable to its competitors. There can be no assurance that the Company will be able to competitively develop the higher value add solutions necessary to retain business or attract new customers. There can also be no assurance that it will be able to establish a compelling advantage over its competitors.

The industry could become even more competitive if OEMs fail to significantly increase their overall levels of outsourcing. Increased competition could result in significant price competition, reduced revenues, lower profit margins, or loss of market share, any of which would have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company regularly assesses the appropriate pricing model (so as to ensure that it is strategic/value based or demand based, among others) to be applied on its quotation to existing or prospective customers. The Company is also strengthening its risk management capabilities to be able to turn some of the risks (e.g., credit risks) into opportunities to gain or maintain new or existing customers, respectively. The Company also continues to develop high value-add services that fit the dynamic markets it serves. It continues to enhance capabilities in design and development, advanced manufacturing engineering, test and systems development, value engineering, and supply chain management to ensure an efficient product realization experience for its customers.

In addition, the Company's size, stability and geographical reach allow it to attract global OEMs customers that look for stable partners that can service them in multiple locations. This is evidenced by increasing number of global contracts that the Company is able to develop and have multiple sites serving single customers.

Focusing on high value automotive (such as those for ADAS and safety-related, power modules and electronic control units, among others), industrial and medical segments where strict performance and stringent certification processes are required, the Company is able to establish a high barrier of entry, business sustainability and better pricing. Generally, the Company has observed that it is usually difficult for customers in these industries to shift production as they would have to go through a long lead time in the certification process. The direction the Company has taken resulted in the rise of the Company's ranking in the global and automotive EMS spaces.

IMI may be subject to reputation and financial risks due to product quality and liability issues

The contracts the Company enters into with its customers, especially customers from the automotive and medical industry, typically include warranties that its products will be free from defects and will perform in accordance with agreed specifications. To the extent that products delivered by the Company to its customers do not, or are not deemed to, satisfy such warranties, the Company could be responsible for repairing or replacing any defective products, or, in certain circumstances, for the cost of effecting a recall of all products which might contain a similar defect in an occurrence of an epidemic failure, as well as for consequential damages. Defects in the products manufactured by the Company adversely affect its customer relations, standing and reputation in the marketplace, result in monetary losses, and have a material adverse effect on its business, financial condition, and results of operations. There can be no assurance that the Company will be able to recover any losses incurred as a result of product liability in the future from any third party.

In order to prevent or avoid a potential breach of warranties which may expose the Company to liability, the Company performs a detailed review and documentation of the manufacturing process that is verified, audited and signed-off by the customers. In addition, customers are encouraged, and in some cases, required to perform official audits of the Company's manufacturing and quality assurance processes, to ensure compliance with specifications. The Company works closely with customers to define customer specifications and quality requirements, and follow closely these requirements to mitigate future product liability claims. The Company also insures itself on product liability and recall on a global basis.

IMI's production capacity may not correspond precisely to its production demand

The Company's customers may require it to have a certain percentage of excess capacity that would allow the Company to meet unexpected increases in purchase orders. On occasion, however, customers may require rapid increases in production beyond the Company's production capacity, and the Company may not have sufficient capacity at any given time to meet sharp increases in these requirements. On the other hand, there is also a risk of the underutilization of the production line, which may slightly lower the Company's profit margins. In response, the Company makes the necessary adjustments in order to have a match between demand and supply. In the case of a lack in supply, the Company equips itself with flexible systems that allow it to temporarily expand its production lines in order to lower the overhead costs, and then make corresponding increases in its capacity when there is a need for it as well.

To soften the impact of this, the Company closely coordinates with customers to provide the parties with regular capacity reports and action plan/s for common reference and future capacity utilizations. The Company also closely collaborates with its customers to understand the required technology roadmaps, anticipate changes in technological requirements, and discuss possible future solutions.

IMI may be involved in intellectual property disputes

The Company's business depends in part on its ability to provide customers with technologically sophisticated products. The Company's failure to protect its intellectual property or the intellectual property of its customers exposes it to legal liability, loss of business to competition and could hurt customer relationships and affect its ability to obtain future business. It could incur costs in either defending or settling any intellectual property disputes. Customers typically require that the Company indemnify them against claims of intellectual property infringement. If any claims are brought against the Company's customers for such infringement, whether these have merit or not, it could be required to expend significant resources in defending such claims. In the event the Company is subjected to any infringement claims, it may be required to spend a significant amount of money to develop non-infringing alternatives or obtain licenses. The Company may not be successful in developing such alternatives or in obtaining such licenses on reasonable terms or at all, which could disrupt manufacturing processes, damage its reputation, and affect its profitability.

Since the Company is not positioned as an ODM, the likelihood of the Company infringing upon product-related intellectual property of third parties is significantly reduced. Product designs are prescribed by and ultimately owned by the customer.

The Company observes strict adherence to approved processes and specifications and adopts appropriate controls to ensure that the Company's intellectual property and that of its customers are protected and respected. It continuously monitors compliance with confidentiality undertakings of the

Company and management. As of the date of this Prospectus, there has been no claim or disputes involving the Company or between the Company and its customers involving any intellectual property.

Demand for services in the EMS industry depends on the performance and business of the industry's customers as well as the demand from end consumers of electronic products

The performance and profitability of the Company's customers' industries are partly driven by the demand for electronic products and equipment by end-consumers. If the end-user demand is low for the industry's customers' products, companies in the Company's industry may see significant changes in orders from customers and may experience greater pricing pressures. Therefore, risks that could harm the customers of its industry could, as a result, adversely affect the Company as well. These risks include the customer's inability to manage their operations efficiently and effectively, the reduced consumer spending in key customers' markets, the seasonality demand for their products, and failure of the customer's products to gain widespread commercial acceptance.

The impact of these risks was very evident in the aftermath of the global financial crisis which resulted in global reduction of demand for electronics products by end-customers. The Company mitigates the impact of industry downturns on demand by rationalizing excess labor and capacity to geographical areas that are most optimal, and by initiating cost containment programs. With indications of global financial recovery already in place, the Company has been able to re-hire some of its employees. There are also electronics requirements resulting from global regulations, such as those for improving vehicle safety and promoting energy-efficient technologies that would increase the demand for electronic products and equipment.

The Company continuously addresses its concentration risks. There is no single customer that the Company is dependent on or accounts for more than 15% of the Company's revenues. The Company also serves global customers which are not concentrated on a specific geographic market.

IMI's industry is dependent on the continuous growth of outsourcing by OEMs

The Company belongs to an industry that is dependent on the strong and continuous growth of outsourcing in the communications, consumer automotive, industrial, and medical electronics industries where customers choose to outsource production of certain components and parts, as well as functions in the production process. A customer's decision to outsource is affected by its ability and capacity for internal manufacturing and the competitive advantages of outsourcing.

The Company's industry depends on the continuing trend of increased outsourcing by its customers. Future growth in its revenue depends on new outsourcing opportunities in which it assumes additional manufacturing and supply chain management responsibilities from its customers. To the extent that these opportunities do not materialize, either because the customers decide to perform these functions internally or because they use other providers of these services, the Company's future growth could be limited.

The Company believes that its global footprint with manufacturing operations in Asia, Europe, and North America, its global supply chain systems and capabilities, and its design services will continue to provide strategic advantages for customers to outsource parts of their product development and manufacturing processes to the Company.

IMI's industry may experience shortages in, or rises in the prices of components, which may adversely affect business

There is a risk that the Company will be unable to acquire necessary components for its business as a result of strong demand in the industry for those components or if suppliers experience any problems with production or delivery.

The Company is often required by its customers to source certain key components from customer-nominated and accredited suppliers only, and it may not be able to obtain alternative sources of supply should such suppliers be unable to meet the supply of key components in the future. Shortages of components could limit its production capabilities or cause delays in production, which could prevent it from making scheduled shipments to customers.

If the Company is unable to make scheduled shipments, it may experience a reduction in its sales, an increase in costs, and adverse effects on its business. Component shortages may also increase costs of goods sold because it may be required to pay higher prices for components in short supply and redesign or reconfigure products to accommodate substitute components.

To the extent possible, the Company works closely with customers to ensure that there are back up suppliers or manufacturers for customer-supplied components or components supplied by customer-nominated suppliers to mitigate uncertainties in the supply chain. In addition, the Company has established supplier certification and development programs designed to assess and improve suppliers' capability in ensuring uninterrupted supply of components to the Company.

Any shortage of raw materials or components could impair IMI's ability to ship orders of its products in a cost-efficient manner or could cause IMI to miss its delivery requirements of its retailers or distributors, which could harm IMI's business

The ability of the Company's manufacturers to supply its products is dependent, in part, upon the availability of raw materials and certain components. The Company's manufacturers may experience shortages in the availability of raw materials or components, which could result in delayed delivery of products to the Company or in increased costs to it. Any shortage of raw materials or components or inability to control costs associated with manufacturing could increase the costs for the Company's products or impair its ability to ship orders in a timely cost-efficient manner. As a result, it could experience cancellation of orders, refusal to accept deliveries, or a reduction in the Company's prices and margins, any of which could harm the Company's financial performance and results of operations. Other than for customer-nominated suppliers or specialty components for the manufacture of specific products, the Company is not dependent on a single supplier for its raw materials.

IMI may be exposed to risk of inventory obsolescence and working capital tied up in inventories

As an EMS provider, the Company may be exposed to a risk of inventory obsolescence because of rapidly changing technology and customer requirements. Inventory obsolescence may require it to make adjustments to write down inventory to the lower of cost or net realizable value, and its operating results could be adversely affected. The Company is cognizant of these risks and accordingly exercises due diligence in materials planning. The Company also provides in its inventory systems and planning a reasonable amount for obsolescence. It is working with key suppliers to establish supplier-managed inventory arrangements that will mutually reduce the risk. In addition, the Company often negotiates buy back arrangements with customers where, in the event the customers' purchase orders are delayed, canceled, or enter in the end-of-life phase, the customers assume the risk and compensate the Company for the excess inventory.

IMI may, from time to time, be involved in legal and other proceedings arising out of its operations.

The Company may, from time to time, be involved in disputes with its employees and various parties involved in its manufacturing operations, including contractual disputes with customers or suppliers, labor disputes with workers or be exposed to damage or personal liability claims. Regardless of the outcome, these disputes may lead to legal or other proceedings and may result in substantial costs, delays in the Company's development schedule, and the diversion of resources and management's attention. The Company may also have disagreements with regulatory bodies in the course of its operations, which may subject it to administrative proceedings and unfavorable decisions that result in penalties and/or delay the development of its projects. In such cases, the Company's business, financial condition, results of operations and cash flows could be materially and adversely affected.

IMI is highly dependent on the continued service of its directors, members of senior management and other key officers

The Company's directors, members of its senior management, and other key officers have been an integral part of its success, and the experience, knowledge, business relationships and expertise that would be lost should any such persons depart could be difficult to replace and may result in a decrease in the Company's operating efficiency and financial performance. Key executives and members of management of the Company include CEO, President and COO, CFO, Chief Procurement Officer, Leaders of Strategic Business Development and Mergers and Acquisitions, Global Sales and Marketing, Global HR, Global Design and Development, Global Advanced Manufacturing Engineering, and Global Quality, and Plant General Managers (GMs). In the event that the Company loses the services of any such person and is unable to fill any vacant key executive or management positions with qualified candidates, or if the qualified individual takes time to learn the details of the Company, the Company's business and results of operations may be adversely affected.

Any deterioration in IMI's employee relations could materially and adversely affect the Company's operations

The Company's success depends partially on the ability of the Company, its contractors, and its third party marketing agents to maintain productive workforces. Any strikes, work stoppages, work slowdowns, grievances, complaints or claims of unfair practices or other deterioration in the Company's, its contractors' or its third party marketing agents' employee relations could have a material and adverse effect on the Company's financial condition and results of operations. There have been no historical events related to strikes or protests from its employees or unions, given the well-established employee relations of the Company.

IMI's success depends on attracting, engaging, and retaining key talents, including skilled research and development engineers

In order to sustain its ability to complete contracted services and deliver on commitments and promote growth, the Company will have to continuously attract, develop, engage and retain skilled workforce highly capable to achieve business goals. The Company recognizes that its competitiveness is dependent on its key talent pipeline, including leadership, talent and skill pool, and succession plan.

The Company continuously identifies top-caliber candidates and keeps the pipeline full to be ready to assume new roles and fuel growth. The Company has a strong ability to hire in terms of the quality of recruits as well as in scale. Specifically, there is strong recruitment in Philippines and in China, having been able to tie up with universities. In the case of an immediate need for to provide manpower, there are contractual agreements at hand to meet the demand. They have the ability to rapidly organize and train skilled workers for new products and services and retain qualified personnel.

The Company also leverages on its global reach to identify, recruit and develop the right employees who can be deployed to the various operating units or divisions of the Company. It also implements on a regular basis pertinent employee training and development programs, including a cadetship program that enables it to tap and employ capable graduates from different leading universities. The Company has implemented proactive measures to retain employees through sound retention programs, encouraging work-life balance among its employees, and providing structured career development paths to promote career growth within the organization and loyalty to the Company.

RISKS RELATING TO COUNTRIES WHERE THE COMPANY OPERATES (INCLUDING THE PHILIPPINES)

IMI conducts business in various jurisdictions, exposing it to business, political, operational, financial, and economic risks due to its operations in these jurisdictions

There is no assurance that there will be no occurrence of an economic slowdown in the countries where the Company operates, including the Philippines. Factors that may adversely affect an economy include but are not limited to:

- decreases in business, industrial, manufacturing or financial activity in the Philippines or in the global market,
- scarcity of credit or other financing, resulting in lower demand for products and services
- the sovereign credit ratings of the country,
- exchange rate fluctuations,
- a prolonged period of inflation or increase in interest rates,
- changes in the relevant government's taxation policies,
- natural disasters, including typhoons, earthquakes, fires, floods and similar events,
- political instability, terrorism or military conflict, and
- other regulatory, political or economic developments in or affecting the Company

Notwithstanding the foregoing, the global operations, marketing, and distribution of the Company's products inherently integrate the impact of any economic downturn affecting a single country where the Company operates, and enables the Company to shift the focus of its operations to other jurisdictions.

The Company's manufacturing and sales operations are located in a number of countries throughout Asia, Europe, and North America. As a result, it is affected by business, political, operational, financial, and economic risks inherent in international business, many of which are beyond the Company's control, including difficulties in obtaining domestic and foreign export, import, and other governmental approvals, permits, and licenses, and compliance with foreign laws, which could halt, interrupt, or delay the Company's operations if it is unable to obtain such approvals, permits, and licenses, and could have a material adverse effect on the Company's results of operations.

Changes in law including unexpected changes in regulatory requirements affect the Company's business plans, such as those relating to labor, environmental compliance and product safety. Delays or difficulties, burdens, and costs of compliance with a variety of foreign laws, including often conflicting and highly prescriptive regulations also directly affect the Company's business plans and operations, cross-border arrangements and the inter-company systems.

Increases in duties and taxation and a potential reversal of current tax or other currently favorable policies encouraging foreign investment or foreign trade by host countries leading to the imposition of government controls, changes in tariffs, or trade restrictions on component or assembled products may result in adverse tax consequences, including tax consequences which may arise in connection with inter-company pricing for transactions between separate legal entities within a group operating in different tax jurisdictions, also result in increases in cost of duties and taxation.

Actions which may be taken by foreign governments pursuant to any trade restrictions, such as "most favored nation" status and trade preferences, as well as potential foreign exchange and repatriation controls on foreign earnings, exchange rate fluctuations, and currency conversion restrictions may adversely affect the Company's business and financial condition.

Under existing foreign exchange controls in the Philippines, as a general rule, Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. Restrictions exist on the sale and purchase of foreign exchange in the Philippine banking system. In the past, the Government has instituted restrictions on the ability of foreign companies to use foreign exchange revenues or to convert Philippine pesos into foreign currencies to satisfy foreign currency- denominated obligations, and no assurance can be given that the Government will not institute such or other restrictive exchange policies in the future.

A substantial portion of the Company's manufacturing operations is located in China, which has regulated financial and foreign exchange regime. The Company continuously evaluates the options available to the organization to ensure maximum usage of excess liquidity. Among others, excess liquidity may be repatriated out of China through dividend payments, payment of management service or royalty fees, use of leading and lagging payment, and transfer pricing.

Environmental laws applicable to IMI's projects could have a material adverse effect on its business, financial condition or results of operations

The Company cannot predict what environmental legislation or regulations will be amended or enacted in the future, how existing or future laws or regulations will be enforced, administered or interpreted, or the amount of future expenditures that may be required to comply with these environmental laws or regulations or to respond to environmental claims. The introduction or inconsistent application of, or changes in, laws and regulations applicable to the Company's business could have a material adverse effect on its business, financial condition and results of operations.

There can be no assurance that current or future environmental laws and regulations applicable to the Company will not increase the costs of conducting its business above currently projected levels or require future capital expenditures. In addition, if a violation of any environmental law or regulation occurs or if environmental hazards on land where the Company's projects are located cause damage or injury to buyers or any third party, the Company may be required to pay a fine, to incur costs in order to cure the violation and to compensate its buyers and any affected third parties.

Any political instability in the Philippines and the countries where IMI operates may adversely affect the business operations, plans, and prospects of the Company

The Philippines has from time to time experienced severe political and social instability. The Philippine Constitution provides that, in times of national emergency, when the public interest so requires, the Government may take over and direct the operation of any privately owned public utility or business.

Macro-economic conditions of different countries where IMI operates may adversely affect the Company's business and prospectus

Historically, the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. Although the Philippines' long-term foreign currency-denominated debt was recently upgraded by each of Standard & Poor's, and Moody's to investment-grade, no assurance can be given that Standard & Poor's, or Moody's or any other international credit rating agency will not downgrade the credit ratings of the Government in the future and, therefore, Philippine companies. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including the Parent Company, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available

In addition, some countries in which the Company operates, such as the Czech Republic and Mexico, have experienced periods of slow or negative growth, high inflation, significant currency devaluations, or limited liability of foreign exchange. In countries such as China and Mexico, governmental authorities exercise significant influence over many aspects of the economy which may significantly affect the Company.

Furthermore, the risk of imposing big border tax to US manufacturers that move jobs outside the country will have impact to where the company operates, particularly Mexico. In January 2017, US President Donald Trump has met with executives of the Big Three U.S. automakers and told the executives of General Motors, Ford and Fiat Chrysler that he was going to make it easier for them to invest in the country. He will reduce the taxes and unnecessary regulations to those manufacturing in the United States. Trump began singling out companies that were planning investments in Mexico that involved moving American jobs. Trump promised a big border tax on cars shipped from Mexico into the United States.

On an as-need basis, the Company seeks the help of consultants and subject matter experts for changes in laws and regulations that may have a significant impact in the Company's business operations. It also maintains good relationship with local government, customs, and tax authorities through business transparency and compliance and/or payment of all government-related assessments in a timely manner. The Company has been able to overcome major crises brought about by economic and political factors affecting the countries where it operates. The strong corporate governance structure of the Company and its prudent management team are the foundations for its continued success. The Company also constantly monitors its macroeconomic risk exposure, identifies unwanted risk concentration, and modifies its business policies and activities to navigate such risks.

There is no single customer that the Company is dependent on or accounts for more than 15% of the Company's revenues. The Company also serves global customers which are not concentrated on a specific geographic market.

Severe macroeconomic contractions may conceivably lead the Company to tweak or modify its investment decisions to meet the downturn. As a holding company, the Company affirms the principles of fiscal prudence and efficiency in the operations to its subsidiaries operating in various countries.

IMI faces risks of international expansion and operation in multiple jurisdictions

The Company expects to have an international customer base which may require worldwide service and support. The Company may expand its operations internationally and enter additional markets, which will require significant management attention. Any such expansion may cause a strain in existing management resources.

The distances between the Company, the customers, and the suppliers globally, create a number of logistical and communications challenges, including managing operations across multiple time zones, directing the manufacture and delivery of products across significant distances, coordinating the procurement of raw materials and their delivery to multiple locations, and coordinating the activities and decisions of the Company's management team, the members of which are spread out internationally.

While the Company tries to keep its local expertise, it established global functions to ensure that there is adequate coordination of activities. In addition, the availability and use of cell phones, e-mails, and internet based communication tools by the Company resulted in more efficient and timely coordination of activities and decision making by management from different sites and countries.

The Company aggressively pursues hiring of experienced international managers and staff globally. This enables the Company to ensure that it has sufficient manpower complement possessed with the required skills and experience to work with customers, vendors, and other partners in and out of the relevant country where it operates.

Natural or other catastrophes, including severe weather conditions and epidemics, that may materially disrupt IMI's operations, affect its ability to complete projects and result in losses not covered by its insurance

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, droughts, volcanic eruptions and earthquakes. In October 2013, a 7.2 magnitude earthquake affected Cebu and the island of Bohol, and in November 2013, Super Typhoon Haiyan (called Yolanda in the Philippines) caused destruction and casualties of an as yet undetermined amount, in Tacloban, certain parts of Samar, and certain parts of Cebu City, all of which are located in the Visayas, the southern part of the Philippines. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Company's operations. These factors, which are not within the Company's control, could potentially have significant effects on the Company's manufacturing facilities. As a result, the occurrence of natural or other catastrophes or severe weather conditions may adversely affect the Company's business, financial condition and results of operations.

Natural disasters, such as the 2008 earthquake in China, where most of the Company's manufacturing operations are located, could severely disrupt the Company's manufacturing operations and increase the Company's supply chain costs. These events, over which we have little or no control, could cause a decrease in demand for the Company's services, make it difficult or impossible for the Company to manufacture and deliver products and for the Company's suppliers to deliver components allowing it to manufacture those products, require large expenditures to repair or replace the Company's facilities, or create delays and inefficiencies in the Company's supply chain.

Any escalation in these events or similar future events may disrupt the Company's operations and the operations of the Company's customers and suppliers, and may affect the availability of materials needed for the Company's manufacturing services. Such events may also disrupt the transportation of materials to the Company's manufacturing facilities and finished products to the Company's customers. There can be no assurance that the Company is fully capable to deal with these situations and that the insurance coverage it maintains will fully compensate it for all the damages and economic losses resulting from these catastrophes.

Political instability or threats that may disrupt IMI's operations could result in losses not covered by the Company's insurance

No assurance can be given that the political environment in the Philippines will remain stable and any political instability in the future could reduce consumer demand, or result in inconsistent or sudden changes in regulations and policies that affect the Company's business operations, which could have an adverse effect on the results of operations and the financial condition of the Company.
Increased political instability threats or occurrence of terrorist attacks, enhanced national security measures, and conflicts, as well as territorial and other disputes, which strain international relations, may reduce consumer confidence and economic weakness.

Any impact on the following cases in countries in which the Company has operations could materially and adversely affect the Company's business plans and prospects, financial condition and results of operations.

The Philippines, China, and several Southeast Asian nations have been engaged in a series of long standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. Moreover, President Donald Trump's nominee for Secretary of State Rex Tillerson said China must be denied access to artificial islands it has built in the disputed waters. Trump had previously accused China of building a military fortress in the South China Sea. China claims more than 80 percent of the South China Sea, where it has built up its military presence as well as constructing the islands. Vietnam, the Philippines, Brunei, Malaysia and Taiwan claim parts of the same maritime area, a thriving fishing zone through which more than $5 trillion of trade passes each year. In July 2016, an international tribunal in The Hague ruled against China in a case brought by the Philippines, saying it had no historic rights to the resources within a dashed line drawn on a 1940s map that had formed the basis of its claims. While the court said the ruling was binding, China said the 29 tribunal had no jurisdiction. China is also in dispute with Japan and India over claims to a separate set of islands.

President Donald Trump signed an executive order on January 27, 2017 that indefinitely suspends admissions for Syrian refugees and limits the flow of other refugees into the United States by instituting what the President has called "extreme vetting" of immigrants. The executive order on Protection of the Nation from Foreign Terrorist Entry into The United States is the start of tightening borders and halting certain refugees from entering the United States. The order bars all persons from certain "terror-prone" countries from entering the United States for 90 days and suspends the US Refugee Admissions Program for 120 days until it is reinstated "only for nationals of countries for whom" members of Trump's Cabinet deem can be properly vetted.

The “British exit of the European Union (EU)," or known as Brexit on June 23, 2016 is considered the most significant economic demerger between major economies since the Second World War. British vote to leave the European Union is likely to impose major instability on top of economic fragility and artificial financial markets. The Brexit referendum roiled global markets, including currencies, causing the British pound to fall to its lowest level in decades. In November 2016, the British High Court ruled that the government needs the Parliament's approval to trigger Article 50 of the Lisbon Treaty and begin the two-year process of withdrawing the UK from the EU. On February 1, 2017, Prime Minister Theresa May won votes from Members of Parliament in the House of Commons for the bill to invoke Article 50 and start the Brexit process in March 2017. The bill is expected to pass through debates in the Commons and the House of Lords by March 7, and upon royal assent from Queen Elizabeth II, to become an Act of Parliament.

Investors may face difficulties enforcing judgments against IMI

It may be difficult for investors to enforce judgments against the Company owing to its global operations, diverse residencies of its different officers, and assets located in different jurisdictions. It may particularly be difficult for investors to effect service of process upon any officer who is not a resident of the country where judgments from courts or arbitral tribunals are obtained outside or within the Philippines if these are predicated upon the laws of jurisdictions other than the country where such judgments are obtained.

The Philippines is party to the United Nations Convention on the Enforcement and Recognition of Arbitral Awards, though it is not party to any international treaty relating to the recognition or enforcement of foreign judgments. Nevertheless, the Philippine Rules of Civil Procedure provide that a judgment or final order of a foreign court is, through the institution of an independent action, enforceable in the Philippines as a general matter, unless there is evidence that: (i) the foreign court rendering judgment did not have jurisdiction, (ii) the judgment is contrary to the laws, public policy, customs or public order of the Philippines, (iii) the party against whom enforcement is sought did not receive notice, or (iv) the rendering of the judgment entailed collusion, fraud, or a clear mistake of law or fact.

For further information on IMI, please refer to its 2017 Financial Reports and SEC17A which are available in its website www.global-imi.com.

MANILA WATER COMPANY, INC.

Background and Business

Manila Water Company, Inc. (alternately referred to as MWC or "the Company" in the entire discussion of Manila Water Company, Inc) holds the exclusive right to provide water and used water services to the eastern side ("East Zone") of the franchise area of the Metropolitan Waterworks and Sewerage System pursuant to the Concession Agreement entered into between the Company and MWSS on February 21, 1997. The original term of the concession was for a period of twenty five (25) years to expire in 2022. The Company's concession was extended by another fifteen (15) years by MWSS and the Philippine Government in 2009, thereby extending the term from May 2022 to May 2037.

The Company provides water treatment, water distribution, sewerage and sanitation services to more than six (6) million people in the East Zone, comprising a broad range of residential, commercial and industrial customers. The East Zone encompasses twenty three (23) cities and municipalities spanning a 1,400-square kilometer area that includes Makati, Mandaluyong, Pasig, Pateros, San Juan, Taguig, Marikina, most parts of Quezon City, portions of Manila, as well as the following towns of Rizal: Angono, Antipolo, Baras, Binangonan, Cainta, Cardona, Jala-Jala, Morong, Pililia, Rodriguez, San Mateo, Tanay, Taytay and Teresa.

Under the terms of the Concession Agreement, the Company has the right to the use of land and operational fixed assets, and the exclusive right, as agent of MWSS, to extract and treat raw water, distribute and sell water, and collect, transport, treat and dispose used water, including reusable industrial effluent discharged by the sewerage system in the East Zone. The Company is entitled to recover over the concession period its operating, capital maintenance and investment expenditures, business taxes, and concession fee payments, and to earn a rate of return on these expenditures for the remaining term of the concession.

Manila Water has a wholly-owned subsidiary, the Manila Water Philippine Ventures, Inc. (MWPV), which is intended to hold all investments in the domestic operating subsidiaries. Currently under MWPV are LagunaAAA Water Corporation ("Laguna Water"), Boracay Island Water Company, Inc. ("Boracay Water"), Clark Water Corporation ("Clark Water"), and Manila Water Consortium, Inc. ("MW Consortium"). Cebu Manila Water Development, Inc. (CMWD), a subsidiary of MW Consortium, provides bulk water in the province of Cebu, commenced operations on January 5, 2015. At present, Manila Water holds direct equity interest in the subsidiaries formed for implementing the following projects, namely the Zamboanga City performance-based non-revenue water reduction and network restructuring project and the Tagum City bulk water supply project.

Manila Water Asia Pacific Pte. Ltd. (MWAP), a wholly-owned Singapore subsidiary of Manila Water, holds the international ventures of the Group. Included under MWAP are two affiliated companies in Vietnam, namely Thu Duc Water B.O.O Corporation ("Thu Duc Water") and Kenh Dong Water Supply Joint Stock Company ("Kenh Dong Water"), both supplying bulk treated water to Saigon Water Corporation (SAWACO) under a take-or-pay arrangement. Also under MWAP are: Saigon Water Infrastructure Corporation ("Saigon Water") which is a holding company listed in the Ho Chi Minh City Stock Exchange; Cu Chi Water Supply Sewerage Company, Ltd. ("Cu Chi Water") for undertaking the development of water network in Cu Chi, Ho Chi Minh City; and Asia Water Network Solutions Joint Stock Company whose primary purpose is to pursue non-revenue water reduction projects in Vietnam. The initial venture of the Company in Vietnam, the pilot leakage reduction project in Ho Chi Minh City which started in 2008, was completed in August 2014.
In addition, the Group has Manila Water Total Solutions Corporation (MWTS), a wholly-owned subsidiary that handles after-the-meter products and services. Among its products is Healthy Family Purified Drinking Water which sells five-gallon packaged water in Metro Manila.

Lastly, Manila Water Foundation, Inc. ("Manila Water Foundation") is the corporate social responsibility arm of the Manila Water Group. It aims to be the enabler of change that will uplift the quality of life of the base of the pyramid (BOP) communities through the provision of sustainable water and wastewater services.

Please refer to Schedule J (Supplementary Schedules) on the relationships of the entities within the Group.

The Concession

The following are some of the key terms of the Concession Agreement with the MWSS:

- Term and Service Area of Concession. The Concession Agreement took effect on August 1, 1997 ("Commencement Date") and will expire on May 6, 2037 or on an early termination date as provided therein. By virtue of the Concession Agreement, MWSS grants to the Company (as contractor to perform certain functions and as agent for the exercise of certain rights and power 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.

- O*wnership of Assets.* While the Company has the right to manage, operate, repair, decommission 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 MWSS by the Company during the concession remains with the Company until the expiration date (or the early termination date), at which time, all rights, titles and interests in such assets will automatically vest in MWSS.

- Ownership of the Company. Under the Concession Agreement, MWSS granted concessions to operate the system of waterworks and sewerage services referred to under RA No. 6234 to private-sector corporations at least 60% of the outstanding capital stock of which is owned and controlled by Philippine nationals. For this purpose, the Company monitors its foreign ownership to ensure that its outstanding voting capital is at least 60% owned by citizens of the Philippines or by corporations that are themselves at least 60% owned by citizens of the Philippines.

- *Sponsor Commitment.* Unless waived in writing by the MWSS-Regulatory Office, Ayala, as local sponsor, and United Utilities PLC, as international operator, are each required to own, directly or through a subsidiary that is at least 51% owned or controlled, at least 20% of the outstanding capital stock of the Company for the first five years (through December 31, 2002), and thereafter at least 10% each. At present, United Utilities PLC no longer hold any equity in the Company, whether direct or indirect.

- *Operations and Performance.* The Company has the right to bill and collect for water and sewerage services supplied in the East Zone. In return, the Company is responsible for the management, operation, repair and refurbishment of MWSS facilities in the East Zone and must provide service in accordance with specific operating and performance targets described in the Concession Agreement.

- *Concession Fees.* The Company is required to pay MWSS the following:

- Concession fees consisting of the peso equivalent of (i) 10% of the payments due under any MWSS loan that was disbursed prior to the Commencement Date; (ii) 10% of payments due under any MWSS loan designated for the Umiray-Angat Transbasin Project (UATP) that was not disbursed prior to the Commencement Date; (iii) 10% of the local component costs and cost overruns related to the UATP; (iv) 100% of the payments due under any MWSS designated loans for existing projects in the East Zone that were not disbursed prior to the Commencement Date and were awarded to third party bidders or elected by the Company for continuation; and (v) 100% of the local component costs and cost overruns related to existing projects in the East Zone; and

- Share in the annual operating budget of MWSS amounting to Php396 million each year subject to annual inflation adjustments

  MWSS is required to provide the Company with a schedule of concession fees payable during any year by January 15 of that year and a written notice of amounts due no later than 14 days prior to the scheduled payment date of principal, interest, fees and other amounts due. Currently, MWSS gives monthly invoices to the Company for these fees.

- *Appropriate Discount Rate.* The Company is entitled to earn a rate of return equal to the Appropriate Discount Rate (ADR) on its expenditures prudently and efficiently incurred for the remaining term of the concession. The ADR is the real (i.e. not inflation adjusted) weighted average cost of capital after taxes as determined by the MWSS Regulatory Office based on conventionally and internationally accepted methods, using estimates of the cost of debt in domestic and international markets, the cost of equity for utility business in the Philippines and abroad with adjustments to reflect country risk, exchange rate risk and any other project risk.

- *Tariff Adjustments and Rate Regulation.* Water tariff rates are adjusted according to mechanisms that relate to inflation, extraordinary events, foreign currency differentials and Rate Rebasing exercises.

- *Early Termination.* MWSS has a right to terminate the concession under certain circumstances which include insolvency of the Company or failure to perform an obligation under the Concession Agreement, which, in the reasonable opinion of the MWSS-Regulatory Office, jeopardizes the provision of essential water and sewerage supply services to all or any significant part of the East Zone.

  The Company also has the right to terminate the concession for the failure of MWSS to perform an obligation under the Concession Agreement, which prevents the Company from carrying out its responsibilities or upon occurrence of certain events that would impair the rights of the Company.

- *Reversion.* On the expiration of the Concession Agreement, all the rights, duties and powers of the Company automatically revert to MWSS or its successors or assigns. MWSS has the option to rebid the concession or renew the agreement with the express written consent of the government.

- *Joint Venture.* Under the Concession Agreement, the Company and the concessionaire of the West Zone of Metro Manila, Maynilad Water Services, Inc. ("Maynilad"), were required to enter into a joint venture or other arrangement that identifies the responsibilities and liabilities of each with regard to the operation, maintenance, renewal and decommissioning of Common Purpose Facilities (CPF), as well as an interconnection agreement which governs such matters as water supply transfers between the East and West Zones and boundary definitions and identifies the responsibilities and liabilities of parties with regard to the management, operation and maintenance of certain interconnection facilities. Pursuant to this, the Concessionaires entered into the Common Purpose Facilities Agreement and the Interconnection Agreement in July 1997.

The Regulatory Office of MWSS

The Concession Agreement also provided for the establishment of the MWSS Regulatory Office (MWSS –RO) under the jurisdiction of the MWSS Board of Trustees (MWSS-BOT), to monitor the operations of the Concessionaires. The MWSS-Regulatory Office is composed of five members with five-year term, and no member of the MWSS-Regulatory Office may have any present or prior affiliation with MWSS, the Company, or Maynilad. The MWSS-Regulatory Office is funded by MWSS through the concession fee payments of the concessionaires. The Concession Agreement provides that major disputes between the Company and the MWSS-Regulatory Office be referred to an appeals panel consisting of two (2) members appointed by each of the MWSS-Regulatory Office and the Company and a third member appointed by the Chairman of the International Chamber of Commerce. Under the Concession Agreement, both parties waive their right to contest decisions of the appeals panel through the courts.

Key Performance Indicators and Business Efficiency Measures

The Concession Agreement initially set service targets relating to the delivery of services by the Company. As part of the Rate Rebasing exercise that ended on December 31, 2002, the Company and MWSS mutually agreed to amend these targets based on the Company's business and capital investment plan accepted by the MWSS-Regulatory Office. In addition, the Company and MWSS adopted a new performance-based framework. This performance-based framework, designed to mimic the characteristics of a competitive market and help the MWSS-Regulatory Office determine prudent and efficient expenditures, utilizes Key Performance Indicators (KPI) and Business Efficiency Measures (BEM) to monitor the implementation of the Company's business plan and will be the basis for certain rewards and penalties on the 2008 Rate Rebasing exercise.

Fourteen KPIs, representing critical performance levels for the range of activities the Company is responsible for, relate to water service, sewerage and sanitation service and customer service. The BEMs are intended to enable the MWSS-Regulatory Office to evaluate the efficiency of the management and operation of the concessions and gauge progress toward the efficient fulfillment of the concessionaires' business plans. There are seven (7) BEMs relating to income, operating expenses, capital expenditures and NRW. The BEMs are evaluated for trends and annual forecasts.

Amendments to the Concession Agreement

The Concession Agreement was amended under *Amendment No. 1 to the Concession Agreement* executed on October 26, 2001 ("Amendment No. 1"). Amendment No. 1 adjusted water tariffs to permit adjustment for foreign exchange losses and reversal of such losses, which under the original Concession Agreement were recovered only when the concessionaire petitioned for an Extraordinary Price Adjustment (EPA).

The Concession Agreement was further amended under the Memorandum of Agreement and Confirmation executed on October 23, 2009 wherein the Company and the MWSS agree to renew and extend the Concession Agreement for an additional period of fifteen (15) years from the year 2022 or until 2037, under the same terms and conditions.

Organization

The Organizational structure of the Company has the objective of decentralizing the locus of operating control to the Senior Leadership Team composed of the President and Chief Executive Officer, the Chief Operating Officer for Manila Water Operations, the Chief Operating Officer for New Business Operations and New Business Development, and the Chief Finance Officer and Treasurer.

A. The Manila Water Operations

Manila Water Operations (MWO) is responsible for the East Zone Business Operations and the Company's Corporate Support Functions. It is headed by the Chief Operating Officer for Manila Water Operations.

The **East Zone Business Operations** (EZBO) is responsible for ensuring that the Company meets the demand of all the customers in the East Zone, managing the drivers for revenue growth, delivering customer service, and building and maintaining community and stakeholder relationships. It is composed of the East Zone Business Area Operations, and East Zone Business Support.

- The **East Zone Business Area Operations** consists of the six (6) Business Areas (BAs), which were previously eight (8) until January 2017. Balara and Cubao merged into now the Quezon City Business Area, and Mandaluyong and Makati into now the Mandaluyong-Makati Business Area. The rest of the BAs—Marikina, Pasig, Rizal and Taguig—remained as separate operating units. The area of operations of this Division covers the major business districts in Quezon City, Makati, Ortigas and Taguig, as well as the entire province of Rizal. The BAs are directly responsible for the processing of application for new water service connections, management of meter reading, billing and collection activities, and facilitation of complaints resolution and other after sales services, which form part of the end-to-end process of account management. They are also tasked to find specific business opportunities from different market segments. Their key mandates, as such, include the management of customer demand, differentiating touchpoints per customer type aligned with the specific needs of the customers and key accounts, geared towards achieving company targets on billed volume, revenue and customer centricity.

- The **East Zone Business Support Division** is composed of four (4) departments: Demand Forecasting and Total Management System (TMS) Management, Billing and Collection, Customer Service and Stakeholder Management, and Program and Policy Development.
  i. The Demand Forecasting and TMS Management Department is responsible for revenue management, demand forecasting, provision of systems and analytical tools and performance management of all EZBO employees.
  ii. The Billing and Collection Department ensures efficient meter reading to deliver quality customer bills. It also provides collection support to the business areas through service provider management and payment facilities sourcing.
  iii. The Customer Service and Stakeholder Management Department reviews and enhances customer service processes and standards aimed to drive customer satisfaction. It regularly monitors customer centricity metrics to ensure that all customers' concerns are attended to efficiently and effectively.
  iv. The Program and Policy Development Department handles policy development and compliance as well as various engagement initiatives for the Group such as the EZBO rewards and recognition programs.

- The Business Areas and HQ departments aim towards driving the growth of the business, providing customer service at the grassroots, and building relationships with the community to ensure achievement of regulatory targets in terms of delivery of quality service to Manila Water customers.

The **Corporate Support Functions** are responsible for providing support to the entire organization. It leads in the development of enterprise-wide policies, plans, and programs. The following are the Corporate Support Functions:

a. The **Corporate Operations Group** (COG) operates and maintains all of Manila Water's water and used water facilities. It constantly seeks ways to further improve the efficiency and reliability in managing all of Manila Water's facilities by developing high quality engineering standards, delivering innovative technology solutions and support, exploring new technologies and promoting a culture of a safe work environment while remaining compliant to environmental and regulatory standards. The COG is composed of Water Supply Operations, Used Water Operations, Corporate Business Resiliency, Operations Services and Technical Services.

   - From the La Mesa Dam, **Water Supply Operations** manages the water treatment facilities, pumping stations, service reservoirs, and the primary and distribution lines to provide 24/7 water supply at a reliability level of, at least, 99.99% while maintaining 100% compliance in water quality as defined in the Philippine National Standards for Drinking Water. It is also responsible for ensuring that water supply meets demand by means of accurate forecasting from source to production, despite variability in consumer demand or environmental pressures.

     The Water Supply Operations, in cooperation with counterparts from Maynilad, manages the **Water Source or the Common Purpose Facilities (CPF)**, which includes headworks upstream of the La Mesa Dam (Angat Dam, Ipo Dam and the Novaliches portals). Water Source ensures that sufficient raw water allocation is maintained throughout the year.

   - **Used Water Operations** manages the used water treatment facilities and lift stations to ensure that treated used water discharge is consistently compliant to environmental standards and is responsible for implementing the used water service expansion plan.

   - The **Corporate Business Resiliency** (CBR) function is committed to developing a culture of preparedness, resiliency and continual improvement towards a world-class water service company, thus ensuring coordination, integration and alignment of national, local and company emergency plans and protocols. CBR enables Manila Water to immediately respond to emergencies, especially when there is a need to provide potable water to disaster-stricken areas. Through CBR, Manila Water is able to extend help even beyond its concession area by providing mobile water treatment assistance to various areas in the country. Moreover, since Manila Water operates a regulated business and by the nature of its business, it is exposed to threats that may disrupt major services, the Company adapted the ISO 22301:2012 – Societal Security – Business Continuity Management System. Under this system, Manila Water plans, establishes, implements, operates, monitors, reviews, maintains and continually improves a documented management system to protect against, reduce the likelihood of occurrence, prepare for, respond to, and recover from disruptive incidents when they arise.

   - **Technical Services** is composed of four (4) departments: the Laboratory Services, Systems Analytics, Energy and Innovations Departments.
     (1) The **Laboratory Services** collects water samples daily from strategically located sampling points all over the East Zone from water treatment facilities to the distribution and effluent samples from all used water facilities. The samples are tested for physical, chemical and microbiological parameters to ensure true world-class standards. Aside from being recognized by the Department of Health (DOH) and the Department of Environment and Natural Resources (DENR), the Laboratory is also ISO standards certified (ISO 17025, ISO 9001, ISO 14001, and OHSAS 18001). The department also actively contributes to process optimization towards improved operational control and efficiency.
     (2) **System Analytics Department** facilitates operational data flow, consolidation, analytics and general information architecture and provides relevant and timely notification, reporting, and escalation of operational information through the Operations Communications Center.
     (3) The **Energy Department** monitors power consumption and recommends power-efficiency measures. It also develops and implements strategies for the Company to avail of advantageous power rates in all its facilities.

(4) The **Innovations Department** drives the enhancement of an innovative culture and the delivery of new or higher gains from core innovations or innovations related to water and used water operations towards better, more efficient delivery of outputs and services.

- Under **Operations Services** are four (4) departments: the Operations Management, Sustainability, Maintenance Services and Fleet Management Departments:
  (1) The **Operations Management Department** strategizes a unified management system to ensure the effectiveness and efficiency of group targets and programs. Operations Management is accountable for the ISO certifications (Quality, Environment, Health and Safety) and serves as a framework in order to produce and promote well-balanced implementation of all policies and processes across the Corporate Operations Group including specific requirements of international standards (ISO 9001, ISO 14001, and OHSAS 18001). The department also ensures efficiency through continuous process improvement as well as financial and operational performance management.
  (2) The **Sustainability Department** ensures that Manila Water's implementation of projects and operations of facilities are compliant with current environmental regulations and aligned with the Company's sustainability commitments. It incubates sustainability programs such as resource efficiency, communications and advocacy initiatives that are intended for institutionalization among the responsible business units. The department keeps track of the material sustainability indicators of the enterprise and in coordination with Investor Relations, is responsible for the preparation of the Company's annual Integrated Report.
  (3) **Maintenance Services** is responsible for ensuring that assets of Manila Water are working efficiently. This includes the monitoring, maintenance, repair, and/or replacement of assets and components that sustain the efficient operation of all operational, ancillary and office facilities. MSD efforts seek to enable the company to maintain efficient costs of Repair and Maintenance while maximizing the life expectancy and intended functionality of assets.
  (4) The **Fleet Management** is responsible for the dispatch and maintenance of Company vehicles and equipment. It also provides vehicle assistance during incidents / emergencies and special events of the Company.

b. The **Corporate Human Resources Group** (CHRG) is organized into seven (7) core functions: Talent Management and Leadership Development, Manpower Planning and Organization Development, Total Rewards Management, HR Operations Management, Employee Engagement, HR Project and Change Management, and HR Business Partnering.
- The **Talent Management and Leadership Development** Department is responsible for training and development, talent management and succession, performance management, competency and knowledge management.
- The **Manpower Planning and Organization Development** Department is responsible for manpower planning, organization and job design, and staffing.
- The **Total Rewards Management** Department handles the design of rewards programs.
- **HR Operations Management** Department is responsible for the HR Information System and HR service delivery functions which includes compensation and benefits administration, and wellness management (covers employee wellness and occupational health programs).
- The **Employee Engagement** Department handles employee relations (employee engagement strategies and programs across the organization) and labor relations (employee grievances, employee discipline and programs involving the labor union).
- **HR Project and Change Management** Department is responsible for talent and organizational change management, and the HR project management.
- The **HR Business Partners** are responsible for providing business-focused HR solutions to stakeholders.

c. The **Corporate Information Technology Group** (CITG) is responsible for providing innovative technology solutions that support the Company's initiatives towards greater efficiency and growth. It is composed of five (5) Departments: IT Governance, Information Security, Infrastructure Planning and Delivery, Solutions Planning and Delivery, and Service Management.[1]
- The **IT Governance** Department handles the governance functions on program management, financial planning and control, risk management and other IT processes.
- The **Information Security** Department is in charge of developing and enforcing the enterprise-wide IT security strategies, policies, standards, procedures and awareness program, and ensuring compliance with relevant information security standards. It also implements and maintains technical and procedural controls to protect information flow across networks.

[1] Effective as of February 2017.

- The **Infrastructure Planning and Delivery** Department looks after the infrastructure planning and design, infrastructure deployment, and data network connectivity, and carries out demand management, project management and delivery of IT infrastructure projects.[1]
- The **Solutions Planning and Delivery** Department is responsible for the development and maintenance of all projects and systems supporting the business. It is in charge of identifying, designing, and delivering technology solutions and applications that support the success of the business.[2]
- The **Service Management** Department oversees the day-to-day operations of CITG including the availability, performance, and capacity of CITG resources. It is responsible for the development of tactical plans in the deployment of hardware, operating systems, and data networks, in order to meet business-driven service levels and business continuity requirements.

d. The **Corporate Project Management Group** (CPMG) is tasked with the planning, design and construction of all water, used water and network capital projects that are crucial for the Company to achieve regulatory commitments as stipulated in the Concession Agreement and Rate Rebasing plans. The careful delivery of projects, strict adherence to the target timelines, prudent and efficient cost and highest standards of quality and safety, is the basis for the achievement of corporate business objectives aligned with the sustainable expansion of services that improve people's lives and support regional economic growth. CPMG is organized for an integrated, collaborative approach to project execution. It is composed of seven (7) departments namely: Project Management, Construction Management, Engineering, Project Management Office, Project Stakeholder Engagement, Quality Assurance, and Safety Solutions.
   - The **Project Management Department** is entrusted to manage the whole project-life cycle of capital expenditure programs of the Company. The department ensures timely, cost-efficient and quality delivery of all planned infrastructure projects.
   - The **Construction Management Department** is tasked with managing the multi-billion project portfolio of the Company. Construction Managers (CMs) are accountable for keeping the project in line with time, cost and quality, safety and environmental standards by leading a cross-functional team that manages the numerous interconnected components of execution.
   - The **Engineering Department** ensures the compliance of projects to established engineering standards by reviewing design concepts and cost estimates; conducting preliminary and detailed design, as necessary; spearheading the technical evaluation of technical proposals during bidding; design submissions during execution; and developing high-quality and cost-effective engineering standards that are used across the business. It is also at the forefront of studying the latest construction technologies and methodologies in view of value-engineering.
   - The **Project Management Office** is responsible for (1) project control functions to support construction projects, (2) implementation of integrated project management system and facilitation of continuous improvement initiatives, (3) strengthening of project information and analytics, and (4) building systems to ensure project construction documentation and control.
   - The **Project Stakeholder Engagement** Department ensures that the projects have the support of critical stakeholders such as local governments, national agencies and the public through proactive project pre-selling and relationship building that ensure timely and smooth resolution of any project concerns.
   - The **Quality Assurance** Department is in charge of the development and implementation of quality management procedures and system across CPMG through (1) process documentation, including policy formulation and system rollout, (2) management of the Quality Execution Academy and, (3) review/analysis of quality execution metrics/statistics for continuous improvement of CMs.
   - The **Safety Solutions** Department performs a vital role in ensuring that not only are Manila Water employees empowered to work safely, but also ensures that vendors and contractors are well-trained in keeping worksites safe for employees and the general public, especially during construction activities. This utmost regard for a safety environment and mindset has top management support and carried-out by its employees and contractors/vendors.

e. The **Strategic Asset Management Group** (SAMG) was formed to help the Company achieve the optimal and sustainable delivery of services and profitability through the efficient and effective management and development of assets. The group is mandated to provide a comprehensive, holistic and integrated master plan that will address capital investments both for water and used water systems, the operation and maintenance of existing and new assets, and the rationalization and disposal of surplus assets.

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[1] Effective as of February 2017
[2] Effective as of February 2017

To deliver these services, SAMG is organized into six (6) departments namely, (1) Value Assurance, (2) Portfolio Management, (3) Strategic Asset Planning, (4) Asset Management (5) Asset Investment and Management Support and (6) Water Sources and Environmental Planning.

- The **Value Assurance** Department provides a holistic approach that will help ensure the delivery of the programs/projects' ultimate goals through value analysis and risk assessment that facilitate faster decision-making and thus optimize capital expenditures/life cycle costs and satisfy stakeholders.
- The **Portfolio Management** Department is tasked to deliver the overall corporate capital expenditure portfolio according to the approved corporate master plan. The department manages the overall portfolio performance, identifies the right mix of projects to maximize overall benefits, and meets regulatory and business goals. The department provides comprehensive analysis for portfolio impact assessment and investment, recommending changes and adjustments required to meet the objectives. It ensures that project-related issues are corrected in a timely manner.
- The **Strategic Asset Planning** Department is entrusted to strategically plan, develop and calibrate the water and used water master plan, and capital and operational expenditure programs for all the businesses of the entire enterprise through conducting concept studies to determine the annual project list and providing technical justification for the approval of the corporate master plan.
- The **Asset Management** Department is in charge of optimizing financial and operational performance of assets at the least cost through risk-based, data driven strategies to deliver the Company's service obligations.
- The **Asset Investment and Management Support** Department provides assistance to the whole group on policy development, process improvement and implementation of programs to enhance project life cycle and asset management principles. It also provides comprehensive analysis for capital investments to aid in the attainment of the Company's business and regulatory commitments.
- The **Water Sources and Environmental Planning** Department is responsible for the development of new water resources and environmental master plan for all the businesses of the entire enterprise.

f. The **Corporate Regulatory Affairs Group** (CRAG) is mandated to (1) lead the planning and development of the East Zone rate rebasing submission and Rate Rebasing Readiness Program, (2) engage different groups within the MWO in the aligned execution of the MWSS-approved East Zone business plan, (3) advocate with MWSS and other key government/private/non-government organizations to advance the Company's policy interests, (4) provide political-regulatory management support services to the entire organization, and (5) conceptualize, develop and implement major Company political-regulatory initiatives.

The said mandates are carried out through four (4) departments, namely: the Business Operations Regulation (BOR) Department, the Financial Regulation (FR) Department, the Technical Regulation (TR) Department and the Public Policy Department. The Group, particularly through the Group Head and members of the BOR, FR and TR Departments, interface with the MWSS on matters relating to the Concession Agreement. It includes submitting reports and disclosures relating to compliance, handling negotiations with the MWSS relating to the Company's service targets, and distilling information from the Company's other groups to produce and periodically update financial projections (the bases for petitions submitted to the MWSS for quarterly, annual, and five-year tariff adjustments. The Public Policy Department handles matters related to public policy (e.g. preparation of policy position papers and attendance in various policy fora/dialogues, hearings) and relations with key government and non-government offices.

g. The **Corporate Strategic Affairs Group** (CSAG) is responsible for creating consistent corporate messaging and harmonizing communication channels that are aligned with the Company's objectives in order to enhance its image and reputation and effectively connect with various customers and stakeholders. The group is composed of two (2) departments: the Advocacy and Research Department and the Corporate Communications Department.

- The Advocacy and Research Department handles the 'Lakbayan' or Water Trail program as the Company's information, education and communication program on water and used water appreciation. It also handles environmental advocacy programs such as 'Toka Toka' which is the country's first and only environmental movement focused on used water management. It is also in charge of building and differentiating the Manila Water brand through strategic communications research and development, and visual standards management.

- The Corporate Communications Department handles the execution of the Company's strategic as well as tactical and crisis communication programs through publicity, events and other stakeholder services. The department handles all Company publicity in the media (TV, radio, print and below-the-line), as well as media planning, relations and engagement. It is also responsible for ensuring a well-informed workforce through the development and implementation of relevant internal communications. Lastly, it handles the company's digital media platforms on social media and web.

B. The New Business Operations and New Business Development Group

The New Business Operations and New Business Development Group is focused on existing products and services leveraging on expanding the core business to new geographies in the country and in Vietnam, Indonesia and Myanmar markets. These products and services are intended to be implemented through its wholly-owned subsidiaries, MWPV and MWAP, to ensure sustained growth beyond the East Zone. The strategic mandate of these groups is to expand the business throughout the Philippines and in the ASEAN region. The geographical expansion is anchored on the core competencies of the Company which have already been proven through its subsidiaries, Laguna AAAWater Corporation, Clark Water Corporation, Boracay Island Water Company, Inc., and Cebu Manila Water Development, Inc., all under the MWPV. In addition, MWPV also has its own operations through its operating division, Estate Water (EW), which has been created to implement projects with strategic partners.

The Manila Water Group has likewise gained traction in Ho Chi Minh City, Vietnam, through the MWAP Singapore subsidiaries (Manila Water South Asia Holdings Pte. Ltd., Kenh Dong Water Holdings Pte. Ltd., Thu Duc Water Holdings Pte. Ltd., and North-West of Saigon Holdings Pte. Ltd.) and affiliates/associates in Vietnam (Kenh Dong Water Supply Joint Stock Company, Thu Duc Water B.O.O. Corporation, Saigon Water Infrastructure Corporation, Asia Water Network Solutions Joint Stock Company, and Cu Chi Water Supply Sewerage Company Limited).

Both MWPV and MWAP have their own new Business Development units who are responsible for identifying and pursuing new business opportunities in the Philippines and in the ASEAN region. Zamboanga Water Company, Inc. and Tagum Water Company, Inc., are the recent joint ventures of the Company with local water districts for implementation of non-revenue water reduction program and bulk water supply project, respectively.

Finally, MWTS, a wholly-owned subsidiary of Manila Water, handles the after-the-meter products and services, and is in the business of producing and marketing the five-gallon packaged water in Metro Manila, under the Healthy Family Purified Drinking Water brand.

C. The Corporate Finance and Governance Group

The **Corporate Finance and Governance Group** (CFGG) is headed by the Chief Finance Officer and Treasurer. The Group is composed of five (5) divisions – Controllership, Accounting and Planning Division, Treasury and Enterprise Risk and Insurance Management Division, Supply Chain Division, Legal and Corporate Governance Division, Finance and Governance for Subsidiaries – and two (2) departments, Corporate Planning, and Internal Audit.

- The Controllership, Accounting and Planning Division is composed of the Controllership and Analysis Department, Financial Accounting Department, the Fixed Assets, Project and Regulatory Accounting Department, and the Financial Planning Department. The division provides controllership and management reporting, financial and regulatory accounting, investor relations and financial planning services.

  i. The Controllership and Analysis Department supports top management's decision-making processes through the provision of timely financial information and analysis, coordinated budget planning activities, and periodic review against plans of the Manila Water Operations and the Parent Company. The department is also responsible for the setting and management of financial related policies and performance management of the CFGG as well as handling special projects involving process and systems improvements.

  ii. The Financial Accounting Department maintains and safeguards the integrity of the Company's computerized accounting system, books of accounts and processes to ensure the preparation of accurate and timely financial reports for the purpose of providing management, regulators and other stakeholders with financial information reflective of the Company's true financial performance and condition. The department is ISO 9001:2015 certified and implements a Quality Management System which assures the consistent application of relevant accounting standards, policies, regulations and rules aimed at the continuous improvement of its processes.

iii. The Fixed Assets, Project and Regulatory Accounting Department is a multi-disciplinary group playing a key role in the Company's regulatory compliance with MWSS and the BIR. It is responsible for providing management and the regulators with timely reports that are in compliance with all applicable accounting and regulatory standards. In line with the Company's obligations as a concessionaire of the East Zone, it maintains records of the acquisition, status, and disposal/transfer of all fixed and movable assets of the Company. The department provides appropriate safeguards on disbursements of the Company and ensures that payments for goods and services are carried out in accordance with contractual requirements, and consistent with internal policies and tax requirements. It is also responsible for the financial monitoring of capital projects as well as the secretariat function of the Capital Investment Committee.

iv. Financial Planning Department is responsible for overall budget preparation and monitoring of the Manila Water Group. It provides financial analysis and reporting of the financial and operating performance of the enterprise. The department is responsible for the preparation of the long term financial plans of the Metro-Manila East Zone concession and the consolidated Manila Water Group. The department monitors the performance of the various businesses of Manila Water and their contribution to the enterprise. It also provides financial advisory support to business development, capital investments, and other corporate initiatives. It handles the secretariat function of the New Business Investment Committee.

- The Treasury and Risk Management Division is composed of two (2) departments: Treasury Department, and Enterprise Risk and Insurance Management Department. The division is responsible for the effective management of the Company's cash resources and financing activities, and sustained implementation of enterprise risk and insurance programs. The division also provides treasury and risk advisory services across the organization.

i. The Treasury Department is responsible for the effective management of the Company's cash resources and financing activities, as well as the inherent risks associated with it. In carrying out its functions, the Department maintains a sustainable and mutually beneficial relationship with the banking community. The Treasury Department is ISO 9001:2015 certified. Through its ISO certification, the Department expects a more globally competitive treasury management through improved transparency of operations in accordance with corporate governance standards, optimized resource usage, and increased customer satisfaction.

ii. The Enterprise Risk and Insurance Management Department is responsible for the sustained implementation of the Enterprise Risk Management program of the Manila Water Group and ensures that key risks are identified and managed by the respective risk owners. It is also responsible for managing the insurance programs of the Enterprise and for providing oversight of the insurance programs of the subsidiaries with the objective of making the programs cost-effective, risk-based and responsive to the Group's needs. The integration of risk management with insurance ensures the effective development and application of risk transfer strategies for the Enterprise and its projects. The Insurance Management Section has established ISO 9001:2015 compliant policies and procedures, certified last 2016 and maintained its certification for 2017. The department is headed by the Chief Risk Officer and reports functionally to the Board Risk Oversight Committee and administratively to the Chief Finance Officer and Treasurer.

- The Supply Chain Division is composed of three (3) departments: Procurement and Contracts Management, Materials Planning and Inventory Management, and Supply Chain Services. It provides supply planning, inventory, procurement and vendor management services across the Enterprise.

i. The Procurement and Contracts Management Department handles the acquisition of goods and services to support the East Zone concession. Adhering to the highest standard of integrity and transparency, the Department is responsible for procuring services, materials and supplies with due consideration to quality, efficiency and cost-effectiveness. As ISO 9001:2015-certified department, it carries out the procurement function by strictly complying with applicable governance rules and regulatory guidelines. It also continually improves its processes to adapt to changing market conditions and business needs thus ensuring that the Company achieves best value through strategic procurement and supply chain management.

ii. The Materials Planning and Inventory Management Department is responsible for the strategic supply/inventory planning and inventory management to ensure the adequate and timely provision of critical supplies and materials for the Company's operations and project requirements. The department has established policies and procedures to respond to the requirements in a fast-paced environment aligned with the corporate goals and business needs with due regard to good governance. The Materials Planning and Inventory Management Department is ISO 9001:2015 certified.

iii. The Supply Chain Services Department handles the procurement and vendor requirements of all the non-East Zone businesses of Manila Water. It employs strategic sourcing and an efficient supply management approach to address the requirements of each business. It also builds the procurement capabilities of the operating subsidiaries to enable them to handle transactions at the local level. Finally, it manages the vendor database of Manila Water and provides relevant vendor information to the procurement teams and various stakeholders of Manila Water.

- The Legal and Corporate Governance Division is composed of the Legal and Corporate Governance Department and the Tax Management Department. The division provides legal services, tax advisory, land acquisition and right-of-of way services, and corporate governance guidance to the Company and its subsidiaries.

i. The Legal and Corporate Governance Department provides legal services, advice and support across the entire organization. It proactively ensures that the Company is fully compliant with all the applicable laws, rules and regulations, and defends and protects the Company's interests in the courts, administrative agencies and other tribunals. It is also responsible for the drafting and reviewing of contracts and other legal documents to ensure that they are advantageous to the Company and do not infringe any law, domestic or foreign, or any government rules and regulations. Its functions likewise include the provision of guidance and assistance through the entire process of acquiring properties, maintenance of existing rights-of-way, and acquisition of rights-of-way required for the implementation of water and wastewater projects. In matters of corporate governance, the Legal Department ensures that the Company adheres to the compliance, reporting and disclosure requirements of the Securities and Exchange Commission and the Philippine Stock Exchange for publicly listed companies, and to international standards of good corporate governance and practices. The department continuously orients all employees and business partners regarding the Company's governance policies, particularly on matters relating to fair business dealings as well as the prompt and adequate disclosure of material information. It also provides corporate secretarial services to the Board of Directors and the Board Committees and assistance to the Office of the Corporate Secretary in the preparation and conduct of the stockholders' meeting and board meetings.

ii. The Tax Management Department provides strategic assistance to the different business and support units of the Company on matters relating to all taxes and tax incentives applicable in the Company's operations and growth initiatives. The department also provides a focused analysis, interpretation and application of relevant tax laws, rules and regulations and advocates for process and policy improvements to ensure compliance with all reportorial requirements of the Bureau of Internal Revenue, Board of Investments, and pertinent local government units and government agencies.

- The Finance and Governance for Subsidiaries Division leads the finance and accounting operations of MWPV and its subsidiaries, MWAP and its subsidiaries, and Manila Water Total Solutions. The division ensures the preparation of accurate and timely financial reports, as well as the implementation of effective financial systems and controls in all non-East Zone entities. The division also leads all financial aspect of the new business development initiatives including, but not limited to, financial modelling, valuation computations, financial due diligence and capital structuring. It is also responsible for building the capability of the new businesses to be able to manage and perform all finance-related operations such as, but not limited to, accounting, treasury, procurement, policy development, risk management and tax management.

The other departments which report directly to the Chief Finance Officer and Treasurer are as follows:

- The Corporate Planning Department is responsible for providing timely, objective and sound insight/advice to senior management on strategic decisions and related matters. Corporate Planning supports top management in charting the strategic roadmap of the Enterprise, and in aligning the execution of its various initiatives. This support is extended to the rest of the organization through the development and provision of market and industry information; coupled with the prioritization and alignment of action plans through the Enterprise Performance Management System. Equally important, Corporate Planning provides support to the actual execution of Enterprise strategies through the Enterprise Program Management Office (EPMO) – which oversees the execution, and manages the inter-dependencies of Enterprise projects. Finally, through the Investor Relations team, Corporate Planning manages the effective communication of the Enterprise state and strategy, both to investors and the market at large.

- The Internal Audit Department provides independent and objective assurance and consulting services and evaluates the effectiveness of the Enterprise's risk management, control and governance processes. The department reports functionally to the Audit Committee (AC) and administratively to the Chief Finance Officer and Treasurer. It supports the AC in the effective discharge of its oversight role and responsibility, and provides the management and the Board of Directors, through the AC, with analyses, recommendations, advice and information concerning the activities and processes reviewed. In 2017, the external auditing firm Punongbayan & Araullo conducted an independent validation of the internal audit function's Quality Assessment Review (QAR) and concurred that the internal audit activity "Generally Conforms" to the Standards.

Water Operations

The whole water supply chain generally involves the abstraction of water from water sources, treated subsequently through the water treatment facilities, and conveyed and distributed to customers through the Company's network of pipelines, reservoirs, and pump stations. In 2016, the concession supplied an average of 1,462 million liters per day (MLD) of clean and potable water to its customers and billed a corresponding volume of 476.03 million cubic meters (MCM). This is equivalent to a total of 1.009 million water service connections or approximately 6.5 million served population.

Water Source

Under the Concession Agreement, MWSS is responsible for the supply of raw water to the Company's distribution system and is required to supply to the Company a maximum quantity of water, currently pegged at 1,600 MLD. In case MWSS fails to supply the required quantity, the Company is required to distribute available water equitably.

The Company substantially relies on surface waters coming from the Angat River System. The principal river, Angat River, originates from the Sierra Madre Mountains. It has three major tributaries namely the Talaguio, Catmon and Matulid Rivers. The surface waters from these sources are collected and impounded through the Angat Dam, conveyed subsequently through the Ipo Dam where water is diverted through tunnels to Bicti and Aqueducts to La Mesa.

To date, only a very small amount of the Company's water supply is still ground-sourced through deep wells, which are primarily for the benefit of customers in the remotest towns of the Province of Rizal wherein conveyance from the existing treatment plants would be impractical.

Water Treatment

Raw water is stored at the La Mesa reservoir located immediately downstream of the Novaliches portal interconnection before going to the three (3) major treatment plants - two (2) of which are in Balara located seven (7) kilometers away from the reservoir and the third is nestled just at the northeast of La Mesa Dam.

The Balara treatment plants have a total design capacity of 1,600 MLD and consist of two (2) separate treatment systems: Balara Filter 1 which was commissioned in 1935 having a design capacity of 470 MLD and Balara Filter 2 which was commissioned in 1958 with another 1,130 MLD.

The East La Mesa Treatment Plant, on the other hand, is located in Payatas, Quezon City. Relatively new to the system, the facility began its operation in June 2012. It has a capacity of treating 150 MLD of water. It supplies water to far-flung expansion areas in the Rizal province, improving the supply balance of the entire network.

The treatment process in these plants involves coagulation, flocculation, sedimentation, filtration and chlorination. The facilities consume higher quantities of chemicals during the rainy season when the turbidity of raw water increases, which consequentially leads to increased costs of treatment operations.

Water Distribution

After treatment, water is conveyed through the Company's network of pipelines, pumping stations and reservoirs, and mini-boosters to bring potable water to its customers conveniently at set pressure standards. To date, 99 percent of currently served areas have a water supply pressure of 7 psi and above - made possible by the continuous implementation of technical solutions such as supply and pressure management.

As of December 31, 2016, the Company's network consisted of approximately more than 5,093 km of total pipeline, comprising of primary, secondary and tertiary mains ranging in diameter from 50 to 2,200 mm. The pipes are made of steel, cast iron, high-density polyethylene (hdpe), polyvinyl chloride (pvc) and other materials. From the start of the concession in 1997 until the end of 2016, the Company has laid almost 4,800 km of pipeline for service expansion or pipe replacement or rehabilitation.

Pumping stations also play a critical part in water distribution. Approximately 61% of the treated water supplied by the Company is pumped to ensure pressure compliance especially for the highly elevated areas. Currently, the Company operates nineteen (19) pumping stations with a combined maximum pumping capacity of 3,000 MLD and an average plant output of around 1200 MLD. Most of the major pumping stations have reservoirs with a combined capacity of almost 400 MLD.

The Company operates sixteen (16) line boosters in order to reach the fringe areas, which are quite distant from the treatment plants. Line boosters typically are small facilities aimed at augmenting water supply for areas that are not sufficiently supplied during the regular pumping operations of the pump stations.

Non-Revenue Water (NRW)

NRW refers to the volume of water lost in the Company’s distribution system due to leakage, pilferage, illegal connections and metering errors. As determined by the MWSS-Regulatory Office, NRW is calculated as the percentage of water lost against the net volume of water supplied by the Company.

Over the years, the Company has delivered remarkable strides in managing its NRW. The concession started with a high system losses of 63% in 1997. In 2010, its NRW level is reduced to and maintained at just 11%. Yearend figure for 2016 recorded the lowest NRW level for the concession at 10.81%. The significant improvements in the Company’s system losses were accomplished through effective management of water supply coupled with massive pipe replacement projects.

Water Quality

Since 1998, the Company’s water quality has consistently surpassed the Philippine National Standards for Drinking Water (PNSDW) set by the Department of Health (DOH) and based on World Health Organization (WHO) water quality guidelines. The Company’s rating is based on a series of tests conducted regularly at more than 854 regulatory sampling points within the East Zone as of December 31, 2016 (2.6% higher than the PNSDW requirement of 832). The Company’s water samples scored an average bacteriological compliance of 100%, surpassing the threshold of 95% set in the PNSDW. In 1997, when the concession began, only 87% of water samples complied with these quality standards.

The Company collects and tests samples for microbial examination and physico-chemical examination from its surface water sources, (Angat, Ipo, Bicti and La Mesa reservoirs), ground water sources (deepwells), water treatment plants and distribution points based on frequencies as required in the standard.

Water quality at the Company’s water treatment plants undergoes daily microbial (bacteriological) and physico-chemical analysis and consistently is 100% compliant on the basic and health significant parameters required in the PNSDW. Regulatory sampling points are designated at strategic locations across the distribution system - where sampling is conducted daily by the Company. The MWSS-Regulatory Office, Local Government Units (LGUs) and DOH likewise collect random samples from these designated sampling points and have them tested by third party laboratories and designated government laboratories. The results are consistently beyond the 95% as set in the PNSDW.

The samples collected are tested at Manila Water's own Laboratory, which is accredited by the DOH and a recognized EMB-DENR testing laboratory. The Laboratory has also gained its recognition as an ISO/IEC 17025:2005 accredited laboratory (meeting the principles of ISO 9001:2008 obtained by the Company's laboratory for water/used water testing and sampling in October 2006) granted by the Philippine Accreditation Office, Department of Trade and Industry (DTI). These recognition and accreditations subject the laboratory to regular surveillance audits. Consistently, the Laboratory has gained excellent and satisfactory ratings on most proficiency testing programs it has participated through local and international proficiency testing program providers. In 2010, the Laboratory also gained certifications for ISO 9001:2008, ISO 14001:2004 and OSHAS 18001:2007. These recognitions have gained the confidence of the MWSS-Regulatory Office, the DOH and DENR in the tests results that are regularly provided to them.

Sewerage Operations

The Company is responsible for the provision of sewerage and sanitation services through the operation of new and existing sewerage systems and a program of regular maintenance of household septic tanks in the East Zone.

Sewerage and Sanitation System

Since 1997, the Company has significantly improved and expanded the limited used water infrastructure originally operated and maintained by the MWSS. Sewerage services are provided in areas where treatment facilities are available. Sewered areas currently include Quezon City and Makati. Parts of Manila, Taguig, Cainta, Pasig and Mandaluyong are also connected to sewer networks.

The Company had few facilities for sewerage services in 1997. The Sewage Treatment Plant (STP) in Magallanes Village was then the largest treatment facility in the country with a 40 MLD capacity. The STP in Magallanes provides sewerage services to the Makati central business district and some residential villages. Prior to privatization, this facility had poor treatment efficiency and did not meet effluent quality standards. The Karangalan Bio-module in Karangalan Village was serving approximately 100 households but also produced substandard effluent quality before 1997. In addition to these facilities, an Imhoff tank in Phil-Am Village and thirty-one communal septic tanks (CSTs) in Quezon City were also turned-over by the MWSS to Manila Water in 1997. These facilities were then serving approximately 19,000 households only. Manila Water upgraded these facilities to meet the effluent standards set by the DENR.

In 2001, the Company constructed two (2) pilot package plants to determine if they were feasible in terms of social, financial, and environmental aspects. These are located in Valle Verde Homes, Pasig, one of which serves approximately 100 households and another serves some 400 households of the housing project in Makati together with approximately 4,000 students and employees in Rizal Elementary School.

With the success of the two (2) pilot STPs, the Company implemented the Manila Second Sewerage Project (MSSP) funded by World Bank. Under the MSSP, twenty-six (26) STPs were constructed. Sixteen (16) of these STPs were formerly CSTs and the rest are on-site STPs for medium and high rise housing establishments and for the University of the Philippines campus. Takeover and upgrade of the STP in Diego Silang, Taguig was also part of the MSSP.

As part of its commitment to expand this service, the Company constructed and subsequently operated in 2008 under the Manila Third Sewerage Project (MTSP) two (2) Septage Treatment Plans (SpTPs) aimed at managing septic tank materials siphoned from the East Concession customers. A total of 77 desludging trucks are available daily for deployment to ensure the desludging service is rendered to the entire East Zone population over the next five (5) years. Since 1997, the Company has already provided desludging service to more than 1,000,000 households.

The MTSP is a follow-up to the MSSP and has the ultimate objective of improving sewerage and sanitation conditions in the East Zone. It was developed as a means of achieving the Company's sewerage and sanitation service targets. The remaining components of the MTSP include the construction of sewer networks and treatment plants in several locations in the East Zone including upgrading of existing communal septic tanks with secondary treatment levels. There were six (6) sewage and septage treatment plants that were constructed under MTSP. It was in this project that combined sewer and drainage system was implemented. Out of the six (6) facilities, four (4) employed this approach.

In 2015, two (2) new used water facilities became operational, and these are the Marikina North STP and Liwasan ng Kagitingan at Kalikasan STP which have a combined capacity of 175 MLD and by far, the biggest STPs of the Company. Another remarkable feature of the two (2) STPs is that both have the same treatment technology known as the Sequencing Batch Reactor (SBR) whereas the thirty-eight (38) facilities that were constructed under MSSP, MTSP and the take-over projects all employ the Conventional Activated Sludge treatment. As of end of 2016, the Company operates forty (40) used water facilities including the Marikina North and Liwasan ng Kagitingan at Kalikasan STPs, with a total capacity of 310MLD, compared to 40MLD in 1997.

Customers who are not connected to the sewer network are provided with septic tank maintenance services through the “Sanitasyon Para Sa Barangay” (SPSB) program. Through cooperation with the barangays, the program aims to desludge all septic tanks in a barangay without charge over a specified, set schedule.

For 2017, the Company has provided the service to 176,010 households which is equivalent to 104,170 septic tanks emptied. For the years covering 2007-2017, the total households provided with the desludging service were 2,419,333 equivalent to 701,639 septic tanks desludged. Furthermore, the average availment rate of the program has significantly increased through a more intensive Information, Education and Communication (IEC) program per barangay to educate customers of the East Zone about the importance of a properly maintained septic tanks.

The technical assistance component focus on information and education campaigns on proper liquid waste disposal and environment preservation and the preparation of follow-up programs on sewerage and sanitation, with emphasis on low-cost sanitation systems.

New Business and Investments

It is also the Manila Water Group’s objective to further bring its expertise in water and used water services outside of the East Zone by establishing partnerships with private companies, local water districts and local government units in top metros of the country and in selected cities in the Asian region. Manila Water will offer value-added services in water and used water services anchored on public – private partnership (PPP) and business-to-business (B2B) models in emerging markets.

Various water business models, such as NRW reduction, bulk arrangements, Estate Water model, and operations and maintenance are also being explored and implemented. Furthermore, merger and acquisition (M&A) strategy will be extensively and aggressively used to support growth. Towards this end, the Manila Water Group has signed joint venture agreements and/or investment agreements with local and international partners in the last few years.

Local New Business and Investments

Laguna AAAWater Corporation (“Laguna Water”) is a Joint Venture (JV) between MWPV (formerly “AAA Water Corporation”), a wholly-owned subsidiary of Manila Water, and the Provincial Government of Laguna (PGL), with shareholdings of 70% and 30%, respectively. The JV is for the purpose of undertaking the development, design, construction, operation, maintenance and financing of the water facilities that will service the needs of the cities of Sta. Rosa and Biňan, and the municipality of Cabuyao in Laguna. To this end, Laguna Water entered into a Concession Agreement with the PGL on April 9, 2002 for an operational period of 25 years. By virtue of an amendment signed on June 30, 2015, the concession area was expanded to cover all the cities and municipalities of Laguna, and the scope was amended to include the provision of used water services and the establishment of an integrated sewage and septage system in the province. In December 2013, Laguna Water signed an Asset Purchase Agreement with the Laguna Technopark, Inc. (LTI) for the acquisition of the water reticulation system of LTI in Laguna Technopark, a premier industrial park located in Sta. Rosa and Binan, Laguna which is home to some of the region’s largest and more successful light to medium non-polluting industries.

Boracay Island Water Company, Inc. (“Boracay Water”) is a JV between Manila Water and the Philippine Tourism Authority (PTA) with shareholdings of 80% and 20%, respectively. In April 2009, Boracay Water entered into a 25-year concession agreement with the PTA (now Tourism Infrastructure and Enterprise Zone Authority or TIEZA) covering the provision of water and used water services in the Island of Boracay.

Clark Water Corporation ("Clark Water") is the water and used water concessionaire of Clark Development Corporation (CDC) in the Clark Freeport Zone in Angeles, Pampanga. By virtue of an amendment agreement executed on August 15, 2014, the 25-year concession agreement with the CDC was extended by another fifteen (15) years or until October 1, 2040. In November 2011, Manila Water acquired 100% ownership of Clark Water through a Sale and Purchase Agreement with Veolia Water Philippines, Inc. and Philippine Water Holdings, Inc.

In the first quarter of 2012, the Company, through Manila Water Consortium, Inc. (formerly "Northern Waterworks and Rivers of Cebu, Inc.") ("MW Consortium"), a consortium of Manila Water (51%), Metropac Water Investments Corporation (39%) and Vicsal Development Corporation (10%), signed a Joint Investment Agreement (JIA) with the Provincial Government of Cebu (PGC) for the development and operation of a bulk water supply system in the province. The JIA resulted in the incorporation of Cebu Manila Water Development, Inc. (CMWD), a corporation owned by the consortium and the PGC in the proportion of 51% and 49% respectively. In December 2013, CMWD signed a 20-year Bulk Water Supply Contract with the Metropolitan Cebu Water District for the supply of 18 million liters per day of bulk water for the first year and 35 million liters per day of bulk water for years two up to twenty. In March 2015, all the shareholdings of Manila Water in Boracay Water, Clark Water and Manila Water Consortium have been transferred by Manila Water to Manila Water Philippine Ventures, Inc. (MWPV), which is intended by the Company to be its vehicle to undertake further business expansions in the country.

On December 19, 2014, the Company received a notice from the Zamboanga City Water District (ZCWD) awarding the project for non-revenue water reduction activities in Zamboanga City. A 10-year JV agreement between the Parent Company and the ZCWD, with shareholdings of 70% and 30%, respectively, was signed on January 30, 2015 and the JV's operations commenced on June 2, 2015 upon signing of the Non-Revenue Water Service Agreement.

In October 2015, Davao Del Norte Water Infrastructure Company, Inc. ("Davao Water"), the consortium formed between the Company and iWater, Inc., signed a JV agreement with the Tagum City Water District (TWD) for the operation of a 15-year take-or-pay bulk water supply arrangement for up to 38 MLD. Manila Water has 46% shares in this JV while iWater and TWD have 44% and 10% shares, respectively. Thereafter, on February 26, 2016, the JV Company and TWD signed the Bulk Water Sales and Purchase Agreement for the supply of Bulk Water to TWD for a period of fifteen (15) years from the Operations Start Date.

On the other hand, Bulacan MWPV Development Corporation ("Bulacan Water") entered into an asset purchase agreement with three (3) real estate companies in Bulacan Province for the acquisition of the water and used water systems of its property developments. Bulacan Water is a new subsidiary of MWPV which was registered with SEC last April 11, 2017 and is currently operating in Malolos City, Pulilan, Plaridel, San Ildefonso, Sta. Maria in Bulacan Province. It has started its commercial operations in May 2017.

Another new subsidiary of MWPV is the Obando Water Company, Inc. ("Obando Water") which was just registered with SEC in October 2017 and is operating in Municipality of Obando, Bulacan. The JV agreement was signed in August 2017 and Concession Agreement with Obando Water District was signed last October 12, 2017.

Calasiao Water Company, Inc. ("Calasiao Water") is a JV company between Manila Water Company, Inc. and Calasiao Water District (CWD), with shareholdings of 90% and 10%, respectively. The JV agreement with CWD, which was executed last June 19, 2017, is about a 25-year project that will improve, rehabilitate, and expand the water district's existing water system in the Municipality of Calasiao, Pangasinan. The primary purpose of this JV company is to engage in the development, financing, design, engineering, construction, upgrade, testing, commissioning, operation, management, and maintenance of the water facilities within the service area of CWD with a total population of about 95,000 and compose of twenty-four (24) barangays. Calasiao Water delivered its first water on December 28, 2017.

In January 2016, MWPV, Ayala Land, Inc. and the latter's subsidiaries ("ALI Group") executed a memorandum of agreement (MOA) wherein MWPV will exclusively be the water and used water service provider of the ALI Group nationwide. This MOA is being implemented by a dedicated business unit for ALI - Estate Water, a division of MWPV. Estate Water will develop masterplans, design, finance, construct, own, and operate the various water and used water facilities within each of ALI's developments.

Moreover, on December 08, 2016, MWPV entered into a MOA with SM Prime Holdings, Inc., SM Development Corporation, and SM Residences Corporation. Pursuant to the MOA, MWPV, will provide water and / or used water services and facilities to the property developments of the SM Group identified in each MOA. As of December 31, 2016, five (5) projects will be developed under this arrangement.

In December 18, 2017, MWPV also signed a 25-year Lease Concession Agreement with the Philippine Economic Zone Authority (PEZA) to provide water and used water services to Cavite Special Economic Zone. Under the agreement, MWPV, will lease, operate, and manage the water and used water facilities of the 275 hectare industrial estate that accommodates almost 300 locators, consuming approximately 12 million liters of water per day.

International New Business and Investments

International new business and investments of the Manila Water Company are generally undertaken through its wholly-owned Singapore subsidiary, Manila Water Asia Pacific Pte. Ltd (MWAP), through the direct investments of the latter's subsidiaries, namely, Manila Water South Asia Holdings Pte. Ltd. (MWSAH), Thu Duc Water Holdings Pte. Ltd. (TDWH), and Kenh Dong Water Holdings Pte. Ltd. (KDWH). In November 2015 and June 2017, new Singapore subsidiaries, North-West of Saigon Holdings Pte. Ltd. (NWSH) and Manila Water Indonesia Holdings Pte. (MWIH) Ltd., respectively, were incorporated whose objective is to implement future expansions in the region. NWSH was renamed to Manila South East Asia Water Holdings Pte. Ltd. (MSEAW) in April 2017 while MWIH was renamed to Manila Water Thailand Holdings Pte. Ltd. (MWTH).

In December 2011, TDWH purchased a 49% share ownership in Thu Duc Water B.O.O. Corporation ("Thu Duc Water") which owns the second largest water treatment plant in Ho Chi Minh City. Thu Duc Water has a bulk water supply contract with Saigon Water Corporation (SAWACO) for a minimum consumption of 300 MLD on a take-or-pay arrangement.

In July 2012, KDWH completed the acquisition of a 47.35% stake in Kenh Dong Water Supply Joint Stock Company ("Kenh Dong Water"), a Vietnamese company established in 2003 to build, own, and operate major water infrastructure facilities in Ho Chi Minh City.

In October 2013, MWSAH completed the acquisition of 31.47% stake in Saigon Water Infrastructure Corporation ("Saigon Water"), a listed company in Vietnam. In 2017, MWSAH infused an additional equity of 103B VND, and increased its shareholding percentage to 38%.

In 2015, MWSAH also entered into a Capital Transfer Agreement with Saigon Water Infrastructure Corporation and Vietnam-Oman Investment Company to develop and operate the water network in Cu Chi, a district in Ho Chi Minh City. The project will be undertaken with Cu Chi Water Supply Sewerage Company Limited ("Cu Chi Water"), a Vietnam limited company. Through this agreement, MWSAH holds 24.5% share in the charter capital of Cu Chi Water.

On November 6, 2015, MWAP signed an MOU with PDAM Tirtawening Bandung City for a non-revenue water reduction demonstration project in Bandung City, Indonesia. PDAM Bandung is a water utility company owned and controlled by the Regional Government of Bandung City in West Java, Indonesia.

Environmental Compliance

The Company's water and used water facilities must comply with Philippine environmental standards set by the Department of Environment and Natural Resources (DENR) on water quality, air quality, hazardous and solid wastes, and environmental impacts. In keeping with the Company's commitment to sustainable development, all projects are assessed for their environmental impact and where applicable, must obtain an Environmental Compliance Certificate (ECC) from the DENR prior to construction or expansion and the conditions complied with, along with all other existing environmental regulations. During and subsequent to construction, ambient conditions and facility-specific emissions (e.g. air, water, hazardous wastes, treatment by-products) from water and used water facilities are routinely sampled and tested against DENR environmental quality standards using international sampling, testing and reporting procedures.

The Company has made efforts to meet and exceed all statutory and regulatory standards. The Company employs the appropriate environmental management systems and communicates to its employees, business partners and customers the need to take environmental responsibility seriously. The Company uses controlled work practices and preventive measures to minimize risk to the water supply, public health and the environment. The Company's regular maintenance procedures involve regular disinfection of service reservoirs and mains and replacement of corroded pipes. Implementation and effectiveness of established operations and maintenance procedures is being monitored and checked for continual improvement through the Operations Management System (OMS). Monitoring of environmental compliance for operating facilities and on-going projects is being carried out proactively using risk-based assessment checklist in order to internally address compliance risks before it resulted into legal non-compliances. The Company's water and used water treatment processes meet the current standards of the PNSDW, DOH, DENR and LLDA. The Company continues to undertake improvements in the way it manages both treated water and used water as well as treatment of by-products such as backwash water, sludge and biosolids.

The Company has contingency plans in the event of unforeseen failures in the water and used water treatment or chemical leakage and accidental discharge of septage and sewage. The Company's Customer Care Center is trained to ensure that environmental incidents are tracked, monitored and resolved.

A policy on climate change was formulated to define the Company's commitment to the National Framework Strategy for Climate Change. While the company is undertaking climate change mitigating measures such as greenhouse gas accounting and reporting along with initiatives to optimize consumption of fuel and electricity to reduce its carbon footprint, there is a current emphasis towards climate change adaptation such as intensifying watershed rehabilitation work, vulnerability assessment of water sources and assets, improving the climate-resiliency of existing and future water and used water facilities, strengthening risk reduction and management systems with a business continuity plan, and development of new water sources.

Sustainable Development Projects

Sustainability for Manila Water is the full alignment of its business goals with its socio-environmental objectives. A renewed focus on sustainability issues that are materially affecting the organization from a more strategic perspective characterized the year 2017 in terms of embedding and advancing sustainability in Manila Water.

The Sustainable Development Department of Manila Water was transferred to the Operations Group, incorporating it into the Environment Department and Operations Management that has been re-named the Operations Management and Sustainability Department (OMSD). There is now an expanded mandate to reinforce the embedded sustainability principles (Society, Economy and Environment) into the Company's day to day operations and continue developing Sustainability Champions in all of Manila Water's internal and external stakeholders through a programmatic approach of raising employee awareness, communicating its sustainability initiatives to various audiences, encouraging active involvement from all stakeholders and embedding sustainability in Manila Water's planning, core and support processes.

Headed by OMSD and Strategic Asset Planning Department, the Climate Change Committee (CCC) was able to identify gaps and areas for improvement to streamline and optimize Manila Water's efforts to address the impacts of climate change, whether through mitigation initiatives or adaptation efforts. Aside from safeguarding Manila Water's critical infrastructures, the CCC will oversee the implementation of the Company's commitments in promulgating its Climate Change Policy.

The Sustainability Council, on the other hand, act as the guardians of Manila Water's sustainability pillars and also serve as an oversight body that ensures the adequacy, effectiveness and continuing improvement of Manila Water's sustainability commitments and their implementation. The Council consists of champions from the various departments and was tasked to fine tune a sustainability scorecard that is intended as a measure of the Company's maturity along its sustainability journey year-on-year. This is in alignment with the latest Global Reporting Initiative (GRI) standard which no longer requires comprehensive reporting on its list of material indicators, but encourages companies to "address what matters where it matters".

In addition to the aforementioned management initiatives, Manila Water continued to focus on five (5) sustainability pillars:

a. Developing Employees

Manila Water seeks to embed sustainability in the daily activities of its employees through employee engagement and knowledge transfer programs on top of the training and competency development initiatives of the Company. The objective is to develop more Sustainability Champions to enhance organizational capabilities in managing its resources, adapting to a changing environment and addressing social and environmental risks and impacts.

After a year of introduction, the Manila Water University (MWU) which responses to the needs of a continuously growing organization, was able to launch and complete a competency assessment portfolio. The MWU affords talents with the opportunity to take charge of their individual career development, communicate career aspirations, seek support through coaching, feedback and meaningful job assignments, and eventually drive career growth within the Company. It is also the Company's institutionalized approach to learning, development and competency building that would strengthen and develop competencies that are important to its business. The MWU has online resources on various topics ranging from Asset Management, Finance, Regulatory and Public Policy, among others. There are also trainings and seminars on leadership and functional competencies where employees can register online. MWU focuses on both Center for Leadership Excellence and Center for Technical Excellence. A Technical Cadetship Program was developed under the Center for Technical Excellence, a revival of the proven Cadetship Program but with a more focused and specialized developmental learning.

Aside from training and development, Manila Water complements core and functional competencies with various employee engagement initiatives that seek to instill and cultivate the value of sustainability in the daily activities of its employees. With the Human Resources Group at the forefront of the Company's human development programs through its training and employee engagement initiatives, a number of activities facilitated by various departments (Safety Solutions, Sustainability, Innovations, Energy) have all contributed to the employee development efforts of the Company. Several trainings and seminars on environmental and energy-related topics such as Cleaner Production Assessment, Energy Audit, Hazardous Waste Management, Eco-driving, PCO Basic Training, Continuing education for PCOs, and Climate Change were conducted. Likewise, there were a number of workshops that were also conducted on Safety such as Chemical Safety, Electrical Safety, Fire Safety, Defensive Driving, Confined Space and First Aid. To spur creativity and innovation, Brown Bag meetings were facilitated and conducted as well.

Manila Water recognizes the need for work-life balance of its employees. Employee engagement activities focusing on employee volunteerism, themed programs and sports. *Bawat Patak Tumatatak (BPT)*, Manila Water's employee volunteerism program focuses on education, environment, and emergency disaster response. In 2017, *Bawat Patak Tumatatak* Goes to School, a program under the BPT's education pillar ended with 117 volunteers from seven (7) schools with a total of 794 student reach.

b. Helping Build Communities

Manila Water believes that in the course of helping build communities, it is not enough to simply provide access to water and used water services for all. The resiliency of the services being provided is also of primary importance, considering that the Philippines is prone to natural and manmade disasters.

The Company has adopted strategies in order to minimize the adverse impacts of natural and manmade threats on the continuity of the Company's operations. The Climate Change Policy of the Company has been revised to focus on aligning with the country's strategy of prioritizing climate resilience work rather than carbon emissions reduction. The key manifestations of the climate change adaptation commitments of the Company include the mainstreaming of vulnerability assessment in the planning for new water and used water assets, retrofitting assets to be disaster-resilient, having a business continuity plan for its operations, taking a pro-active stance in the management and development of water sources and engaging key stakeholders in addressing risks beyond the control of the Company.

Manila Water's flagship program Tubig Para sa Barangay (TPSB) or Water for Low-Income Communities, continued to benefit the urban poor through the round-the-clock provision of potable water with immeasurable impacts on community life. The program has allowed residents from marginalized communities to avail of the Company's services at considerably lower connection fees and less stringent requirements. As of December 2017, more than 1.8 million people from urban poor communities have been served by the program with 211,681 water service connections. With the total number of water service connections in the East Zone reaching 1,030,940 at the end of 2017, roughly 23% of Manila Water's customers is under the TPSB program.

Complementing the TPSB program which also led to considerable improvements in the quality of community life is Manila Water's Lingap program, which seeks to improve water supply and sanitation facilities in public service institutions such as schools, hospitals, city jails, markets and orphanages, further empowering these institutions to more effectively carry out their respective roles in society. Through Lingap programs, Manila Water has rehabilitated the water reticulation system and installed wash facilities and drinking fountains of public service institutions. As of 2017, 414 institutions have benefitted from the Lingap Program of Manila Water with an estimated 1.5 million people served through the program.

Aside from the aforementioned social initiatives, the Company has strengthened its focus on enhancing operational reliability by strengthening its ability to respond to disasters and other emergency situations. Moreover, Manila Water exhibited its genuine concern for communities by readily providing relief operations in response to major disasters in the country. The Corporate Business Resiliency Department (CBRD) has been very active in disaster response actions by leading Manila Water's Mobile Treatment Plant (MTP) teams to disaster stricken areas such as in Tacloban, Bohol, Cebu. The CBRD is also responsible for conducting company-wide earthquake drills. The objective of the drill is to be able to simulate Manila Water's incident management system, evaluate earthquake response protocols as well as business continuity plans, and familiarize employees with their individual roles and responsibilities. In this drill, the East Zone service area was divided into four "quadrants" based on Metro Manila Earthquake Impact Reduction Study, which assumes key lifelines of the metro to be unavailable in the event of a major earthquake.

As one of the pioneering members of the Philippine Disaster Recovery Foundation (PDRF), Manila Water's active involvement in PDRF has further leveraged its impact as a provider of lifeline services in times of disaster and the subsequent yet more daunting tasks of rebuilding communities. Last year, Manila Water started talks / dialogues with other lifeline companies in Metro Manila (from the power, telecommunications, transportation among other industries) to discuss interoperability during disasters.

c. Protecting the Environment

To enable the Company to fulfill its service obligations more effectively and to sustain operational efficiency, Manila Water's environmental protection advocacies and programs are geared towards ensuring water security, managing its environmental compliance risks and strengthening its used water program.

Watershed management continued to be one of the imperatives for Manila Water, especially now that the El Nino phenomenon would from time to time threaten to put Metro Manila's water supply in an imminent water crisis. The Integrated Watershed Management Plan for the La Mesa Watershed was completed in 2016, currently having ongoing programs and the Water Source Department was designated to manage the Company's upstream activities.

On the environmental compliance side, Manila Water has dramatically enhanced its proactive approach in addressing environmental compliance risks through the introduction of new compliance tools: the Facility Self-Assessment Report (FSAR) and risk-weighted compliance audit and monitoring system, further enabling process owners and front liners to actively own compliance at their level.

In terms of its used water treatment operations, the Company was able to treat 40.65 mcm of used water for the whole year of 2017 and in the process removed approximately 6,417 tons of Biological Oxygen Demand (BOD), further alleviating the pollution load in Metro Manila's waterways. As of December 2017, there were 135,110 sewer connections in the East Zone and 9,312 septic tanks were desludged.

The Company continues to implement the Lakbayan Program or the Water Trail Tour to raise awareness on the importance of water, used water and the environment. This program involves an educational tour of the Water Trail to show the participants the process that the raw water undergoes from the source to treatment and prior to distribution to customers, and how the consumers' used water is collected and treated. Participants are given a tour of the water and wastewater treatment facilities of the Company. The Program aims to promote stakeholder awareness on the need to conserve water and to care for water sources. In 2017, Lakbayan Program tours have been participated in by 127 barangays and 7,418 participants from Non-Governmental Agencies (NGA), Local Government Units (LGU), academe, media, corporates, Non-Governmental Organizations, and similar entities.

Moreover, Manila Water demonstrates proper used water management through Toka Toka advocacy, aimed at reviving Metro Manila's heavily-polluted rivers and tributaries. This particular campaign encourages consumers and partner organizations to practice proper waste disposal, ensure proper sewer line connections, have their septic tanks desludged every five (5) years and support the Company's other community-based projects. Since 2012, thirty-three (33) Toka Toka partners from LGUs, NGAs and private institutions have pledged their own commitments for the environment.

Manila Water is also the first company in the Philippines that installed solar panels in its wastewater treatment plant. An 80 kWp capacity solar panels were installed at its FTI Septage Treatment Plant and was commissioned in 2014. A 105 kWp capacity solar panel was also installed and commissioned at the Magallanes Sewage Treatment Plant in 2014. Manila Water is also looking into harnessing power from mini-hydro plants and has commissioned a feasibility study to determine its viability. The Company is also exploring other initiatives such as waste to energy projects. Currently, three waste to energy are due for completion in 2018 situated in Makati South STP, Marikina North STP and FTI SpTP. Main project drivers are power generation to supply to the said facilities.

d. Safeguarding Health and Safety

Manila Water recognizes its responsibility to safeguard health and safety not only of its employees and contractors but also to the general public. It continues to put a high premium on ensuring water quality and ensuring the health and safety of its supply chain.

To provide all personnel with a safe and healthy work environment, Manila Water established Safety Management System Standards that is aligned with an internationally-recognized safety management system, BSI OSHAS 18001 – Health and Safety. This safety management system requires a commitment to safety of the public and its visitors, but the Company also recognizes the risks and mitigation controls unique to its operations. This incorporates quality, environment, occupational safety and health into a single framework so called Operational Management Systems.

To guide employees in achieving a safe work environment for the Company' personnel and vendors, Manila Water defines a rigorous set of operational controls to manage the known hazards and risks of its operations. Full implementation of these controls will ensure that the Company is providing workplaces that meet the requirement to Safety standards. Manila Water extends these safety programs to its vendors through the conduct of monthly Safety Officer's Network Meeting and Contractor's Safety Forum for sharing of best practices amongst contractors.

In addition, Manila Water has established an internal audit process to help ensure that it is effectively implementing its operational controls and management routines. The Company has also engaged recognized external audit firms to assess the compliance status of its operations with applicable laws and regulations and occupational safety and health requirements.

The quality of water that Manila Water supplies has always been 100% compliant with the Philippine National Standards for Drinking Water, and there has been no major water contamination since the Company began its operations in 1997. To maintain this record, the Company collects water samples from raw, untreated water to treatment plants and directly from the faucets of at least 843 customers each month. Water quality is stringently monitored and water samples are tested in a world-class laboratory that is recognized by the Philippine Department of Environment and National Resources, certified with and against ISO 9001 (quality management), ISO 14001:2008 (environmental management), OHSAS 18000 (Occupational Health and Safety), and accredited by the Philippine Department of Health (DOH) and ISO/IEC 17025:2005 (competence for testing and calibration laboratories). A Water Safety Plan was completed in 2009 and is continuously being reviewed as may be necessary. The plan is a multi-barrier approach to ensure that contamination is minimized and/or eliminated at each stage. It involves the application of an extensive risk assessment and risk management approach that encompasses all steps in water supply system from the sources, production, storage and conveyance to consumers to ensure safety of drinking water supply.

e. Contributing to Local and National Economies

To promote inclusive growth, Manila Water's policy on purchases from small- and medium-scale enterprises (SMEs) or cooperatives states that they are guaranteed at least 20% of total contract awards. To date, of the 240 contractors in the Company's Supply Chain, about 40% or around 95 of them are small enterprises (60% or about 145 are big). Some of these contractors were in fact part of the 153 cooperatives under the Kabuhayan Para sa Barangay program of Manila Water Foundation.

The Suki Vendor program has promoted inclusive growth and contributed significantly to local economies. The program aims to develop long term partnerships with the company's regular pipe laying contractors by nurturing these contractors and providing them technical assistance until such time that they have built their own capabilities and have grown into bigger companies as well.

Manila Water infused a total of Php8.7 billion of CAPEX investments to the economy through the expansion of its water and used water services in 2016. Manila Water has also provided direct employment to 1,753 individuals in the Metro Manila's East Zone and its subsidiaries across the Philippines, Vietnam and Indonesia.

Employees

As of December 31, 2017, MWCI had 2,022 employees. Approximately 22% were non-management employees and 78% held management positions.

The following table presents the number of employees as of December 31, 2017:

Year	Former MWSS	Direct Hires	Subsidiaries	Total
2017	519	930	573	2,022

The following table presents the number of employees by function as of December 31, 2017:

Group	Management	Non-Management	Total
Corporate Finance & Governance	122	7	129
Internal Audit	7	0	7
Corporate Human Resources	28	5	33
Corporate Strategic Affairs	17	7	24
Corporate Regulatory Affairs	12	1	13
East Zone Business Operations	277	62	339
Corporate Information Technology	23	3	26
Manila Water Foundation	2	0	2
Manila Water Total Solutions	26	0	26
Office of the President	3	0	3
Office of the MWO COO	2	0	2
Corporate Operations	396	149	545
Corporate Project Management	145	33	178
MWAP/MWPV	70	0	70
Strategic Asset Management	47	5	52
Subsidiaries	401	172	573
Total	**1,578**	**444**	**2,022**

Before privatization, the MWSS had 8.4 employees per 1,000 service connections. Manila Water Company has improved this ratio to 1.4 employees per 1,000 service connections as of December 31, 2017. This was accomplished through improvements in productivity achieved through, among other initiatives, value enhancement programs, improvements in work processes, employee coaching and mentoring, transformation of employees into knowledge workers, and various training programs. Manila Water's organizational structure has been streamlined, and has empowered employees through decentralized teams with responsibility for managing territories. In addition, the Company formed multi-functional working teams which are composed of members of the management team tasked with addressing corporate issues such as quality and risk, and crisis management.

As of December 31, 2017, 182 or 13.2 percent of the employees of the Company are members of the Manila Water Employees Union (MWEU). In 2013, the company and the MWEU concluded negotiations on a new collective bargaining agreement (CBA). MWEU has the option under the law to renegotiate the non-representation provisions of the CBA by the third quarter of 2016. The management of the Company maintains a strong partnership with union officials and members and there has never been any strike since its inception. Grievances are handled in management-led labor councils. The CBA also provides for a mechanism for the settlement of grievances.

The Company has a two-pronged strategy in talent development – strengthening leadership capabilities, and building and strengthening technical expertise to maintain its leadership in the water industry and contribute to national development. Programs were implemented in partnership with the line managers with the aim of ensuring an agile, enabled, mobile and highly engaged workforce that will support the corporate growth strategy.

On the leadership front, several initiatives were undertaken to ensure a strategic, well-rounded approach to leadership development:

- Succession Management: Manila Water has expanded its talent pool to strengthen the senior management leadership pool of Manila Water. Talents receive deliberate development interventions – individual development planning, stretched assignments, executive coaching, and mentorship to accelerate their development. Talent reviews have also been conducted with the line managers to identify and develop talents to assume current and emerging roles. Another key initiative was the integration of Manila Water's talent and succession management process with the New Business Operations (i.e. Laguna Water, Clark Water and Boracay Water). This exercise aims to strengthen the talent bench in the subsidiaries, so that they may become a potential talent source for the Group.

- Mentorship Program: The members of the Management Committee (MANCOM) serve as mentors to high potential talents being developed for executive roles.

- Business Zone Leadership School (BZLS): This is a competency-based training to ensure a steady supply of competent talents in the East Zone Business Operations who can assume the Business Zone Manager (BZM) role as needed by the business.

- Center for Leadership Excellence: The Leadership Development Program (LDP) is an ongoing initiative which is part of the Manila Water University's Center for Leadership Excellence. This program was established to help develop leadership competencies which are enablers to ensure sustainable business success.

Complementing leadership development, the same level of focus is given to technical roles where talents occupying highly technical positions are likewise given technical development through the Manila Water University's Center for Technical Excellence. It aims to ensure that the Company strengthens the technical competencies of its talents in its fields of operations.

The Company ensures that its reward system is market competitive, performance-based, aligned with business strategies and results, and within regulatory parameters. In 2005, the Company extended an equal cash incentive to each employee covered by the reward system. In succeeding years, the Company further improved the system by taking care of the gaps in the distribution system and aligning the reward system with the yearend goals of the Company, which are anchored on the KPI/ BEM targets. In 2013, the Company updated its guaranteed pay structure to ensure alignment with industry practices. Also in 2013, the company enhanced its variable pay program to increase the alignment of bonus scheme with business results. The Company continues to monitor pay competitiveness and reward talents according to their achievements and contributions to the business objectives.

In 2014, the Company implemented the Talent Mobility Program which is a talent management and reward platform that allows the seamless transition of talents from one Manila Water business unit to another. The program ensures a reasonable, engaging, and competitive secondment process to Manila Water businesses covering pre-deployment, actual deployment, and repatriation benefits and support for secondees.

In 2001, pursuant to the concession agreement (CA), the Company adopted the Employee Stock Option Plan (ESOP). The ESOP was instituted to allow employees to participate directly in the growth of the company and enhance the employees' commitment toward its long-term profitability. In 2005, the company adopted an Employee Stock Ownership (ESOWN) Plan as part of its incentives and rewards system.

Also in 2005, the company's Board of Directors approved the establishment of an enhanced retirement and welfare plan. The plan is being administered by a Retirement and Welfare Plan Committee, which also has the authority to make decisions on the investment parameters to be used by the trustee bank.

Over and above these benefit and reward schemes, the Company gives recognition for employees who best exemplify the Company's culture of excellence through the Chairman's Circle (C2) Awards for senior managers, the President's Pride due to Performance (P3) honors for middle managers and the Huwarang Manggagawa (Model Employee) Awards for the rank-and-file employees. Eight (8) of the Company's model employee awardees have also been awarded 'The Outstanding Workers of the Republic' (TOWER) Award by the Rotary Club of Manila from 1999 to 2009, by far the most number of awards won by any single company over that period.

The exemplary performance of its employees has earned for Manila Water several awards and recognitions. Over the past seventeen years, the Company has been the recipient of numerous awards. A landmark recognition was earned by Company when it was cited the 2006 Employer of the Year by the People Management Association of the Philippines. Another prestigious award earned by the Company was the Asian Human Capital Award given by the Singaporean government in 2012. The 2006 Employer of the Year honors were bestowed upon Manila Water for providing a remarkable example of how a group of much-maligned government workers was transformed into a thoroughly efficient organization that is now a leader in its industry. The Asian Human Capital Award, is one of the biggest recognition earned by the Company as an employer and is an award that is so difficult to obtain due the stringent standards of its giver, the Singaporean Ministry of Manpower. However, the comprehensive selection process did not prevent Manila Water from becoming the first-ever Filipino company to capture the elite honors when the Singaporean government deemed the Company worthy of the award for harnessing its people in transforming from a languishing water service provider into a world-class water and used water company, citing not only its accomplishments but also the way it turned around its business using its human resource.

In 2014, the Company bagged the following awards and recognitions: One of 20 Global Growth Companies (GGC) in East Asia – World Economic Forum (May 2014); No. 2 in the 2014 Sustainability Ranking – Channel NewsAsia (November 2014); Asia's Icon on Corporate Governance – CorporateGovernance Asia (November 2014); 1st in Innovation in Water, Wastewater and Stormwater Network Modelling and Analysis for the Marikina North STP Project - Bentley Systems, Inc.'s Be Inspired Awards (November 2014); PSE Bell Award for Corporate Governance, Hall of Fame – Philippine Stock Exchange (November 2014); Asia Geospatial Excellence Award – Asia Geospatial Forum (November 2014); Philippine Esri Best Overall Map Award for 'The Business Risk Exposure Assessment of Manila Water Network Asset Project Map' – Philippine Esri User Conference and 2nd Philippine Esri Education GIS Conference (September 2014); First Don Emilio Abello Energy Efficiency Award for the San Juan Pumping Station – Department of Energy (October 2014); IABC Quill Awards, Awards of Excellence and Awards of Merit for various business communication programs – International Association of Business Communicators (IABC) Philippines (2014).

In April 2014, the Laguna Lake Development Authority cited the following employees as Outstanding Pollution Control Officers – Blue Ratee for the 7 Sewage Treatment Plants of Manila Water: Sharon B. Cerbito - North Septage Treatment Plant (San Mateo); Jimaima M. Hoque - Sikatuna STP; Jocelyn M. General (PCO), Johannes Paulus O. Costales (Plant Manager) - Fisheries STP; John Von Wernher C. Dela Cruz - Pagasa STP, Heroes' Hill STP; Ninya Kristina L. Cabico - Belarmino Stp, Palosapis STP; and Jeremaine V. Esguerra - East Ave STP. In August 2014, the Department of Health also gave the Typhoon Yolanda 'Unsung Heroes' Plaque of Recognition for Manila Water's Mobile Treatment Plant Operations.

In 2014, Manila Water was given the ISO 50001 Certification for Energy Management System (April 2014). Manila Water was the first Philippine company to receive this certification. As of 2015, Manila Water has the following ISO Certifications: ISO 50001: 2011 Energy Management System (ENMS) for five (5) water supply and five (5) used water facilities; ISO 9001:2008 Quality Management System, ISO 14001:2004 Environmental Management System, and OHSAS 18001:2007 Occupational Health and Safety Management System (QEHSMS) for nine (9) water supply and six (6) used water facilities, and two (2) support departments (Laboratory and Maintenance Services); and ISO/IEC 17025:2005 for the Company's Laboratory Management System.

In 2015, the awards and recognitions received by the Company include the following: Awards and Citations for Corporate Governance and Management (2015 One of ASEAN Top 50 Publicly Listed Companies, ASEAN Corporate Governance Conference and Awards; 2015 9th ING-FINEX CFO of the

Year for Mr. Luis Juan B. Oreta); Awards and Citations for Corporate Social Responsibility and Sustainability (2015 Change the World List (Ranked No. 29 out of 51), Fortune; 2015 One of Top Corporate Social Responsibility (CSR) Advocates in Asia, Asia Corporate Excellence and Sustainability (ACES) Awards; 2015 Winner, Sustainability Strategy and Resource Efficiency Category, ASEAN Corporate Sustainability Summit and Awards (ACSSA); 2015 Runner-up, Supply Chain Sustainability Category, ASEAN Corporate Sustainability Summit and Awards (ACSSA)); Awards and Citations for Operations and Technical Management (2015 Asia Geospatial Excellence Award for the Critical Activity Review and Geographic Information System (GIS) Integration, Asia Geospatial Forum; 2015 Special Award for Performance in Energy Efficiency and Conservation for Siruna Pumping Station, Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2015 Award of Recognition for ASEAN Energy Awards Competition for Balara Pumping Station, Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2015 Outstanding Award for Performance in Energy Efficiency and Conservation for San Juan Pumping Station, Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2015 Outstanding Energy Manager Award (Mr. Rolando Mosqueda, San Juan Pumping Station), Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2015 Special Award for Performance in Energy Efficiency and Conservation for Kingsville Pumping Station), Don Emilio Abello Energy Efficiency Awards, Department of Energy); Awards and Citations for Communications (2015 Gold Anvil Award and Silver Anvil Awards, 50th Anvil Awards, Public Relations Society of the Philippines (PRSP); 2015 Awards of Excellence and Awards of Merit, Quill Awards, International Association of Business Communicators (IABC) Philippines); Others (Subsidiaries) (2015 Case Study Category Winner of the Public-Private Partnerships (PPP) Short Stories Competition for Laguna Water's Alternative PPP Model: The Laguna Water Story, World Bank Group and the Public-Private Infrastructure Advisory Facility (PPIAF)).

In 2016, the awards and citations received by the Company include the following: Awards and Citations for Corporate Governance and Management (2016 PSE Bell Award for Corporate Governance, Philippine Stock Exchange; 2016 Governance Awardee, Investors' Forum, Institute of Corporate Directors (ICD) in partnership with Fund Managers Association of the Philippines, Philippine Investment Funds Association, Trust Officers Association of the Philippines and PJS Corporate Support Inc.; 2016 Risk Management Professional of the Year Award for Ms. Ma. Victoria P. Sugapong, Ayala Risk Awards; 2016 Delivering Value through Risk Management Award for "The Big One: The East Zone Earthquake Impact and Risk Reduction (EZEIRR) Study," Ayala Risk Awards); Awards and Citations for Operations and Technical Management (2017 Computerworld Premier 100 Technology Leader for Mr. Rodell A. Garcia; 2016 Certified National Expert for Pumping System Optimization for Mr. William Alcantara Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2016 Citation Award for Kingsville Pumping Station Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2016 Special Award for Siruna Pumping Station, Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2016 Special Award for San Juan Pumping Station, Don Emilio Abello Energy Efficiency Awards, Department of Energy; 2016 Chairman's Prize for Healthy Family Purified Water, Ayala Innovation Excellence Awards; 2016 Innovation Excellence Award for the Demand-Based Network Management (DBNM) System, Ayala Innovation Excellence Awards; 2016 CIO 100 (US) Awardee for the Enterprise Asset Management – Asset Management Information System (EAM-AMIS) Project, CIO 100 Awards, CIO Asia; 2016 CIO 100 Index (Asia) for the Enterprise Asset Management – Asset Management Information System (EAM-AMIS) Project, 15th Annual CIO Asia Awards, CIO Asia; 2016 People's Choice Award and Best Overall Map for Cartographic Design and Analytic Presentation, ESRI Philippines GIS User Conference Map Gallery Competition); Awards and Citations for Corporate Social Responsibility and Sustainability (2016 One of Top 3 Most Sustainable Corporations, Channel NewsAsia Sustainability Ranking; 2016 Unilever Global Development Award for "Tubig Para Sa Barangay", Annual Responsible Business Awards, Business in the Community (BITC) Network of the United Kingdom; Awards and Citations for Communications (2016 Top Award in Communication Management for Boracay Water's "Lingap Para Sa Katutubo," Philippine Quill Awards, International Association of Business Communicators (IABC) Philippines; 2016 Special Award for Excellence in PR for Social Good for "Toka Toka: The First and Only Used Water Advocacy in the Philippines," Anvil Awards, Public Relations Society of the Philippines (PRSP); 2016 Gold Anvil Awards and Silver Anvil Awards, Anvil Awards, Public Relations Society of the Philippines (PRSP); 2016 Quill Awards of Excellence and Awards of Merit, Philippine Quill Awards, International Association of Business Communicators (IABC) Philippines).

In 2017, the Company was awarded with the following: 52nd Anvil Awards (Public Relations Society of the Phils.): Gold Anvil Award - Manila Water's 2016 Corporate Video; Gold Anvil Award - Clark Water's Ahon Pinoy Program in Sitio Monicayo; Silver Anvil Award - Boracay Water's Amot Amot (Toka Toka) Sa Malimpyong Boracay; Silver Anvil Award - Laguna Water's Inauguration of the Laguna Wellfield; Silver Anvil Award - The Laguna Water Story Video; Silver Anvil Award - The Month-Long and Nationwide Celebration of the 2016 Global Handwashing Day; Rodell Garcia, Named one of 2017

Computerworld Premier 100 Technology Leaders; 'Kampeon ng Katubigan' Award, 2017 World Water Day Awards (organized by Maynilad and the National Water Resources Board); No. 1 Best Managed Utilities Company in Asia, 17th Annual Asia's Best Companies, Finance Asia; 15th Philippine Quill Awards (International Association of Business Communicators): Quill Award of Excellence – Si Rungis at Si Linis: Ang Kwento ng Dalawang Patak ng Tubig; Quill Award of Excellence - Manila Water's 2016 Corporate Video; Quill Award of Merit – Gawad Iwas-Lunas Risk Management Excellence Awards, Best Corporate Investor Relations (by Country) Award, 7th Asian Excellence Awards, Corporate Governance Asia; Luis Juan Oreta, Asia's Best CFO (Investor Relations) Award, 7th Asian Excellence Awards, Corporate Governance Asia; Outstanding Blood Services Partner of the Year Award, Blood Donors Recognition Ceremony, Philippine Red Cross; Ferdinand Dela Cruz, 2017 Most Distinguished Alumnus Award, University of the Philippines Alumni Engineers (UPAE); Clark Water, One of Top Community Care Companies in Asia, Asia Corporate Excellence and Sustainability (ACES) Awards; Award of Excellence for 10 Million Safe Man-Hours, Safety Organization of the Philippines Inc. (SOPI); 2017 Don Emilio Abello Energy Efficiency Awards (Department of Energy): Special Award - Balara Pumping Station, Special Award - San Juan Pumping Station, Outstanding Award - Lucban Pumping Station, and Outstanding Energy Manager Award - John Paul Galman

Related Party Transactions
To further instill the Company's policies on related party transactions, the Board adopted the Policy on Related Party Transactions (the "RPT Policy"). The RPT Policy confirms that the Company and its subsidiaries shall enter into any related party transactions solely in the ordinary course of business, on ordinary commercial terms, and on the basis of arm's length arrangements, which shall be subject to appropriate corporate approvals and actions of the Company or the related parties, as the case may be.

Any related party transactions entered into by the Company or its affiliates shall be in accordance with applicable law, rules and regulations, and the RPT Policy. Related party transactions entered into by the Company with one or more of its directors or officers are voidable at the option of the Company, unless the transaction is deemed fair and reasonable under the circumstances and at arm's length, and the procedure for the procurement and approval for similar transactions was strictly complied with.

The RPT Policy provides for the process of approving related party transactions, as well as the implications for violations. In addition, the RPT Policy prohibits related party transactions involving loans and/or financial assistance to a director and loans and/ or financial assistance to members of the Management, except when allowed pursuant to an established Company benefit or plan. Under the RPT Policy, the approval of the Related Party Transactions Committee is required for material related party transactions.

Risks Disclosure

2017 TOP CORPORATE RISKS	MITIGATION STRATEGIES
BUSINESS CONTINUITY Failure to ensure recovery and continuity of business operations through a comprehensive business continuity management plan.	A project team was established to enhance the organization's business continuity management system. Drills are regularly conducted following contingency standards, procedures and processes which increased readiness and awareness of employees on emergency protocols. Emergency Response Plans are continuously reviewed and enhanced. This resulted to continuous operations of facilities even during natural calamities such as floods and incidents such as power interruptions.
CAPEX EXECUTION Failure to meet CAPEX targets within the approved cost, time and quality.	Monitoring of project milestones is being done to ensure timely completion of projects. Manila Water conducts a rigorous review and approval process for project approval, variation orders and time extensions. Project managers are required to submit a risk management plan for their projects and a risk management report is part of project close-out requirements to ensure lessons learned are captured. Project management is risk-based such that review and reporting frequency, and escalation levels depend on project's risk level.
WATER SUPPLY Failure to ensure adequacy, security, quality and reliability of water supply.	Activities are being done to further increase adequacy, security, quality, reliability and efficiency of the current water supply system such as the development of medium-term water sources, weekly monitoring and investigation of non-revenue water (NRW) contributors, weekly monitoring of dam water levels, preventive and corrective maintenance of dam facilities, aqueducts and water treatment facilities.
RATE REBASING Failure to manage the rate rebasing process leading to unfavorable ruling by	The organization submitted its business plan within the timeline prescribed in the concession agreement. Regular coordination meetings with the MWSS Regulatory Office as well as its Rate Rebasing (RR) consultants regarding the rate rebasing exercise are conducted. Documentary requirements and data

regulators, negative investor perception, loss in value and unrealistic rate rebasing commitments.	needed by the RR consultants are transmitted in a timely manner. In addition, guidelines on concession accounting and auditing, key performance indicators and business efficiency measures, as well as technical audit are currently being developed.
POLITICAL AND REGULATORY / COMPLIANCE Failure to manage regulatory and socio-political uncertainties that may adversely affect the organization; Failure to meet regulatory requirements / obligations resulting to penalties, fines etc.	Programs have been implemented to ensure control of regulatory and socio-political risks at both compliance and strategic levels. Enhanced stakeholder relationship management has been given key priority, with regular coordination and strategic direction setting undertaken with groups involved in stakeholder engagement at the corporate and enterprise levels. There were organizational and process changes to improve the regulatory compliance of the organization. The document management system has been enhanced to improve readiness in regulatory review and audit.
NEW BUSINESS DEVELOPMENT Failure to launch significant new businesses to meet current and future business objectives.	Regional Business Clusters with different leadership teams are in place to handle business development in their respective areas. Manila Water's review framework of new business projects includes risk assessment and is a critical component in the business development and approval process. The risk profile of the project is considered in the determination of the cost of capital.
PORTFOLIO MANAGEMENT Failure to manage the risks associated with managing a portfolio.	A Portfolio Review Committee was established to objectively assess the financial and operating performance of current business units. Policies regarding investment and divestment of resources are in place, ensuring proper resource allocation across the enterprise.

In order to achieve its corporate objectives, Manila Water acknowledges the need for the active management of the risks inherent in its business which should involve the entire organization. For this reason, the Manila Water has established an Enterprise Risk Management (ERM) Program which aims to use a globally accepted approach in managing imminent and emerging risks in its internal and external operating environments. Under the ERM Program, Manila Water shall appropriately respond to risks and manage them in order to increase shareholder value and enhance its competitive advantage.

Manila Water, through its Enterprise Risk and Insurance Management Department (ERIM Department), seeks to integrate risk awareness and responsibility into each level of management activities, and into all strategic planning and decision-making processes within Manila Water and its subsidiaries to support achievement of strategies and objectives.

In its report to the Board of Directors adopted in its meeting held on February 23, 2018, the Board Risk Oversight Committee confirmed that:

- The Board Risk Oversight Committee discussed with Management the adequacy and effectiveness of the Enterprise Risk Management process, including significant risk exposures, the related risk-mitigation efforts and initiatives, and the status of the mitigation plans. The review was undertaken in the context that Management is primarily responsible for the risk management process.
- The Board Risk Oversight Committee has reviewed the Enterprise Risk Management Process in the Company and is satisfied that sufficient risk management systems are in place.
- The Committee conducted a self-assessment of its performance to confirm that the Committee meets the expectations of the Board, Management and shareholders.

In its report to the Board of Directors adopted in its meeting held on February 27, 2018, the Audit Committee confirmed that:

- The Committee reviewed and approved the quarterly unaudited consolidated financial statements and the annual Audited Consolidated Financial Statements of Manila Water Company, Inc. and subsidiaries, including Management's Discussion and Analysis of Financial Condition and Results of Operations as of and for the year ended December 31, 2017, with the Company's Management, internal auditors, and SGV & Co. These activities were conducted in the following context:
  - Management has the primary responsibility for the financial statements and the reporting process
  - SGV & Co. is responsible for expressing an opinion on the conformity of the Company's audited consolidated financial statements with the Philippine Financial Reporting Standards.
- The Committee reviewed and approved the Management representation letter before submission to the Company's independent external auditors.

    - The Committee recommended to the Board of Directors the re-appointment of SGV & Co. as independent external auditors for 2018 based on its review of SGV's performance and qualifications, including consideration of Management's recommendation.
    - The Committee reviewed and approved all audit and audit-related services provided by SGV & Co. to the Company and the related fees for such services.
- The Committee discussed and approved the overall scope and the respective audit plans of the Company's internal auditors and of SGV & Co., the results of their audits and their assessment of the Company's internal controls, and the overall quality of the financial reporting process.
- The Committee discussed the reports of the internal auditors, and ensured that Management is taking appropriate actions in a timely manner, including addressing internal control and compliance issues. All the activities performed by Internal Audit were conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.
- The Committee, through the audits conducted by SGV & Company and Internal Audit, has reviewed Management's system of internal controls and the Committee found the internal control system to be adequate and effective.
- The Committee discussed with Management the adequacy and effectiveness of the Enterprise Risk Management process, including significant risk exposures, the related risk-mitigation efforts and initiatives, and the status of the mitigation plans. The review was undertaken in the context that Management is primarily responsible for the risk management process.
- The Committee reviewed and confirmed that the existing Audit and Internal Audit Charters are sufficient to accomplish the Committee's and Internal Audit's objectives. The Audit Committee Charter is in compliance with the Securities and Exchange Commission Memo Circular No. 04 (2012).
- The Committee conducted a self-assessment of its performance to confirm that the Committee continues to meet the expectations of the Board, Management and shareholders.

Government Regulations

The Company has to comply with environmental laws and regulations which include:

- General Environmental Safeguards
    - Presidential Decree No. 1586 (Philippine Environmental Impact Statement System)
    - DENR Administrative Order No. 30, Series of 2003 (Implementing Rules and Regulations for the Philippine Environmental Impact Statement System)
    - DENR Administrative Order No. 2000-08 (Implementing Guidelines on Engineering Geological and Geohazard Assessment as Additional Requirement for ECC Applications)
    - DENR Administrative Order No. 02, Series of 2014 (Appointment/Designation of Pollution Control Officers).
    - DENR Administrative Order No. 27, Series of 2003 (Self-Monitoring Report System)
    - DENR Administrative Order No. 2017-15 (Guidelines on Public Participation under the Philippine Environmental Impact Statement (EIS) System

- Water
    - Republic Act No. 9275 or the Philippine Clean Water Act of 2004
    - DENR Administrative Order No. 10, Series of 2005 (Implementing Rules and Regulations of R.A. No. 9275)
    - DENR Administrative Order No. 35, Series of 1990 (General Effluent Standards)
    - DENR Administrative Order No. 39, Series of 2003 (Environmental Users Fees)
    - DENR Administrative Order 2016-08 (Water Quality Guidelines & General Effluent Standards)
    - DOH Operations Manual on the Rules and Regulations Governing Domestic Sludge and Septage

- Air
    - Republic Act No. 8749 or the Philippine Clean Air Act of 1999
    - DENR Administrative Order No. 81, Series of 2000 (Implementing Rules and Regulations of R.A. 8749)

- Solid Waste
    - Republic Act No. 9003 or the Ecological Solid Waste Management Act of 2000
    - DENR Administrative Order No. 34, Series of 2001 (Implementing Rules and Regulations of R.A. No. 9003)

- Hazardous Wastes and Chemicals

- Republic Act No. 6969 or the Toxic Substances, and Hazardous and Nuclear Waste Control Act of 1990
- Philippine Drug Enforcement Agency – Republic Act 9165- Regulatory Controls in Licit Trade of Controlled Precursors and Essential Chemicals
- Philippine National Police – License to Possess/Purchase Explosives (Chemical used in the laboratory that are ingredients/kind of explosives)
- DENR Administrative Order No. 29, Series of 1992 (Implementing Rules and Regulations of R.A. No. 6969)
- DENR Administrative Order 2004-36 (Revised Procedural Manual on Hazardous Waste Management)
- DENR Administrative Order No. 22, Series of 2013 (Revised Procedures and Standards for the Management of Hazardous Waste)
- DENR Administrative Order 2005-27 (Revised Priority Chemical List)
- Please include DENR Administrative Order 2007-23 (Prescribing additional Requirements for the Issuance of the Priority Chemical List Compliance Certificate)
- DENR Administrative Order for all Chemical Control Orders
- DENR Administrative Order 2013-24 Chemical Control Order for Lead
- DENR Administrative Order 1997-38 Chemical Control Order for Mercury & Mercury Compounds
- DENR Administrative Order 1997-39 Chemical Control Order for Cyanide & its Compound
- DENR Administrative Order 2004-08 Revised Regulations on the Chemical Control Order for Ozone Depleting Substances (ODS)
- DENR Administrative Order 2000-02 Chemical Control Order for Asbestos
- DENR Administrative Order 2004-01 Chemical Control Order for Polychlorinated Biphenyls (PCB)

- LLDA
  - Board Resolution No. 408, Series of 2011 (Approving Revised Definition of Developmental Activities Required to Secure LLDA Clearance and Its Implementing Rules and Regulations)
  - Board Resolution No. 248, Series of 2005 (Providing Guidelines on the Use of Shoreland Areas Surrounding the Laguna De Bay)
  - Board Resolution No. 283, Series of 2006 (Resolution Providing Guidelines on Reclamation within the Shoreland of Laguna De Bay)
  - Board Resolution No. 113, Series of 1999 (Adding the Implementing Guidelines Governing the Lease of the Laguna De Bay Shoreland Areas)

- Others
  - Republic Act No. 4850 or the Act Creating the Laguna Lake Development Authority (LLDA)
  - Relevant LLDA Board Resolutions and Memorandum Circulars, including but not limited to Resolution No. 25, Series of 1996 (Environmental User Fee System in the Laguna de Bay Region) and Resolution No. 33, Series of 1996 (Approving the Rules and Regulations Implementing the Environmental User Fee System in the Laguna de Bay Region)
  - Presidential Decree No. 856 or the Philippine Sanitation Code
  - Implementing Rules and Regulations of the Philippine Sanitation Code
  - RA 9514 Fire Code of the Philippines
  - Philippine National Standards for Drinking Water 2007
  - NWRB Resolution No. 03-0715 0f 2015 (Approval of the revised 2015 NWRB Fees & Charges
  - PD 1067 Water Code of the Philippines
  - IRR of Water Code of the Philippines 1979

Other Matters

The Company has not been involved in any bankruptcy, receivership or similar proceeding as of December 31, 2017.

Further, except as discussed above, the Company has not been involved in any material reclassification, consolidation or purchase or sale of a significant amount of assets not in the ordinary course of business. The Company is not dependent on a single customer or a few customers, the loss of any or more of which would have a material adverse effect on the Company.

For further information on MWC, please refer to its 2017 Financial Reports and SEC17A which are available in its website www.manilawater.com.ph.

AC ENERGY HOLDINGS, INC.

Overview

Ayala operates its power generation business through AC Energy Holdings, Inc. (alternatively referred to as “AC Energy” or “ACEHI”), which was established in 2005 as its vehicle for its investments in the power sector. AC Energy is a wholly-owned subsidiary of Ayala. AC Energy continues to pursue green field, as well as currently operating, power related projects for both renewable and conventional technologies in various parts of the country. From 2011 to 2016, it invested approximately US$800 million in the power sector to build and acquire over 1,000MW of attributable generating capacity as of 31 December 2017. AC Energy intends to double its attributable generating capacity to over 2,000MW by 2020.

Projects

AC Energy has entered into several joint ventures to develop power projects across various sites in the Philippines. These include:

Solar

In 2015, AC Energy signed a Subscription and Shareholders’ Agreement with BCE, the investment arm of Bronzeoak, for the development, construction and operation of a solar power farm in Bais City, Negros Oriental. This project is owned and operated by Monte Solar Energy Inc., a special purpose company. The first phase of the project is for an 18MW solar power plant with a total project cost of P=1.3 billion which was completed in February 2016, and is currently dispatching its full capacity to partially meet the energy requirements of Dumaguete City and Cebu City. The second phase is for the expansion of the initial 18MW solar power plant to up to 50MW.

Wind

In March 2011, AC Energy acquired a 50% effective stake in NorthWind. NorthWind owns and operates the 52-MW wind farm located in Bangui Bay, Ilocos Norte. The wind farm has 20 wind turbines and is the first commercial wind farm ever established in Southeast Asia.

AC Energy acquired an additional 17.8% stake in NorthWind in 2016. This increased AC Energy’s effective ownership interest from 50 percent to 67.8 percent.

In July 2013, AC Energy signed an Investment Framework Agreement and Shareholders’ Agreement with UPC Philippines Wind Holdco I B.V., a wholly-owned company of UPC Renewable Partners (“**UPC**”) and the Philippine Investment Alliance for Infrastructure (“**PINAI**”) fund, comprised of the Government Service Insurance System, Langoer Investments Holding B.V. and Macquarie Infrastructure Holdings (Philippines) Pte. Limited. Under the agreements, the parties agreed to develop wind farm projects in Ilocos Norte through Northern Luzon UPC Asia Corp. as their joint venture company (now named North Luzon Renewable Energy Corp. or “**NLR**”). An initial equity investment has been agreed for the first 81MW Caparispisan wind farm project, which has a total project cost of approximately US$220 million. AC Energy funded 64% of the project’s equity, with PINAI funding 32% and UPC funding 4%.

In April 2015, AC Energy’s wind farms in Bangui and Caparispisan, Ilocos Norte received their Feed-in-Tariff Certificate of Compliance or “FIT COC” from the Energy Regulatory Commission. These entitle NorthWind’s 19MW wind farm expansion in Bangui, and NLR’s 81MW wind farm in Caparispisan, Pagudpud under NLR to a feed-in-tariff (“FIT”) of PHP8.53 per kilowatt hour for a period of twenty years. The FIT rate covers the period October 2014 to October 2034 for NorthWind’s 19MW expansion and November 2014 to November 2034 for NLR’s 81MW wind farm.

In September 2015, AC Energy sold a portion of its ownership stake in NLR. Subsequent to such sale, AC Energy remains the single largest indirect shareholder in NLR with a 25.73% stake.

Thermal

SLTEC

In June 2011, AC Energy signed a joint venture agreement with Phinma Corp.’s Trans-Asia Oil and Energy Development Corporation (now PHINMA Energy Corp. or “**PHINMA**”) to form the 50/50 joint venture company, SLTEC. The joint venture is for the construction and operation of a 2x135-MW Circulating Fluidised Bed thermal power plant in Calaca, Batangas. SLTEC achieved commercial operations for the first unit of the Calaca project in 2015 and for the second unit in 2016. Also in 2016, AC Energy and PHINMA sold of a portion of their ownership stake in SLTEC to Marubeni Corporation's subsidiary, Axia Power. The sale brought PHINMA's ownership in SLTEC to 45%, and AC Energy's ownership to 35%.

GNPower Mariveles

In December 2012, Ayala entered into a sale and purchase agreement to acquire the interests held by an affiliate of a fund advised by Denham Capital in GN Power, the owner and operator of the 2 X 300 MW coal-fired generating plant in Mariveles, Bataan province. In January 2014, Ayala, through its wholly-owned subsidiary, AIHL, closed the acquisition of approximately 17% interest in GN Power. The acquisition includes a step-up in the sharing percentage (economic) attributable to the limited partnership interest acquired from approximately 17% to approximately 20% (following a pre-agreed formula) upon the recoupment by Sithe Global Investors (the lead partner for the project) of their total equity contribution to the project. In the second half of 2017, the step up of Ayala's sharing percentage to approximately 20% became effective. In January 2018, the restructuring of Ayala's ownership of GNPower Mariveles was completed with the transfer by AIHL's affiliate of its direct interest in GNPower Mariveles to ACE Mariveles Power Ltd. Co., a wholly-owned subsidiary of AC Energy. The other sponsors of the Mariveles power plant are power project developer Power Partners Ltd. Co. and Sithe Global Power LLC, which is now owned and controlled by Aboitiz Power Corp.

GNPower Kauswagan

In addition, AC Energy signed in July 2013 a partnership agreement with Power Partners Ltd. Co., a private limited partnership engaged in developing and owning power facilities in the Philippines since 2001, to build and operate a 3 x 135 MW thermal power plant in Kauswagan, Lanao del Norte through GNPower Kauswagan Ltd Co. ("**GNPK**"). The project was subsequently expanded to include a fourth unit, and PINAI participated as an additional limited partner in GNPK.

In July 2016, GNPK achieved financial close for the additional funding to enable the construction of the fourth unit of the Kauswagan coal power plant, at a total estimated project cost of US$1.0 billion. The plant is expected to start commercial operations by the second quarter of 2019.

GNPower Dinginin

In December 2013, AC Energy signed an Investment Agreement with Sithe Global GNPD BV and Power Partners Ltd. Co. for the development of a proposed 2 x 668 MW coal power plant project in Bataan. In January 2017, GNPower Dinginin Ltd. Co., the joint venture company of the partners, commenced construction of the plant, with Unit 1 targeted for completion by 2019 and Unit 2 targeted for completion by 2020.

International

AC Energy has started to establish a footprint overseas.

In January 2017, AC Energy invested in the development of a 75MW wind farm in Sidrap, South Sulawesi, Indonesia. The Sidrap project is targeted for completion by the first quarter of 2018, and will be the first utility-scale wind farm project in Indonesia. The Sidrap project is the first greenfield offshore investment of AC Energy, through its affiliate, AC Energy International Holdings Pte Ltd., a Singapore private limited company.

In April 2017, AC Energy, as part of an Indonesian consortium, completed the purchase and acquisition of Chevron's geothermal assets and operations in Indonesia. The consortium consists of AC Energy (with a 19.8% economic stake), the Star Energy Group and EGCO. The acquisition was made through a joint venture company, Star Energy Geothermal (Salak-Darajat) B.V. The assets include the Darajat and Salak geothermal fields in West Java, Indonesia with a combined capacity of 637MW of steam and power.

In July 2017, AC Energy and Star Energy entered into definitive agreements for the transfer of 99% of their consortium interests in ACEHI-STAR Holdings, Inc. to AllFirst Equity Holdings, Inc. ACEHI-STAR Holdings, Inc. 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.

With the Chevron and Sidrap investments, AC Energy tripled its renewables portfolio to over 260MW.

In July 2017, AC Energy, acting through its subsidiary AC Energy International Holdings Pte Ltd., entered into a shareholders' agreement with UPC Renewables Asia Pacific Holdings Limited and UPC Renewables Asia I Limited to provide development funding to certain island renewable power projects in Indonesia.

Renewable energy development platform

In March 2017, AC Energy acquired 100% ownership of BCE (now Visayas Renewables Corp.) and SCCE (now AC Energy DevCo Inc.). The acquisition provides AC Energy a renewable energy development, management and operations platform. The platform currently provides operations and management support to renewable energy companies that include San Carlos Solar Energy Inc., Negros Island Solar Energy Inc., Monte Solar Energy Inc., San Carlos BioPower Inc., South Negros BioPower Inc. and North Negros BioPower Inc.

Environmental

While AC Energy continues to tap conventional energy sources to help secure energy availability in the Philippines, AC Energy is firmly committed to exploring innovations in power. To keep environmental impact at a minimum, AC Energy's conventional coal fired plants use the best available technologies and management approaches to reduce the accumulation of fly ash, and air and coal dust emissions. Meanwhile, SLTEC, which uses atmospheric fluidized bed combustion, has an approximate 8% reduction of carbon dioxide emissions per MW electricity produced compared with conventional coal fired power plants.

AC INDUSTRIAL TECHNOLOGY HOLDINGS INC. - AUTOMOTIVE

AC Industrials or the Group's Automotive unit has minority investments in automobile manufacturing and assembly companies consisting of a 12.9% interest in HCPI and a 15% interest in IPC. HCPI is a joint venture with Honda Motors Co. Ltd and Rizal Commercial Banking Corp. ("RCBC"), which has assembled and manufactured Honda automobiles for the Philippine market in Laguna Technopark since September 1990. IPC is a joint venture with Isuzu Motors, Ltd., Mitsubishi Corporation ("Mitsubishi") and RCBC.

Through AC Industrials' wholly-owned subsidiaries, the Group has eleven Honda dealerships through Honda Cars Makati, Inc., nine Isuzu dealerships through Isuzu Automotive Dealership Inc., and four Volkswagen dealerships through Iconic Dealership Inc. as of 31 December 2017. It is also the official importer and distributor of Volkswagen for the Philippines through Automobile Central Enterprise Inc.

AC Industrials also entered the motorcycle business in 2016 via a strategic partnership with KTM AG, Europe's largest motorcycle brand, to manufacture and distribute its products in the Philippines and other export markets. Adventure Cycle Philippines, a wholly-owned AC Industrials subsidiary and official Philippine distributor of KTM products, holds a 66% interest in KTM Asia Motorcycle Manufacturing, a joint venture with KTM AG. Adventure Cycle Philippines also operates one KTM dealership as of 31 December 2017.

AC Automotive's KTM business has 19 branches as of December 31, 2017 and is expected to commence exports from its joint-venture manufacturing operations in the first quarter of 2018.

Bank of the Phil. Islands (BPI or the Bank), and **Globe Telecom** (Globe) are significant associate and joint venture of the Group. Their summarized financial information are therefore presented separately.

BANK OF THE PHILIPPINE ISLANDS

Bank of the Philippine Islands' (BPI or the Bank) highlights of Consolidated Statements of Condition and Statements of Income are shown in the Note 11 of the Group's 2017 Consolidated Financial Statements as well as in the BPI's 2017 Consolidated Financial Statements which form part of Index to Financial Statements and Supplementary Schedules of this SEC 17A report.

Background and Business

The Ayala Group conducts its financial services business through Bank of the Philippine Islands (alternately referred to as BPI, "the Bank" or "the Company" in the entire discussion of Bank of the Philippine Islands). BPI is a Philippine-based universal bank with an expanded banking license. Founded in 1851, BPI is the country's oldest bank. In the post-World War II era, BPI evolved, largely through a series of mergers and acquisitions during the 1980s and 1990s, from a purely commercial bank to a fully diversified universal bank with activities encompassing traditional commercial banking as well as investment and consumer banking.

Together with its subsidiaries, BPI offers a wide range of financial services that include corporate banking, consumer banking, consumer lending, investment banking, asset management, securities distribution, insurance services and leasing. Such services are offered to a wide range of customers, including multinationals, government entities, large corporations, SMEs and individuals.

(1) Business Development

BPI is the Philippines' third largest banking institution in terms of total assets and equity capital, and is among the highest in the industry in terms of market capital. The bank is licensed by the Bangko Sentral ng Pilipinas ("BSP") to provide universal banking services and has a significant share of total banking system deposits, loans, and investment assets under management. It is recognized as one of the country's top providers of cross-border remittances, life and non-life bancassurance services, as well as asset finance and leasing. BPI also has a significant capital markets presence, particularly in fixed income and equities underwriting, distribution and brokerage. It is a significant provider of foreign exchange to both retail and corporate clients. The bank also has the country's third largest branch network. It is a leader and innovator in the use of automated branch processes as well as in the use of electronic channels. The bank operates the country's second largest ATM network, and is also a major provider of financial services through internet banking, mobile banking, and phone banking.

Historical Background. Founded in 1851, BPI was the first bank formed in the Philippines and was the issuer of the country's first currency notes in 1855. It opened its first branch in Iloilo in 1897 and pioneered in sugar crop loans. It also financed the first tram service, telephone system, and electric power utility in Manila and the first steamship in the country. As such, BPI and its "escudo" ranks as one of the largest home-grown Philippine brands and carries an extensive legacy.

Recent History. For many years after its founding, BPI was the only domestic commercial bank in the Philippines. BPI's business was largely focused on deposit taking and extending credit to exporters and local traders of raw materials and commodities, such as sugar, tobacco, coffee, and indigo, as well as funding public infrastructure. In keeping with the regulatory model set by the Glass Steagall Act of 1932, the Bank operated for many years as a private commercial bank. In the early 1980s, the Monetary Board of the Central Bank of the Philippines (now the BSP) allowed BPI to evolve into a fully diversified universal bank, with activities encompassing traditional commercial banking as well as investment and consumer banking. This transformation into a universal bank was accomplished through both organic growth and mergers and acquisitions, with BPI absorbing an investment house, a stock brokerage, a leasing company, a savings bank, a retail finance company, and bancassurance platforms.

BPI consummated three bank mergers since the late 1990s. In 1996, it merged with City Trust Banking Corp., the retail banking arm of Citibank in the Philippines, which enhanced its franchise in consumer banking. In 2000, BPI acquired Far East Bank & Trust Company (FEBTC), then the largest banking merger in the Philippines. This merger established BPI's dominance in asset management & trust services and branch banking; furthermore, it enhanced the Bank's penetration of middle market clients. In 2000, BPI also formalized its acquisition of three major insurance companies in the life, non-life and reinsurance fields. In 2005, BPI acquired and merged with Prudential Bank, a medium sized bank with a clientele of middle market entrepreneurs.

In March 2011, BPI became the first bank in the Philippines to acquire the trust business of a foreign bank when it purchased the trust and investment management business of ING Bank N.V. Manila.

In December 2014, BPI completed a strategic partnership with Century Tokyo Leasing Corp., one of the largest leasing companies in Japan, to form BPI Century Tokyo Lease & Finance Corp., with BPI retaining 51% of ownership. This strategic partnership is expected to help BPI innovate in asset financing products and enhance the service experience of an expanding base of Philippine consumers and corporations seeking asset leasing and rental solutions.

BPI evolved to its present position as a leader in Philippine banking through a continuous process of improving its array of products and services, while maintaining a balanced and diversified risk profile that helped reinforce the stability of its earnings.

Business Milestones (2015-2017). On August 2015, BPI completed another strategic partnership with Global Payments, an Atlanta-based, NYSE-listed provider of international payment services. By combining its merchant acquiring network with that of GPN, BPI stands to provide enhanced services to its card customers, as well as to its merchant clients. The partnership with GPN remained 49% owned by BPI.

Last August 2016, BPI acquired a 10% minority stake in Rizal Bank Inc. (RBI), a member institution of Center for Agriculture and Rural Development Mutually Reinforcing Institutions (CARD MRI), a group of social development organizations that specialize in microfinance.

Effective September 20, 2016, BPI has taken full control over BPI Globe BanKO, Inc. after acquiring the 20% and 40% stake of Ayala Corporation and Globe Telecom, respectively. On December 29, 2016, the Securities and Exchange Commission approved change of the corporate name to BPI Direct BanKo, Inc., A Savings Bank, after BPI Direct absorbed the entire assets and liabilities of BanKO.

Also on December 29, 2016, BPI has successfully 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.

Principal Subsidiaries. The Bank's principal subsidiaries are:

(1) BPI Family Savings Bank, Inc. ("BFSB") is BPI's flagship platform for retail lending, in particular, housing, auto, and small business loans. It is also one of BPI's primary vehicles for retail deposits. BFSB was acquired by BPI in 1984;

(2) BPI Capital Corp. ("BPI Cap") is an investment house focused on corporate finance and the underwriting, distribution, and trading of debt and equity securities. It began operations in December 1994. BPI Cap wholly owns BPI Securities Corp., a stock brokerage;

(3) BPI Direct BanKo, Inc., A Savings Bank ("BanKo") serves microfinance customers through branch, electronic, and partnership channels. Founded in February 2000 as BPI Globe BanKO, it is now wholly-owned, following a September 2016 purchase of stakes owned by Ayala Corp. (20%) and Globe Telecom, Inc. (40%) and a December 2016 merger with BPI Direct Savings Bank, Inc.;

(4) BPI International Finance Limited ("BPI IFL") is a deposit taking company in Hong Kong. Originally established in August 1974, it provides deposit services as well as client-directed sourcing services for international investments;

(5) BPI Europe Plc. ("BPI Europe") was granted a UK banking license by the Financial Services Authority (FSA) on April 26, 2007. Operations commenced October 1, 2007. BPI Europe is licensed to offer financial services in European Economic Area member states;

(6) BPI Century Tokyo Lease & Finance Corp. ("BPI CTL") is a non-bank financial institution ("NBFI") that provides financing services pursuant to the Financing Company Act. BPI CTL is a joint venture with Century Tokyo Leasing Corp., who purchased a 49% stake in 2014. BPI CTL wholly owns BPI Century Tokyo Rental Corp., which offers operating leases;

(7) BPI/MS Insurance Corp. (“BPI MS”) is a non-life insurance company. It is a joint venture with Mitsui Sumitomo Insurance Co. (who owns a 49% stake), and is the result of a merger of FGU Insurance Co. and FEB Mitsui Marine Insurance Co, which was acquired as a subsidiary of Far East Bank in 2000.

(8) BPI Asset Management and Trust Corporation (“BPI AMTC”) is a newly-established Stand Alone Trust Corporation (SATC) after Certificate of Authority to Operate was issued by the Bangko Sentral ng Pilipinas on December 29, 2016. BPI AMTC started operations on February 1, 2017.

(9) BPI Investment Management Inc. (“BIMI”) is a wholly owned subsidiary of the Bank and serves as the Bank’s manager, and investment advisor to the ALFM Mutual Funds (which comprise a number of open-end investment companies registered with, and regulated by, the SEC). BIMI is also responsible for formulating and executing the funds’ investment strategy.

(2) Business and Operations

Principal Products & Services

The Bank offers a wide range of corporate, commercial and retail banking products. The Bank has two major categories for products & services. The first category covers its core financial intermediation business, which includes, deposit taking, lending, and securities investments. Revenue from this category is collectively termed as net interest income and accounts for about 68% of net revenues. The second category covers services ancillary to the Banks’ financial intermediation business, and from which it derives transaction-based commissions, service charges & other fees. These include investment banking & corporate finance fees, asset management & trust fees, foreign exchange gains, securities distribution fees, securities trading gains, credit card membership fees, rental of bank assets, income from insurance subsidiaries and service charges or commissions earned on international trade transactions, drafts, fund transfers, and various deposit related services. Commissions, service charges, and other fees, when combined with trading gains and losses arising from the Bank’s fixed income and foreign exchange operations, constitute non-interest income, which accounts for the remaining 32% of net revenues.

Foreign Offices Contribution

	2015	2016	2017
Share in Total Revenue (%)	0.77	0.74	1.51
Hong Kong	0.33	0.35	0.37
USA	0.06	0.06	0.86
Europe	0.39	0.33	0.28
Share in Total Net Income (%)	0.20	0.18	1.57
Hong Kong	0.18	0.10	0.18
USA	(0.00)	0.08	1.43
Europe	0.02	(0.00)	(0.04)

Distribution Network

BPI had 839 branches across the country, including 22 kiosk branches, as of end 2017. Kiosks are branches much smaller than traditional full-service branches, but are fully equipped with terminals allowing direct electronic access to product information and customers’ accounts, as well as processing of self-service transactions. Kiosks serve as sales outlets in high foot traffic areas such as supermarkets, shopping malls, transit stations, and large commercial establishments. Additionally, there are 103 BPI Direct BanKo branches and microbanking offices (MBOs) set up in strategic locations in the country. BPI Direct BanKo, originally set-up as a joint venture with Ayala Corp. and Globe Telecom, is the country’s first mobile-based savings bank whose goal is to extend microfinance services to the lower end of the market, thereby promoting financial inclusion. Overseas, BPI has one (1) Hong Kong office (BPI IFL) and two (2) BPI Europe offices in London.

BPI maintains a specialized network of overseas offices to service Filipinos working abroad. To date, BPI has 4 Remittance Centers located in Hong Kong and 2 representative offices located in UAE and Japan. BPI also maintains remittance tie-up arrangements with various foreign entities in several countries to widen its network in serving the needs of Filipinos overseas.

On the lending side, there are 17 BPI and 10 BFSB Business Centers across the country to process loan applications, loan releases, and international trade transactions, and provide after-sales servicing to both corporate and retail loan accounts.

BPI's ATM network has grown to a total of 3,105 terminals as of end-2017 of which 2,333 are ATMs and 772 are Cash Acceptance Machines. This complements the branch network by providing cash-related banking services to customers at any place and time of the day. In addition, the interconnection with Bancnet gives BPI cardholders access to over 19,400 ATMs across the country. BPI's ATM network is likewise interconnected with Mastercard, China Union Pay (CUP), Discover/Diners, JCB, and Visa. Through the Bank's extensive physical and digital networks, the Bank provides a broad range of value-added services to its clients, enhancing convenience and self-service capabilities, as well as greater accessibility.

BPI Phone Banking continues to service customer inquiries and transactions through its self-service facility. With 89-100, clients can inquire about their account balances and latest transactions, transfer funds to other BPI accounts in real time and pay for their various bills (e.g., credit cards, utilities, condominium dues, insurance premiums). Customer concerns and queries received via phone banking as well as through SMS, e-mail, social media, and Viber app, are all addressed by the bank's 24-hour Contact Center.

BPI Online Banking through www.bpiexpressonline.com gives clients complete control over their accounts in the comforts of their home or office, through the use of a web browser. Regarded as the most robust electronic channel of the bank, the platform offers clients a variety of transactions such as viewing their accounts' balance and transaction history, paying over 400 bill merchants, and managing investment funds. Through BPI Online Banking, access to basic banking services such as ordering of checkbooks for branch pick up and setting an appointment at any BPI branch through BPI Express Assist (BEA) can be done online.

BPI Mobile Banking allows clients to access their accounts anytime, anywhere - whether they have a smartphone or a feature phone. With this fast growing channel of choice, clients can check their account balances and perform key financial transactions such as bills payment, prepaid phone reloading, and fund transfers - even to unenrolled BPI accounts - a feature exclusive to mobile banking. In 2016, the quick portfolio feature was introduced in the app, to provide mobile app users easy access to check their account balances via fingerprint, or by simply keying in a pattern or PIN. Face recognition capability was added last year. BPI's mobile banking app is available on Android and iOS devices.

Competition

Mergers, acquisitions and closures continued to reduce the number of players in the industry from a high of 50 upon the liberalization of rules on the entry of foreign banks, down to 43 universal and commercial banks in December 2017.

Lending by universal and commercial banks, excluding thrift banks, grew by 19.3% in 2017 or 1.9 percentage points higher versus registered growth in 2016. The top five industry performers were other service activities, mining and quarrying, arts, entertainment and recreation, education, public administration and defense, which grew by 49.4%, 49.2%, 35.7%, 34.1% and 29.9%, respectively. Decent credit demands were also seen from transportation and storage, electricity, gas, steam, and air-conditioning supply, information and communication, construction, professional, scientific and technical activities, wholesale and retail trade, and real estate. Consumer loans also grew by 21.2% in December 2017 versus the prior year.

The stable and strong trend in GDP which grew 6.7% in 2017 is expected to continue in 2018 and in the coming years as the government's infrastructure drive is finally taking off. The recently signed Tax Reform for Acceleration and Inclusion ("TRAIN") law, which is the first package of the Comprehensive Tax Reform Program ("CTRP") is seen to boost the purchasing power of the majority of income earners. In a bid, meanwhile, to complement the expected incremental revenues from the first package, the lower corporate income taxation and fiscal incentives modernization are expected to be addressed in the second package of the CTRP.

The continued development in infrastructure and the relaxed income taxation are seen to fuel activities within the financial sector. Funds acquired through capital markets and deposit taking will be extended to both private and government sectors. While BPI will continue to grow its corporate and consumer clients, it aims to emerge as an important player in the Micro, Small and Medium Enterprises (MSME) space, both to adhere to the government's financial inclusion program and to smoothen the gap between the corporate and retail segments.

Based on required published statements by the BSP as of December 2017, BPI is the third largest bank operating in the country in terms of assets, customer loans and capital. The Bank ranks second in terms of deposits and asset management and trust business. Total assets of BPI, based on Philippine Accounting Standards (PAS) compliant audited financial statements, are higher than the published statements prepared along BSP standards.

Patents, Trademarks, Licenses, Franchises, etc.

BPI sells its products and services through the BPI trademark and/or trade name. All its major financial subsidiaries carry the BPI name prefix (e.g., BPI Family Savings Bank, BPI Capital, BPI Securities, BPI Leasing, and BPI Direct BanKo), and so do its major product & service lines.

Following are some of BPI's trademarks for its products and services:

1. BPI Express Banking Centers, for its banking kiosks
2. BPI ATM, for its ATM
3. BPI CAM, for its cash acceptance machine
4. Express Payment System or EPS, for its debit card payment facility
5. Express Credit, for its credit cards
6. Express Cash, for its electronic cash card
7. BPI Phonebanking, for its call center facility
8. BPI Online Banking, for its internet based transaction platform for retail customers
9. BPI Mobile Banking, for its mobile banking facility
10. ExpressLink, for its internet based transaction platform for corporate customers
11. ExpressLink Mobile, for its mobile banking for corporate customers
12. Express Collect, for its corporate deposit related services

At BPI Family Savings Bank, the product trademarks include the BPI Family Housing Loan with BPI Family Housing Loan Paybreak variant, the BPI Family Auto Loan, and BPI Family Ka-Negosyo Business Loans (BPI Family Ka-Negosyo Credit Line, BPI Family Ka-Negosyo Franchising Loan and BPI Family Ka-Negosyo Term Loan). Other product brands of BPI, BFSB and BPI Direct BanKo are Kaya Savings (formerly Easy Saver), PondoKo Savings, Maxi-One, Save-up, Advance Savings, Maxi-Saver, Pamana Savings Account, Pamana Padala, Padala Moneyger, Ka-Negosyo Checking Account, Plan Ahead, the BPI Personal Loan and a loan product specifically offered by BPI Direct BanKo, BanKo NegosyoKo.

All the Bank's Trademark registrations are valid for 10 years with years of expiration varying from year 2017 to 2026. To continue securing these rights, the Bank files its declaration of actual use and pays corresponding fees within 1 year from the 5th anniversary of trademark registration or renewal. The Bank closely monitors the expiry/renewal dates of these trademarks to protect the Bank's brand equity.

In terms of business licenses, BPI has an expanded commercial banking license while BFSB and BPI Direct BanKo have savings bank licenses. BPI Capital Corp has an investment house license and is a registered Government Securities Eligible Dealer (GSED) with Broker Dealer of Securities and Mutual Fund Distributor. BPI CTL has a finance company license. BPI AMTC, a 100% subsidiary of BPI, has a trust license, securities custodian license and is a PERA-accredited administrator.

Related Parties

In the ordinary course of business, the Bank has entered into various transactions with its Directors, Officers, Stockholders and their Related Interest, or DOSRI, including loan transactions. BPI and all its subsidiaries have always been in compliance with the General Banking Act, BSP Circulars and regulations on DOSRI loans and transactions. As of December 31, 2017, DOSRI loans amounted to 0.36% of loans and advances as per Note 27 of the 2017 Audited Financial Statements, which is part of Index to this report.

Government Regulations

Under the General Banking Act, the Monetary Board of the BSP is responsible for regulating and supervising financial intermediaries like BPI. The implementation and enforcement of the BSP regulations is primarily the responsibility of the supervision and examination sector of the BSP.

The General Banking Act was revised in 2000. The revisions allow (1) the issuance of tier 2 capital and its inclusion in the capital ratio computation, and (2) the 100% acquisition of a local bank by a foreign bank. The second item removes the advantage of a local bank over a foreign bank in the area of branching. In 2005, the BSP issued Circular No. 494 covering the guidelines in adopting the provision of Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) effective the annual financial reporting period beginning 1 January 2005. These new accounting standards aim to promote fairness, transparency and accuracy in financial reporting.

In July 2007, the risk-based Capital Adequacy Ratio (CAR) under the Basel II accord, which assigns risk weights for credit, market and operational risks, was implemented by the BSP through BSP Circular No. 538. The circular, which covers all universal and commercial banks including their subsidiary banks and quasi-banks, also maintained the 10% minimum capital adequacy ratio for both solo and consolidated basis. Subsequently, the Internal Capital Adequacy Assessment Process (ICAAP) guidelines were issued in 2009 for adoption by January 2011.

On January 6, 2012, the BSP announced that universal and commercial banks will be required to adopt the capital adequacy standards under Basel III starting January 1, 2014. On January 15, 2013, the BSP issued Circular No. 781, which prescribes the new capital adequacy standards in accordance with Basel III. This circular took effect in January 1, 2014.

On March 29, 2012, the BSP issued Circular No. 753 mandating the unification of the statutory/legal and liquidity reserves requirements on Peso deposits and Peso deposit substitutes. As such, effective the week of April 6, 2012, non-foreign currency deposit, unit deposit liabilities, including Peso demand, savings and time deposits, negotiable orders of withdrawal of accounts, and deposit substitutes, are subject to required reserves equivalent of 18%. Likewise, a universal bank is required to set up reserves of 15% against Peso-denominated “Trust and Other Fiduciary Accounts (TOFA) — Others.”

On June 27, 2014, the BSP issued Circular No. 839 which set prudential real estate stress test limits of Common Equity Tier 1 (CET1) capital ratio of 6% and risk-based capital adequacy ratio (CAR of 10% for universal/commercial banks (U/KBs), thrift banks (TBs) on a solo and consolidated basis on their aggregate real estate exposures (REEs). The stress test will be undertaken on a U/KB’s or TB’s REEs and other real estate property under an assumed write-off rate of 25%.

On October 29, 2014, the BSP issued Circular No. 856 requiring Domestic Systematically Important Banks (DSIBs) to submit data requirements for identification of DSIBs, starting with 2014 data. DSIBs will also be required to comply with the additional higher loss absorbency, phased-in from January 1, 2017, with full implementation by January 1, 2019. This circular took effect on December 31, 2014.

On June 9, 2015, the BSP issued Circular No. 881, requiring banks to maintain a minimum leverage ratio (Tier 1 capital / Exposure Measure) of 5.0% on both solo and consolidated bases. Starting December 31, 2014 and every quarter thereafter until December 31, 2016, concerned banks shall submit the Basel III Leverage Ratio reporting template, including required disclosure template, on both solo and consolidated bases for monitoring purposes. Final guidelines shall be issued in view of the changes to the framework as well as migration from monitoring of the leverage ratio to a Pillar 1 requirement starting January 1, 2017.

In October 2015, BSP Circular No. 888, Amendments to Regulations on Dividend Declaration and Interest Payments on Tier 1 Capital Instruments, was issued, which amends the section on recording of dividends. The liability for dividends declared shall be taken up in the bank’s books upon its declaration. Prior to the release of BSP Circular No. 888, the liability for recording dividends declared is taken up in the books upon receipt of BSP approval thereof or if no such approval is received, after thirty (30) banking/business days from the date the required report on dividend declaration was received by the appropriate department of the Supervision and Examination Sector, whichever comes earlier.

On March 10, 2016, the BSP issued Circular Nos. 904 and 905.

- BSP Circular No. 904 requires DSIBs to submit their first recovery plan on June 30, 2016 and for the recovery plan to form an integral part of the ICAAP to be submitted every 31 March of each year.
- BSP issued Circular No. 905 requires banks to maintain a minimum Liquidity Coverage Ratio (LCR) on a daily basis with required BSP reporting of quarterly on a consolidated basis and monthly on a solo basis. The LCR shall be implemented on a phased-in arrangement with prescribed minimum set initially at 90% in 2018 and shall rise to the minimum required level of 100% on January 1, 2019.

On May 27, 2016, the BSP issued Circular No. 912 which contains the guidelines on the adoption of the full provisions of PFRS 9 Financial Instruments effective January 1, 2018 and on the closure of early adoption window of the PFRS 9 Financial Instruments.

On June 2, 2016, BSP announced thru Circular No. 913, the formal shift in its monetary operations to an interest rate corridor (IRC) system starting June 3, 2016. The IRC is a system for guiding short-term market rates towards the BSP policy interest rate which is the overnight reverse repurchase (RRP) rate. The IRC system consists of the following instruments: standing liquidity facilities, namely, the overnight lending facility (OLF) and the overnight deposit facility (ODF); the overnight RRP facility; and a term deposit auction facility (TDF).

On January 20, 2017, BSP issued BSP Circular No. 941, Amendments to the Regulations on Past Due and Non-Performing Loans, which amends the regulatory definition of past due accounts, restructured loans non-performing loans and other related provisions, effective January 1, 2018. In general, this provides a 30-day cure period within which to allow the borrowers to catch up on their late payments without being considered as past due, subject to meeting certain criteria as provided in the memo.

On December 19, 2017, Republic Act No. 10963, otherwise known as the "Tax Reform for Acceleration and Inclusion" (TRAIN) law was signed into law. This is the first package of the Comprehensive Tax Reform Program (CTRP), which amends various provisions of the 1997 National Internal Revenue Code. The Act took effect in January 1, 2018.

Research and Development Activities

BPI spent the following for the last three years:

	In Million Pesos	% of Revenues
2015	422.0	0.7
2016	428.7	0.6
2017	595.3	0.8

Employees

Below is a breakdown of the manpower complement of BPI in 2017 as well as the approved headcount for 2018.

	December 31, 2017 Actual			December 31, 2018 Plan		
	Officers	Staff	Total	Officers	Staff	Total
Unibank	5,866	10,564	16,430	6,519	11,956	18,475
Consumer	3,737	9,214	12,951	4,183	10,509	14,692
Corporate	618	605	1,223	720	683	1,403
Investment	418	252	670	468	255	723
Support	1,093	493	1,586	1,148	509	1,657
Insurance Companies	116	501	617	123	514	637
TOTAL	5,982	11,065	17,047	6,642	12,470	19,112

Majority or 90% of the staff are members of various unions and are subject to Collective Bargaining Agreements (CBAs). The current CBA of the parent company was concluded / signed last May 31, 2016 for Provincial Union and September 16, 2016 for Metro Manila Union, which covers the period of April 1, 2016 to March 31, 2019.

CBA for BPI Family Savings Bank was concluded / signed last December 17, 2015. The BFSB CBA covers the period November 1, 2015 to October 31, 2018. The next negotiation for the BFSB CBA will be in November 2018.

Risk Management

The Bank espouses a comprehensive risk management and capital management framework, which integrates the management of all its financial and non-financial risk exposures. The framework conforms not only to the Bank's own rigorous standards, but also BSP directives in promoting an effective ICAAP and other risk management processes; and ensures that the Bank has adequate liquidity and capital levels to mitigate risks. The framework focuses on three (3) key components of-

- Sound risk management governance;
- Effective risk processes, information systems, and controls; and
- Timely and reliable risk data.

BPI's Board of Directors fulfills its risk management function through the Risk Management Committee (RMC). At the management level, the Risk Management Office (RMO) is headed by the Chief Risk Officer (CRO). The CRO is responsible in leading the formulation of risk management policies, methodologies, and metrics in alignment with the overall strategy of the Bank, ensuring that risks are prudently and rationally undertaken and within the Bank's risk appetite, as well as commensurate and disciplined to maximize returns on capital. The CRO and the RMO facilitate risk management learning programs and promote best practices on an enterprise-wide basis.

The Bank's risk exposures are identified, measured, and monitored according to three (3) major classifications:

- **Credit Risk**, the largest single risk for most local banks, arises from the Bank's core lending and investing business, and involves the thorough evaluation, appropriate approval, management and continuous monitoring of exposure risks, such as borrower (or counterparty) risk, facility risk, concentrations and industry risk relating to each loan account. In BPI, the entire credit risk management process is governed by stringent underwriting policies and rating parameters, and lending procedures and standards which are regularly reviewed and updated given regulatory requirements and market developments. The Bank's loan portfolio is continuously monitored and reviewed as to overall asset quality, concentration and utilization of limits. The Bank continuously experiences growth in loan volumes but is able to manage overall low credit risk and maintain asset quality (as evidenced by generally low NPLs and adequate reserves cover), and did so in general compliance with regulatory and prudential requirements relating to credit risk management (e.g. RPT and DOSRI restrictions, single borrower's limits, and credit concentration, internal and regulatory stress tests, among others).

- **Market and Liquidity Risks** arise from the Bank's business in managing interest rate and liquidity gaps, as well as in the trading and distribution of fixed income, foreign exchange, and derivative instruments (as allowed by regulation). Price risk and liquidity risk are managed using a set of established policies and metrics guided by the Bank's market risk management framework set by the Board/RMC. Price risk is the risk that the Bank's earnings will decline immediately (or over time) because of volatility in interest rates, FX rates, or equity prices. The Bank employs various methodologies such as value-at-risk (VaR), loss limits, balance sheet value-at-risk, and earnings-at-risk, supplemented by regular stress tests. Liquidity exposures on funding mainly come from the mismatches of asset, liability, and exchange contract maturities. The Bank manages liquidity risk by setting a minimum cumulative liquidity gap (MCLG – smallest net cumulative cash inflow or the largest net cumulative cash outflow), conducting internal and regulatory liquidity stress tests, and testing an established contingency funding plan. The Bank's market and liquidity risk exposures are generally well within the RMC (Board-level) approved VaR, stop loss, and other risk limits at the BPI parent and consolidated group levels.

- **Operational and IT Risks** arise from the Bank's people and processes, its information technology, threats to the security of its facilities, personnel, or data, models, business interruption risk, reputational risk, and compliance obligations to regulatory or taxing authorities, amongst others. Operational and IT risk management in the Bank involves the formulation of policies, setting and monitoring of key risk indicators, overseeing the thoroughness of bank-wide risk and control self-assessments and loss incident management; and in the process, creating and maintaining a sound business operating environment that ensures and protects the integrity of the Bank's assets, transactions, reputation, records and data of the Bank and its customers, the enforceability of the Bank's claims, and compliance with all pertinent legal and regulatory parameters. The Bank's actual operational losses are generally less than 1% of the Bank's annual gross income, which is well within the Bank's appetite for operational and IT risks.

Risk management is carried out by a dedicated team of skilled risk managers and senior officers who have extensive prior operational experience working within the Bank. The Bank's risk managers regularly monitor key risk indicators and report exposures against carefully-established credit, market, liquidity and operational and IT risk metrics and limits approved by the RMC. Finally, independent reviews are regularly conducted by the bank's Internal Audit group, regulatory examiners, and external auditors to ensure that risk controls and mitigants are in place and functioning effectively as intended.

Compliance

Business or compliance risk, which can be defined as "the risk of regulatory or legal sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities", is addressed and managed within the Bank through its compliance function and its component system and program.

The Bank's compliance system is critically important in identifying, evaluating, and addressing the regulatory and reputational risks while the enterprise-wide compliance program helps the Bank to look at and across business lines and activities of the organization as a whole and to consider how activities in one area of the Bank may affect the business or compliance risks of other business lines and the entire group/enterprise. The compliance program also helps the Board and management in understanding where such regulatory and reputational risks in the organization are concentrated, provide comparisons of the level and changing nature of risks, and identify those control processes that most need enhancement.

Oversight of the management of the Bank's business risk and implementation of its compliance function is the responsibility of our Board of Directors, through the Audit Committee. At the management level, the compliance function is carried out by the Compliance Office. The Compliance Office oversees the implementation of the Bank's enterprise-wide compliance programs. These programs take into account the size and complexity of the Bank, the relevant rules and regulations that affect its operations, and the business risks that may arise due to non-compliance. By using regulatory and self-assessment compliance matrices, compliance measures are formulated to mitigate identified business risks and tested to ensure effectiveness.

The Compliance Office is currently organized to cover Regulatory Compliance, Corporate Governance, Anti-Money Laundering Compliance and FATCA Compliance and the Data Privacy Office. Considering the rapid developments in the regulatory sphere as well as the growing complexity of bank products, services and transactions, the Compliance Office evolves in its coverage of compliance practice areas to anticipate and meet forward challenges. Enhancement of our compliance function's scope and domain is redefined for new and emerging sources of compliance risk. The Compliance Office is also empowered by the accountability to it of 14 Group Compliance Coordinating Officers, or GCCOs, who are embedded in operational units throughout the Bank. The GCCOs are charged with enforcing compliance office initiatives, as well as providing timely reports to the compliance office.

Overall enforcement is through self-regulation within the business units, and independent testing and reviews conducted by the Compliance Office and Internal Audit. Results of these reviews are elevated to the Board's Audit Committee and Corporate Governance Committee, with respect to governance issues. The Compliance Office promotes adherence and awareness to laws, rules and regulations by electronically posting information and documents in a compliance database that is accessible to all employees. Regular meetings are conducted by the Compliance Office with the GCCOs to discuss the impact of new regulations, decide on the required compliance measures and amend compliance matrices as necessary. Through continued liaison and dialogue with regulators, the Compliance Office ensures the prompt dissemination of new regulations and other developments affecting bank operations.

Financial Consumer Protection Framework

In 2017, the Bank, through its Customer Experience Management Office (CXMO) established the BPI Customer Assistance Program to establish guidelines that will help ensure that all feedback from customers and potential customers are well handled in alignment with the Bank's consumer protection policies. The designated Customer Assistance Officers underwent onsite training to equip them in their function in addressing customer issues and to ensure compliance with the Bank's Consumer Protection Program. The need to conduct continuous information and education campaign on the Financial Consumer Protection Program has been a major priority of the unit.

To deepen customer engagement and address specific customer needs, CXMO spearheaded the conduct of the Service Quality Review (SQR) where various business units present their performance updates on their defined service quality goals to the Bank's Customer Experience Council. The Customer Experience Council includes top executives of the Bank. A Customer Feedback Database was also created to strengthen the role of the frontliners in addressing and reporting customer issues.

For 2017, the Bank tracked and monitored customer issues and feedback concerning its products and services (the table below shows the number of customer complaints the Bank received for the past three years, and the number of customer transactions recorded for the same year). Action plans were implemented to ensure that the most pressing and important issues raised by customers were resolved within the committed turnaround times.

	2015	2016	2017
Complaints (in Thousands)	291.5	306.0	437.5
Transactions (in Millions)	1,268.1	1,341.4	1,442.1

For further details on the BPI's financial condition and operations, please refer to its 2017 Consolidated Financial Statements which is incorporated herein as part of Index to Financial Statements and Supplementary Schedules. Also, for further information on BPI, please refer to its SEC17A which are available in its website www.bpiexpressonline.com

GLOBE TELECOM, INC.

Globe Telecom's (alternately referred to as Globe, Globe Telecom or "the Company" in the entire discussion of Globe Telecom, Inc) highlights of Consolidated Statements of Financial Position and Statements of Income are shown in the Note 11 of the Group's 2017 Consolidated Financial Statements as well as in the Globe's 2017 Consolidated Financial Statements which form part of Index to Financial Statements and Supplementary Schedules of this SEC 17A report.

Background and Business

The Ayala Group conducts its telecommunications business through Globe Telecom, Inc (alternately referred to as Globe, Globe Group or "the Company" in the entire discussion of Globe Telecom, Inc.). Globe's origin can be traced back to Robert Dollar Company, a California company which provided wireless long distance message services. After subsequent mergers and re-namings, the company was named Globe Telecom, Inc. in 1983, when the partnership between Ayala and Singapore Telecom, the principal shareholders of Globe, was formalized. Since then, Globe has been recognized as the first company to offer SMS services in the Philippines and as the first Philippine internet service provider in the Philippines.

Globe Telecom, Inc. is a major provider of telecommunications services in the Philippines, supported by over 7,200 employees and over 1.1 million AutoloadMax (AMAX) retailers, distributors, suppliers, and business partners nationwide. The Company operates one of the largest and most technologically-advanced mobile, fixed line and broadband networks in the country, providing reliable, superior communications services to individual customers, small and medium-sized businesses, and corporate and enterprise clients. Globe currently has about 60.7 million mobile subscribers (*including fully mobile nomadic subscribers*), 1.3 million broadband customers, and 1.4 million landline subscribers.

Globe's principal executive offices are located at the The Globe Tower, 32nd Street corner 7th Avenue, Bonifacio Global City, Taguig, Metro Manila, Philippines.

Globe is one of the largest and most profitable companies in the country, and has been consistently recognized both locally and internationally for its corporate governance practices. It is listed on the Philippine Stock Exchange under the ticker symbol GLO and had a market capitalization of US$5.1 billion as of the end of December 2017.

The Company's principal shareholders are Ayala Corporation and Singapore Telecom, both industry leaders in their respective countries. Aside from providing financial support, this partnership has created various synergies and has enabled the sharing of best practices in the areas of purchasing, technical operations, and marketing, among others.

Globe is committed to being a responsible corporate citizen. Globe Bridging Communities (or Globe BridgeCom) is the company's umbrella corporate social responsibility program, which leads and supports various initiatives that promote the quality education, active citizenship to protect the environment, social entrepreneurship and responsive governance through the innovative and Communications Technology, resulting in enabled, empowered and enriched lives for its employees and partner communities. Since its inception in 2003, Globe BridgeCom has made a positive impact on the lives of thousands of public elementary and high school students, teachers, community leaders, and micro-entrepreneurs throughout the country. For its efforts, Globe BridgeCom has been recognized and conferred several awards and citations by various Philippine and international organizations.

The Globe Group is composed of the following companies:

- Globe Telecom, Inc. (Globe) provides mobile telecommunication services;

- Innove Communications Inc. (Innove), a wholly-owned subsidiary, provides fixed line telecommunications and broadband services, high-speed internet and private data networks for enterprise clients, services for internal applications, internet protocol-based solutions and multimedia content delivery. On November 2, 2015, Innove and Techzone Philippines incorporated TechGlobal Data Center, Inc. (TechGlobal), a joint venture company formed for the purpose of operating and managing all kinds of data centers, and providing information technology-enabled, knowledge-based and computer-enabled support services. Innove and Techzone hold ownership interest of 49% and 51%, respectively. TechGlobal started commercial operations in August 2017. On August 8, 2016, House Bill No. 2617 was filed to extend Innove franchise, which expired on March 23, 2017, to ensure uninterrupted and improved delivery of services. On May 17, 2017, House Bill No. 5556 (substitute of House Bill No. 2617), which sought the renewal and amendment of the franchise for another 25 years, was approved in the Philippine Congress and was submitted to the Senate of the Philippines. As of February 5, 2018, the House Bill has undergone several senate committee reviews and awaiting further actions;

- GTI Business Holdings, Inc. (GTI) is a wholly-owned subsidiary with authority to provide VOIP services. Its wholly-owned subsidiaries are: GTI Corporation (GTIC US), Globe Telecom HK Limited (GTHK), Globetel Singapore Pte. Ltd. (GTSG) and Globetel European Limited (GTEU). GTEU's wholly owned subsidiaries are UK Globetel Limited (UKGT), Globe Mobile' Italy S.r.l. (GMI) and Globetel Internacional European España, S.L. (GIEE). On June 2, 2016, the Board of Directors of GTEU has decided to cease operations of UKGT, GMI and GIEE effective July 31, 2016. As of reporting date, completion of the regulatory requirements on the liquidation of GMI and GIEE is still in process. UKGT filed strike off application to the Companies House. On January 2, 2018, notice of strike off was published in the London Gazette. UKGT is expected to be dissolved in April 2018;

- Kickstart Ventures, Inc. (Kickstart), a wholly-owned subsidiary, is a pioneering business incubator designed to provide aspiring technopreneurs with funds and facilities, mentorship and market access needed to build new businesses. Kickstart's subsidiary is Flipside Publishing Services, Inc. (FPSI) which was consolidated in February 2014. In July 2016, FPSI has ceased operations. As of reporting date, completion of regulatory requirements is still in process;

- Asticom Technology, Inc. a wholly-owned subsidiary is a provider of shared services, a system integrator and an information technology services provider to domestic and international markets;

- Globe Capital Venture Holdings, Inc. (GCVHI), a wholly-owned subsidiary incorporated on June 29, 2015. On July 8, 2015 and October 13, 2015, GCVHI incorporated its wholly owned subsidiaries, Globe Fintech Innovations, Inc. (GFI) and Adspark Holdings, Inc. (AHI), respectively. GCVHI, GFI and AHI were incorporated to act as holding companies for Globe Telecom's non-core businesses. GCVHI, GFI and AHI were incorporated to act as holding companies for Globe Telecom's non-core businesses. GCVHI was consolidated starting July 2015. On September 1, 2015, Yondu and GCVHI entered into a Deed of Assignment to assign the former's 50% interest in Global Telehealth, Inc. ("GTHI") to GCVHI. On December 28, 2015, AHI incorporated its wholly-owned subsidiary, Adspark Inc. (AI), to operate as an advertising company. On January 29, 2016, Adspark Inc. acquired 70% of the shares of Socialytics Inc. Socialytics Inc. is a social media marketing firm founded in 2013. On August 5, 2016, GFI incorporated its wholly-owned subsidiary, Fuse Lending, Inc. (Fuse), to operate as a lending company. On February 7, 2017, ownership of GXI was transferred to GFI. On February 17, 2017, Globe Telecom and its wholly-owned subsidiaries, GFI and GCVHI entered into an investment agreement with Alipay and Ayala for Alipay and Ayala to invest in the unissued common shares of GFI. PCC released through a memo its affirmative decision on the Alipay acquisition of GFI shares, resulting in the dilution of GCVHI ownership in GFI. On September 27, 2017, following the approval from PCC, GFI/Mynt issued common shares to Alipay and Ayala, which diluted GCVHI's ownership interest to 45% and resulted in a loss of control in GFI/Mynt. Thereafter, investment in GFI/Mynt was accounted for as a joint arrangement since no single party controls the arrangement and approvals of all parties are required for business decisions;

- Bayan Telecommunications, Inc. (Bayan), is a provider of data and communications services such as dedicated domestic and international leased lines, frame relay services, Internet access, and other managed data services like Digital Subscriber Lines (DSL). BTI's subsidiaries are: BTI's subsidiaries are: Radio Communications of the Philippines, Inc. (RCPI), Telecoms Infrastructure Corp. of the Philippines (Telicphil), Sky Internet, Incorporated (Sky Internet), GlobeTel Japan (formerly BTI Global Communications Japan, Inc.), BTI Global Communications Ltd. (BTI - UK), and NDTN Land, Inc. (NLI), (herein collectively referred to "BTI Group"). In July 2016, BTI - UK has ceased operations. On April 8, 2016, RCPI sold its 100% interest in Alarmnet, Inc. (Alarmnet) to a third party;

- TaoDharma (Tao) was established to operate and maintain retail stores in strategic locations within the Philippines that will sell telecommunications or internet-related services, and devices, gadgets, and accessories. On November 4, 2016, the BOD of Globe Telecom approved the increase in stake in Tao from 25% to 67% resulting to Globe Telecom's gaining a controlling interest in Tao.

The Company is a grantee of various authorizations and licenses from the National Telecommunications Commission (NTC) as follows: (1) license to offer and operate facsimile, other traditional voice and data services and domestic line service using Very Small Aperture Terminal (VSAT) technology; (2) license for inter-exchange services; and (3) Certificate of Public Convenience and Necessity (CPCN) for: (a) international digital gateway facility (IGF) in Metro Manila, (b) nationwide digital cellular mobile telephone system under the GSM standard (CMTS-GSM), (c) nationwide local exchange carrier (LEC) services after being granted a provisional authority in June 2005, and (d) international cable landing stations located in Nasugbu, Batangas, Ballesteros, Cagayan, and Brgy. Talomo, Davao City.

A. <u>Business Development and Corporate History</u>

In 1928, Congress passed Act No. 3495 granting the Robert Dollar Company, a corporation organized and existing under the laws of the State of California, a franchise to operate wireless long distance message services in the Philippines. Subsequently, Congress passed Act No. 4150 in 1934 to transfer the franchise and privileges of the Robert Dollar Company to Globe Wireless Limited which was incorporated in the Philippines on 15 January 1935.

Globe Wireless Limited was later renamed as Globe-Mackay Cable and Radio Corporation ("Globe-Mackay"). Through Republic Act ("RA") 4630 enacted in 1965 by Congress, its franchise was further expanded to allow it to operate international communications systems. Globe-Mackay was granted a new franchise in 1980 by Batasan Pambansa under Batas Pambansa 95.

In 1974, Globe-Mackay sold 60% of its stock to Ayala Corporation, local investors and its employees. It offered its shares to the public on 11 August 1975.

In 1992, Globe-Mackay merged with Clavecilla Radio Corporation, a domestic telecommunications pioneer, to form GMCR, Inc. ("GMCR"). The merger gave GMCR the capability to provide all forms of telecommunications to address the international and domestic requirements of its customers. GMCR was subsequently renamed Globe Telecom, Inc. ("Globe").

In 1993, Globe welcomed a new foreign partner, Singapore Telecom, Inc. (STI), a wholly-owned subsidiary of Singapore Telecommunications Limited ("SingTel"), after Ayala and STI signed a Memorandum of Understanding.

In 2001, Globe acquired Isla Communications Company, Inc. ("Islacom") which became its wholly-owned subsidiary effective 27 June 2001. In 2003, the National Telecommunications Commission ("NTC") granted Globe's application to transfer its fixed line business assets and subscribers to Islacom, pursuant to its strategy to integrate all of its fixed line services under Islacom. Subsequently, Islacom was renamed as Innove Communications, Inc. ("Innove").

In 2004, Globe invested in G-Xchange, Inc. ("GXI"), a wholly-owned subsidiary, to handle the mobile payment and remittance service marketed under the *GCash* brand using Globe's network as transport channel. GXI started commercial operations on 16 October 2004.

In November 2004, Globe and seven other leading Asia Pacific mobile operators ('JV partners') signed an agreement ('JV agreement') to form Bridge Alliance. The joint venture company operates through a Singapore-incorporated company, Bridge Mobile Pte. Limited (BMPL) which serves as a commercial vehicle for the JV partners to build and establish a regional mobile infrastructure and common service platform to deliver different regional mobile services to their subscribers. The Bridge Alliance currently has a combined customer base of over 250 million subscribers among its partners in India, Thailand, Hong Kong, South Korea, Macau, Philippines, Malaysia, Singapore, Australia, Taiwan and Indonesia.

In 2005, Innove was awarded by the NTC with a nationwide franchise for its fixed line business, allowing it to operate a Local Exchange Carrier service nationwide and expand its network coverage. In December 2005, the NTC approved Globe's application for third generation (3G) radio frequency spectra to support the upgrade of its cellular mobile telephone system ("CMTS") network to be able to provide 3G services. The Company was assigned with 10-Megahertz (MHz) of the 3G radio frequency spectrum.

On May 19, 2008, following the approval of the NTC, the subscriber contracts of *Touch Mobile* or *TM* prepaid service were transferred from Innove to Globe which now operates all wireless prepaid services using its integrated cellular networks.

In August 2008, and to further grow its mobile data segment, Globe acquired 100% ownership of Entertainment Gateway Group ("EGG"), a leading mobile content provider in the Philippines. EGG offers a wide array of value-added services covering music, news and information, games, chat and web-to-mobile messaging.

On 25 November 2008, Globe formed GTI Business Holdings, Inc. (GTIBH) primarily to act as an investment company.

On October 30, 2008, Globe, the Bank of the Philippine Islands (BPI) and Ayala Corporation (AC) signed a memorandum of agreement to form a joint venture that would allow rural and low-income customers' access to financial products and services. Last October 2009, the Bangko Sentral ng Pilipinas (BSP) approved the sale and transfer by BPI of its shares of stock in Pilipinas Savings Bank, Inc. (PSBI), formalizing the creation of the venture. Globe's and BPI's ownership stakes in PSBI is at 40% each, while AC's shareholding is at 20%. The partners plan to transform PSBI (now called BPI Globe BanKO, Inc.) into the country's first mobile microfinance bank. The bank's initial focus will be on wholesale lending to other microfinance institutions but will eventually expand to include retail lending, deposit-taking, and micro-insurance. BPI Globe BanKO opened its first branch in Metro Manila in the first quarter of 2011 and now has 6 branches nationwide, over 2,000 partner outlets, 261,000 customers and over ₱2.4 billion in its wholesale loan portfolio.

On March 2012, Globe launched Kickstart Ventures, Inc. (Kickstart) to help, support and develop the dynamic and growing community of technopreneurs in the Philippines. Kickstart is a business incubator that is focused on providing aspiring technopreneurs with the efficient environment and the necessary mechanisms to start their own business. Since its launch, Kickstart has 10 companies in its portfolio covering the digital media and technology, and web/mobile platform space.

In October 2013, following the court's approval of the Amended Rehabilitation Plan (jointly filed by Globe and Bayantel in May 2013), Globe acquired a 38% interest in Bayantel by converting Bayantel's unsustainable debt into common shares. This follows Globe's successful tender offer for close to 97% of Bayantel's outstanding indebtedness as of December 2012. As part of the amended rehab plan and pending regulatory approvals, Globe would further convert a portion of its sustainable debt into common shares of Bayantel, bringing up its stake to around 56%. On October 2014, Globe Telecom received a copy of the temporary restraining order (TRO) issued by the Court of Appeals (CA) stopping the National Telecommunications Commission's (NTC) proceedings in connection with the bid of Globe Telecom Inc. to take over Bayan Telecommunications Inc. (Bayantel). Despite the lapse of the Temporary Restraining Order (TRO) last December 9, 2014, the Court of Appeals has advised the NTC to refrain from conducting any proceedings in connection with the bid of Globe assume majority control of Bayantel.

On June 3, 2014, Globe signed an agreement with Azalea Technology, Inc. and SCS Computer Systems, acquiring the entire ownership stake in Asticom. Asticom, a systems integrator and information technology services provider to domestic and international markets, is 49% owned by Azalea, a 100%-owned subsidiary of Ayala Corporation and 51% owned by SCS Computer Systems, a subsidiary of Singapore Telecom.

On June 15, 2015, Globe Telecom Inc. disclosed the approval to create a wholly-owned holding company through which new and strategic businesses are intended to be made and consolidated. The creation of this holding company aims to provide more focus on developing and growing said businesses.

On July 20, 2015, Globe Telecom, Inc. ("Globe") has agreed to purchase from Bayan Telecommunications Holdings, Corporation ("BTHC') and Lopez Holdings, Corporation ("LHC") all the equity in the capital stock of Bayan Telecommunications, Inc. ("Bayan") that is held by BTHC and LHC, valued at approximately Php 1.83 Billion (the "Transaction"). The Transaction follows the conversion by Globe of Bayan debt into equity provided under the resolution of Bayan's Rehabilitation Court (Regional Trial Court Branch 158 Pasig City) in SEC Case 03-25 dated 27 August 2013, and approved by the National Telecommunications Commission on 2 July 2015, as previously disclosed. The transaction involves up to 70,763,707 Bayan shares and increases Globe's equity interests in Bayan from 56.87% to 98.57% of outstanding capital stock.

On July 3, 2015, loan receivables from BTI were revalued, in accordance with the Master Restructuring Agreement, comprising of principal and interest due until 2023, with quarterly interest payments and semi-annual principal payments.

On November 12, 2015, Globe received the resolution from the rehabilitation court granting its motion for the termination of the rehabilitation proceedings involving Bayan. The resolution sets a key milestone for Bayan, wherein it successfully exits rehabilitation and provides key steps for Globe to continue to unlock opportunities for synergies with Bayan.

Globe Telecom, Inc. (Globe), Ayala Corporation (AC) and Bank of the Philippine Islands (BPI) signed an agreement on August 27, 2015 to turn over full ownership of BPI Globe BanKO (BanKO) to BPI, one of the majority owners of the joint venture. Pending completion of regulatory and business requirements (including the issuance of a fairness opinion on the share valuation), the agreement will result in the country's first mobile phone-based savings bank becoming a wholly-owned and managed subsidiary of BPI. It is expected that BPI will assume full ownership in BanKO by year-end. Despite the change in shareholder structure, BanKO will continue to provide broader and more competitive access to funds and critical financial services to the underbanked, as it has done in its five years of operation. Globe and AC will sell their respective 40% and 20% stakes in BanKO to BPI, which already owns 40% of BanKO.

Xurpas Inc. signed an agreement with Globe Telecom on September 1, 2015, investing Php900 Million for a 51% equity stake in Yondu Inc. Upon signing of the Deed of Absolute Sale of Shares and Subscription Agreement last September 15, 2015, Xurpas paid Php900 Million in cash for the original subscription and purchase of Yondu shares owned by Globe totalling 22,950 shares at a valuation of Php39,215 per share, which was determined based on the negotiations between the parties. The investment solidifies the Globe and Xurpas partnership in the internet and digital space and will transform Yondu into a regional arm for digital content distribution and other technology driven services. The strategic alliance of Globe and Xurpas in Yondu bolsters Globe's track record of partnering with leading digital players to strengthen its position as the purveyor of the Filipino digital lifestyle.

On September 1, 2015, Yondu Inc. and GCVHI entered into a Deed of Assignment to assign the former's interest in Global Telehealth, Inc. ("GTHI") to GCVHI for a total consideration of ₱15 million.

On September 15, 2015, Globe Telecom sold its controlling interest in Yondu for a total consideration of ₱670 million. On the same date, Yondu issued additional 5,000 common shares from its unissued authorized capital stock to a third party which further dilutes Globe Telecom's ownership interest to 49% as of September 2015.

On May 30, 2016, the Board of Directors of Globe, through its Executive Committee, approved the acquisition and signing of a sale and share purchase agreement and other related definitive agreements for the following entities:

- 50% of the issued and outstanding capital stock of Vega Telecom, Inc. ("VTI") from San Miguel Corporation ("SMC") (PSE: SMC);
- 50% of the issued and outstanding capital stock of Bow Arken Holdings Company Inc. ("BAHC"); and,
- 50% of the issued and outstanding capital stock of Brightshare Holdings Corporation ("BHC").

VTI owns an equity stake in Liberty Telecom Holdings, Inc., a publicly listed company in the Philippine Stock Exchange. It also owns, directly and indirectly, equity stakes in various enfranchised companies, including Bell Telecommunication Philippines, Inc., Eastern Telecom Philippines, Inc., Express Telecom, Inc., and Tori Spectrum Telecom, Inc., among others.

The remaining 50% equity stake in VTI, BAHC and BHC was acquired by Philippine Long Distance Telephone Company (PLDT) under similar definitive agreements.

Total consideration for the transaction amounts to ₱52,847.82 million for the purchase of the equity interest and advances of the Acquirees, which translated to an agreed consideration of ₱26,423.91 million for Globe's 50% equity stakes in the Acquirees. The Sale and Purchase Agreements (SPA) also provided for the assumption of total liabilities of ₱17,151.18 million 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 sellers at the end of the confirmatory due diligence period. As of December 31, 2016 the negotiated amount was ₱10,782.5 which was already finalized with the network suppliers. Globe Telecom's share in the negotiated assumed liabilities amounting to ₱5,391.25 million and acquisition-related cost amounting to ₱298.53 million was carried as part of the investment cost. The confirmatory due diligence is still on-going as of December 31, 2016. The assumption of liabilities of VTI, BAHC and BHC 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 consideration for the equity interest and advances was settled on a deferred basis based on the following schedule: 50% was paid on May 30, 2016, 25% was paid on December 1, 2016 and 25% shall be payable on May 30, 2017. As security for the final payment, an irrevocable standby letter of credit was delivered to the sellers.

The acquisition provided Globe an access to certain frequencies assigned to Bell Tel in the 700 Mhz, 900 Mhz, 1800 Mhz, 2300 Mhz and 2500 Mhz bands through a co-use arrangement approved by the NTC on May 27, 2016. NTC's approval is subject to the fulfilment of certain conditions including roll out of telecom infrastructure covering at least 90% of the cities and municipalities in three years to address the growing demand for broadband infrastructure and internet access.

The memorandum of agreement between Globe and PLDT provides for both parties to pool resources and share in the profits and losses of the companies on a 50%-50% basis with a view to being financially self-sufficient and able to operate or borrow funds without recourse to the parties. Globe has extended advances to Vega group amounting to ₱1,316.08 million for the period June 1, 2016 to December 31, 2016 which was carried as part of investment cost.

Of the various companies within the group, only Eastern Telecom and its subsidiary have commercial operations generating ₱2,093.6 million, ₱955.7 million and ₱670.5 million in revenues, EBITDA and net income for the year ended December 31, 2016, respectively. Globe has adjusted its share in the net assets of the acquirees to reflect losses on fair value of assets and onerous contracts.

On June 21, 2016, Globe Telecom exercised its rights as holder of 50% equity interest of VTI to cause VTI to propose the conduct of a tender offer on the common shares of Liberty Telecom Holdings, Inc. (LIB) held by minority shareholders as well as the voluntary delisting of LIB. At the completion of the tender offer and delisting of LIB, VTI's ownership of LIB is at 99.1%.

There was no bankruptcy, receivership or similar proceedings initiated during the past four years.

B. Business Segments

1. Mobile Business

Globe provides digital mobile communication and internet-on-the-go services nationwide using a fully digital network based on the Global System for Mobile Communication (GSM), 3G, HSPA+, and LTE technologies. It provides voice, SMS, data, and value-added services to its mobile subscribers through three major brands: *Globe Postpaid, Globe Prepaid* and *TM (including fully mobile, internet-on-the-go service).*

Postpaid

Globe Postpaid is the leading brand in the postpaid market with various plan offerings. Over the years, these plans evolved in order to cater to the changing needs, lifestyles and demands of its subscribers.

In 2017, the Company introduced "ThePLAN," which provides for larger than life data allowances, affordable call and text offers, and more flexibility to mix and match different services to fit the subscriber's needs. Customers can also partner the plan with a device (which comes with 24 months' contract) or more consumable amount when the customer opts to avail the SIM-only version. With "ThePLAN," customers can customize their plan according to their needs by mixing the different promo packs (Call and Text Packs; Surf Packs and Lifestyle Packs) . Surf Packs still have roll over capability which means that any unused data allowance will carry over to the next bill cycle. Subscribers can get as many packs as they want within their MRF (monthly recurring fee) commitment. The anti-bill shock cap of Php 1,500 still applies for ThePLAN and this covers usage from the personal GoSurf data allowance (note that this doesn't include the AddSurf allowance).

Prepaid

Globe Prepaid and *TM* are the prepaid brands of Globe. *Globe Prepaid* is focused on the mainstream market while *TM* caters to the value-conscious segment of the market. Each brand is positioned at different market segments to address the needs of the subscribers by offering affordable innovative products and services.

Globe Prepaid's GoSAKTO is a self-service menu that provides its subscribers easy access to avail of the latest promos and services of Globe by simply dialing *143# or through the *GoSAKTO* mobile app *(available on Android and iOS*). This menu also allows the subscribers to build their own promos (call, text and surf promos) that are best suited for their needs and lifestyle. *Globe Prepaid* customers can personalize their call, text and surfing needs for 1 day, 2 days, 3 days, 7 days, 15 days or even for 30 days. They can also select the type and number of call minutes and texts they need and adjust data allocation (in MBs) of mobile surfing the way they want it.

Globe Prepaid and *TM* subscribers can reload airtime value or credits using various reloading channels including prepaid call and text cards, bank channels such as ATMs, credit cards, and through internet banking. Subscribers can also top-up via *AMAX* retailers nationwide, all at affordable denominations and increments. A consumer-to-consumer top-up facility, *Share-A-Load*, is also available to enable subscribers to share prepaid load credits via SMS.

Loyalty & Rewards Program

The *Globe Rewards Program* is the Company's way of granting special treats to its active customers for their continued loyal use of Globe's products and services. Awesome rewards awaits its loyal customers in exchange for the points earned -- more rewards points mean more wonderful perks. Subscribers can:

1) *Earn Points* from Prepaid reloads or monthly Postpaid usage

2) *Redeem Rewards* in the form of mobile promos, bill rebates, gadgets and gift certificates, and more or use the earned points as cash at partner stores. Subscribers have the option to redeem rewards instantly, or accumulate points to avail of higher value rewards. Redeemed points in the form of telecom services is netted out against revenues whereas points redeemed in the form of non-telco services such as gift certificates and other products are reflected as marketing expense. At the end of each period, Globe estimates and records the amount of probable future liability for unredeemed points.

3) *Enjoy Perks* through special discounts, exclusive treats, and more wonderful surprises

(a) Mobile Voice

Globe's voice services include local, national and international long distance call services. It has one of the most extensive local calling options designed for multiple calling profiles. In addition to its standard, pay-per-use rates, subscribers can choose from bulk and unlimited voice offerings for all-day or off-peak use, and in several denominations to suit different budgets.

Globe keeps Filipinos connected wherever they may be in the world, through its tie-up with 756 roaming partners in 236 calling destinations worldwide. Globe also offers roaming coverage on-board selected shipping lines and airlines, via satellite. Globe also provides an extensive range of international call and text services to allow OFWs (Overseas Filipino Workers) to stay connected with their friends and families in the Philippines. This includes prepaid reloadable call cards and electronic PINs available in popular OFW destinations worldwide.

(b) Mobile SMS

Globe's *Mobile SMS* service includes local and international SMS offerings. Globe also offers various bucket and unlimited SMS packages to cater to the different needs and lifestyles of its postpaid and prepaid subscribers.

(c) Mobile Data

Globe's Mobile Data services allow subscribers to access the internet using their internet-capable handsets, devices or laptops with USB modems. Data access can be made using various technologies including LTE, HSPA+, 3G with HSDPA, EDGE and GPRS. The Company spearheaded the shift from unlimited time-based data plans to volume-based consumable plans, geared towards improving the mobile data experience of its subscribers and ensures the most appropriate pricing of data. Globe and TM subscribers can choose from a variety of GoSurf consumable data plans, ranging from ₱15 for 40 MB to ₱2,499 for 20 GB per month.

Globe’s Nomadic (internet-on-the-go service) is for consumers who require a fully mobile internet, which allows subscribers to access the internet using LTE, HSPA+, 3G with HSDPA, EDGE, GPRS or Wi-Fi using a plug-and-play USB modem/mobile Wifi. This service is available in both postpaid and prepaid packages.

Globe’s Value-Added Services offers a full range of downloadable content covering multiple topics including news, information, and entertainment through its web portal. Subscribers can purchase or download music, movie pictures and wallpapers, games, mobile advertising, applications or watch clips of popular TV shows and documentaries as well as participate in interactive TV, do mobile chat, and play games, among others. Additionally, Globe subscribers can send and receive Multimedia Messaging Service (MMS) pictures and video, or do local and international 3G video calling.

2. Fixed Line and Broadband Business

Globe offers a full range of fixed line communications services, wired and wireless broadband access, and end-to-end connectivity solutions customized for consumers, SMEs (Small & Medium Enterprises), large corporations and businesses.

(a) Fixed Line Voice

Globe's fixed line voice services include local, national and international long distance calling services in postpaid and prepaid packages through its Globelines brand. Subscribers get to enjoy toll-free rates for national long distance calls with other Globelines subscribers nationwide. Low-MSF (monthly service fee) fixed line voice services bundled with internet plans are available nationwide and can be customized with value-added services including multi-calling, call waiting and forwarding, special numbers and voice mail. For corporate and enterprise customers, Globe offers voice solutions that include regular and premium conferencing, enhanced voice mail, IP-PBX solutions and domestic or international toll free services. With the Company's cutting-edge Next Generation Network (NGN), Globe Business Voice solutions offer enterprises a bevy of fully-managed traditional and IP-based voice packages that can be customized to their needs.

(b) Corporate Data

Corporate data services include end-to-end data solutions customized according to the needs of businesses. Globe’s product offerings include international and domestic leased line services, wholesale and corporate internet access, data center services and other connectivity solutions tailored to the needs of specific industries.

Globe’s international data services provide corporate and enterprise customers with the most diverse international connectivity solutions. Globe’s extensive data network allow customers to manage their own virtual private networks, subscribe to wholesale internet access via managed international private leased lines, run various applications, and access other networks with integrated voice services over high-speed, redundant and reliable connections. In addition to bandwidth access from multiple international submarine cable operators, Globe also has two international cable landing stations situated in different locales to ensure redundancy and network resiliency.

The Company’s domestic data services include data center solutions such as business continuity and data recovery services, 24x7 monitoring and management, dedicated server hosting, maintenance for application-hosting, managed space and carrier-class facilities for co-location requirements and dedicated hardware from leading partner vendors for off-site deployment.

Other corporate data services include premium-grade access solutions combining voice, broadband and video offerings designed to address specific connectivity requirements. These include Broadband Internet Zones (BIZ) for broadband-to-room internet access for hotels, and Internet Exchange (GiX) services for bandwidth-on-demand access packages based on average usage.

Globe Business also offers Cloud Solutions that allows an organization's infrastructure to match the elasticity of the business climate and increase its business agility. The new cloud capabilities were the first large-scale, private and public-ready, next generation cloud in Asia. Globe offers *Software-as-a-Service or SaaS*, which include a suite of business applications that leverage on the power of cloud to help enterprises improve their business operations such as: Globe Mail, Google Apps for Work; Office; Canvas Mobile Forms; Google Drive for Work ; PayrollCloud application; Document Cloud; and Globe HealthCloud. Moreover, the Company offers *Infrastructure Services* that provide consulting, managed services, and integrated solutions to establish agile and flexible IT environments. This enables customers through a strategy covering assessment through design, implementation, management and optimization to reach a true end-to-end solution. These are: *Backup-as-a-Service* platform which is the most advanced backup and restoration software that enables continuous data protection, local off-site storage and managed services to industries, enterprises as well as small and medium businesses; *Disaster-Recovery-as-a-Service* platform to address the infrastructure replacements to improve uptime of applications and data in instances of natural or man-made disasters. Furthermore, *Infrastructure-as-a-Service* is also offered to corporate clients such as: *Virtual Private Cloud* which allows them to acquire processing power without the high cost of purchasing dedicated servers; and *Dedicated-Private-Cloud* which reduces the complexity of cloud computing by leveraging pre-configured and fully-tested components. *Globe M2M Solutions* on the other hand, allow machines to do the work for the company from keeping track of moving assets (Fleet Management), to monitoring fixed equipment (Fixed Asset Management), to enhancing Security and Surveillance.

(c) <u>Home Broadband</u>

Globe offers wired and fixed wireless broadband services, across various technologies and connectivity speeds for its residential and business customers. Globe Home Broadband consists of wired or DSL broadband packages which can be bundled with voice, content, and devices, or broadband data-only services which are available with download speeds ranging from 1 Mbps up to 15 Mbps. In selected areas where DSL is not yet available, Globe also expanded its Long Term Evolution (LTE) footprint through LTE @Home offerings, bringing latest internet technology to households and allowing subscribers to surf the internet at ultrafast speeds to watch high-definition videos, downloading and uploading large files, seamless music streaming, and voice-over-internet-protocol (VOIP) calling with clear quality. This LTE service is backed by the largest 4G network in the country deployed by Globe.

With the new broadband plans, customers get exclusive access to a portfolio of entertainment content which allows them to watch movies and basketball games, as well as stream music at the comfort of their homes. As an online entertainment service provider, HOOQ boasts of an extensive content library with thousands of movies, television episodes and shows available for users to watch, including titles from partners Sony Pictures and Warner Bros. Entertainment. With Spotify, the world's most popular music streaming service, customers get the best music experience with access to over 20 million songs. On the other hand, the NBA League Pass allows customers to watch basketball games along with highlights, stats and other features. Likewise, with Walt Disney partnership, Globe customers will now have access to an array of Disney content offerings (whose brands include Disney, Pixar, Marvel, Star Wars and global leader in short-form video, Maker Studios) including long- and short-form programming, interactive content and games, theatrical releases and retail promotions. Moreover, Netflix partnership allows customers to watch today’s top original Netflix series and renowned movie hits. Netflix adds TV programs and films all the time.

In 2017, Globe At Home continues to evolve the digital lifestyle and give its customers a better connected experience with its new and improved Globe At Home GoBIG plans. The new GoBIG plans have bigger data allocations at affordable rates alongside fast and reliable speeds. For Plan 1299, customers can enjoy 300GB of data allocation per month, with speeds of up 5Mbps. Those who want to stream more can avail of Plan 1599, which has a data allowance of 400GB and speeds of up to 10Mbps; or Plan 1899, which has 500GB of data and speeds of up to 50Mbps. On top of the free YouTube access, customers can also enjoy free 6 months of access to Netflix and Disney Channel apps and a two-month subscription to HOOQ for a diverse selection of local and foreign titles. In the third quarter of the year, Globe At Home broadband launched a “no commitment” trial plan for customers to enjoy fast and reliable internet connection without the standard 24-month lock-up period. The new trial plans have refundable modem fees and only require one (1) valid ID for processing. New customers can choose from Globe At Home’s GoBig Plan 1299, 1599, or 1899 to enjoy speeds of up to 50 Mbps and up to 600 GB of data allocation for just ₱499 per month for the first three (3) months. After the trial period, customers can choose to maintain their initially selected plan or choose another one from the GoBIG plans. Those who avail of Plan 1299 can enjoy speeds of up to 5 Mbps and 400 GB of data, while those who avail of Plan 1599 can get speeds of up to 10 Mbps and 500 GB of data. Plan 1899 is also available with speeds of up to 50 Mbps and 600 GB of data. Those who choose to discontinue their subscription within the first 15 days will get a 100% refund of their modem fee upon returning the devices installed in their homes that include the modem and telephone set.

C. <u>Sales and Distribution</u>

Globe has various sales and distribution channels to address the diverse needs of its subscribers.

1. Independent Dealers

Globe utilizes a number of independent dealers throughout the Philippines to sell and distribute its prepaid wireless services. This includes major distributors of wireless phone handsets who usually have their own retail networks, direct sales force, and sub-dealers Dealers are compensated based on the type, volume and value of reload made in a given period. This takes the form of fixed discounts for prepaid airtime cards and SIM packs, and discounted selling price for phonekits. Additionally, Globe also relies on its distribution network of over 1.1 million *AutoloadMax* retailers nationwide who offer prepaid reloading services to *Globe*, *TM, and Tattoo* subscribers.

2. Globe Stores

As of December 31, 2017, the Company has a total of 240 Globe Stores all over the country where customers are able to inquire and subscribe to wireless, broadband and fixed line services, reload prepaid credits, make *GCASH* transactions, purchase handsets and accessories, request for handset repairs, try out communications devices, and pay bills. The Globe Stores are also registered with the Bangko Sentral ng Pilipinas (BSP) as remittance outlets.

In line with the Company's thrust to become a more customer-focused and service-driven organization, Globe departed from the traditional store concept which is transactional in nature and launched the redesigned Globe Store which carries a seamless, semi-circular, two-section design layout that allows anyone to easily browse around the product display as well as request for after sales support. It boasts of a wide array of mobile phones that the customers can feel, touch and test. There are also laptops with high speed internet broadband connections for everyone to try. The Globe store has an Express Section for fast transactions such as modification of account information and subscription plans; a Full-Service Section for more complex transactions and opening of new accounts; and a Cashier Section for bill payments. The store also has a self-help area where customers can, among others, print a copy of their bill, and use interactive touch screens for easy access to information about the different mobile phones and Globe products and services. Globe stores also include NegoStore areas, which serve as additional sales channels for current and prospective Globe customers. Moreover, select stores also have 'Tech Coaches' or device experts that can help customers with their concerns on their smartphones. The Company opened the first concept store in Greenbelt 4 in 2010 and accelerated its roll-out throughout 2011, averaging 4-5 new stores a month.

In 2012, Globe introduced other store formats in response to the need for more customer service channels to accommodate more subscribers availing of Globe postpaid, prepaid and internet services. The new store formats - the premium dealership store, pop-up store, microstore, kiosk, and store-on-the-go – were carefully designed based on demographics, lifestyle and shopping behaviors of its customers, each providing a different retail mix and experience to subscribers.

In 2013, Globe opened 50 concept stores and will open more concept stores in the country as part of its commitment to a wonderful customer service experience.

In 2014, Globe simultaneously unveiled its Generation 3 flagship stores in SM North EDSA, Quezon City, Manila and in Limketkai Mall, Cagayan de Oro. Designed by Tim Kobe, the founder and CEO of Eight, Inc. and designer of Apple Stores, the Globe Gen3 stores features reconfigurable and interactive elements, all designed to empower the growing digital lifestyle of customers. The stores feature four lifestyle zones – music, entertainment, productivity, and life – each with their own interactive kiosks.

Continuing with its journey of transforming customer experience, Globe opened two more Gen3 stores in 2015. On July 2015, Globe opened its third Gen3 store in Ayala Center, Cebu and on August 2015, opened its fourth Gen3 and first two-storey store in Greenbelt, Makati.

In 2016, Globe opened its Flagship ICONIC store in Bonifacio Global City Central Square Taguig. Designed by Tim Kobe of Eight Inc., the same designer of the Globe GEN3 stores, the Globe ICONIC store is the first all-in-one retail and entertainment space and was launched in two phases. Phase 1 was completed in the June 2016 and featured the entertainment space that will house shows, concerts, and a variety of on-ground events and activities. Phase 2, completed in December 2016 features the complete Globe ICONIC Store with a glass bridge that links two Globe stores from opposite sides of the BGC Central Square.

3. Customer Facing Units

To better serve the various needs of its customers, Globe is organized along three key customer facing units (CFUs) tasked to focus on the integrated mobile and fixed line needs of specific market segments. The Company has a Consumer CFU with dedicated marketing and sales groups to address the needs of individual retail customers, and a Business CFU (Globe Business) focused on the needs of big and small businesses. Globe Business provides end-to-end mobile and fixed line solutions and is equipped with its own technical and customer relationship teams to serve the requirements of its client base. In early 2011, Globe organized an International Business Group to serve the voice and roaming needs of overseas Filipinos, whether transient or permanent. It is tasked to grow the Company's international revenues by leveraging on Globe's product portfolio and developing and capitalizing on regional and global opportunities.

4. Others

Globe also distributes its prepaid products SIM packs, prepaid call cards and credits through consumer distribution channels such as convenience stores, gas stations, drugstores and bookstores. Lower denomination IDD prepaid loads are also available in public utility vehicles, street vendors, and selected restaurants and retailers nationwide via the IDD *Tingi* load, an international voice scratch card in affordable denominations.

D. Operating Revenues

Gross Operating Revenues by Business Segment	Year Ended December 31			
(in Php Mn)	2017	% of total	2016	% of total
Service Revenues				
Mobile	**98,483**	**73%**	**92,255**	**73%**
Voice[1]	32,275	24%	34,065	27%
SMS[2]	23,149	17%	23,199	18%
Data[3]	43,059	32%	34,991	28%
Fixed Line and Broadband	**29,423**	**22%**	**28,333**	**22%**
Home Broadband[4]	15,645	12%	14,680	11%
Corporate Data[5]	10,288	8%	9,873	8%
Fixed Line Voice[6]	3,490	2%	3,780	3%
Service Revenues	**127,906**	**95%**	**120,588**	**95%**
Non Service Revenues	**7,375**	**5%**	**6,194**	**5%**
Operating Revenues*	**135,281**	**100%**	**126,782**	**100%**

[1] Mobile voice service revenues include the following:

a) Prorated monthly service fees on consumable minutes of postpaid plans;
b) Subscription fees on unlimited and bucket voice promotions including the expiration of the unused value of denomination loaded;
c) Charges for intra-network and outbound calls in excess of the consumable minutes for various Globe Postpaid plans, including currency exchange rate adjustments, or CERA, net of loyalty discounts credited to subscriber billings; and
d) Airtime fees for intra network and outbound calls recognized upon the earlier of actual usage of the airtime value or expiration of the unused value of the prepaid reload denomination (for Globe Prepaid and TM) which occurs between 3 and 120 days after activation depending on the prepaid value reloaded by the subscriber net of (i) bonus credits and (ii) prepaid reload discounts; and revenues generated from inbound international and national long distance calls and international roaming calls; and
e) Mobile service revenues of GTI.

Revenues from (a) to (d) are reduced by any payouts to content providers.

[2] Mobile SMS revenues consist of local and international revenues from value-added services such as inbound and outbound SMS and MMS, infotext, and subscription fees on unlimited and bucket prepaid SMS services, net of any interconnection or settlement payouts to international and local carriers and content providers.

[3] Mobile data service revenues consist of revenues from mobile internet browsing and content downloading, mobile commerce services, other add-on value added services (VAS), and service revenues of GXI and Yondu, net of any interconnection or settlement payouts to international and local carriers and content providers, except where Globe is acting as principal to the contract where revenues are presented at gross billed to subscriber and settlement pay-out are classified as part of costs and expenses. Beginning 2017, revenues from premium content services (where Globe is acting as principal to the contract) will be reported gross of the licensors' fees. Revenues for similar services reported in 2016 have also been restated for purposes of comparison.

[4] Home broadband service revenues consist of the following:

a) Monthly service fees of wired, fixed wireless, and bundled voice and data subscriptions;

b) Browsing revenues from all postpaid and prepaid wired and fixed wireless broadband packages in excess of allocated free browsing minutes and expiration of unused value of prepaid load credits;
c) Value-added services such as games; and
d) Installation charges and other one-time fees associated with the service.
e) Beginning 2017, revenues from premium content services (where Globe is acting as principal to the contract) will be reported gross of the licensors' fees. Revenues for similar services reported in 2016 have also been restated for purposes of comparison. Licensors' fees will be reflected as part of maintenance expense.

[5] Corporate data (previously called Fixed line data) service revenues consist of the following:
a) Monthly service fees from international and domestic leased lines;
b) Other wholesale transport services;
c) Revenues from value-added services; and
d) One-time connection charges associated with the establishment of service.

[6] Fixed Line voice service revenues consist of the following:
a) Monthly service fees;
b) Revenues from local, international and national long distance calls made by postpaid, prepaid fixed line voice subscribers and payphone customers, as well as broadband customers who have subscribed to data packages bundled with a voice service. Revenues are net of prepaid and payphone call card discounts;
c) Revenues from inbound local, international and national long distance calls from other carriers terminating on Globe's network;
d) Revenues from additional landline features such as caller ID, call waiting, call forwarding, multi-calling, voice mail, duplex and hotline numbers and other value-added features;
e) Installation charges and other one-time fees associated with the establishment of the service; and
f) Revenues from DUO and SUPERDUO (fixed line portion) services consisting of monthly service fees for postpaid and subscription fees for prepaid subscribers.

Globe's mobile business contributed ₱98.5 billion in 2017 accounting for 73% of total operating revenues, slightly higher than last year's level of ₱92.3 billion. Its mobile voice service revenues amounted to ₱32.3 billion in 2017, contributing 24% of total mobile service revenues. Mobile SMS service revenues contributed ₱23.1 billion in 2017, a slight decline from last year. Mobile data, on the other hand, posted strong revenue growth compared to last year's level and contributed ₱43.1 billion in 2017.

Accounting for 22% of total operating revenues, Globe's fixed line and broadband business grew 4%, registering ₱29.4 billion in 2017, compared to ₱28.3 billion in 2016. Home broadband contributed revenues of ₱15.6 billion, or 12% of operating revenues. Corporate data contributed 8%, at ₱10.3 billion and fixed line data contributed 2% at ₱3.5 billion.

E. Competition

1. Industry, Competitors and Methods of Competition

(a) Mobile Market

The Philippine mobile market has a total industry SIM base of more than 118 million with an industry penetration rate of 112% as of December 31, 2017. With the growing penchant of Filipinos for smartphones, the mobile data business in the Philippines presents more opportunities for revenue growth. Mobile data usage of both prepaid and postpaid subscribers continues to be a promising market with fast-paced growth.

The Philippine government liberalized the communications industry in 1993, after a framework was developed to promote competition in the industry and accelerate the development of the telecommunications market. Ten (10) operators were granted licenses to provide CMTS services – Globe, Innove (previously Isla Communications, Inc. or "Islacom"), Bayan Telecommunications, Inc. ("Bayantel"), Connectivity Unlimited Resources Enterprises ("CURE"), Digitel Telecommunications Philippines, Inc. ("Digitel"), Express Telecom ("Extelcom"), MultiMedia Telephony, Inc., Next Mobile ("NEXTEL"), Pilipino Telephone Corporation ("Piltel") and Smart Communications, Inc. ("Smart"). Nine of the ten operators continued on to operate commercially except for Bayantel, which have yet to roll out their CMTS services commercially.

When Sun Cellular, Digitel's mobile brand, entered the market in 2003, it introduced to the market value-based unlimited call and text propositions, allowing it to build subscriber scale over time. With the market's preference for these value-based unlimited and bulk call and text services, Globe and Smart responded by creating a new set of value propositions for their subscribers. Today, with the high level of mobile penetration, driven in part by the prevalence of multi-SIMming (i.e., individuals having two SIMs), and the continued shift of consumer preferences to unlimited and bulk offers, the competition in the mobile market remains intense, albeit in a more rational environment.

The mobile market is currently at 118.98 million SIMs, a contraction from the previous year mostly due to a change in reporting adopted by the industry. Globe ended 2017 with a SIM base of 60.7 million, with an estimated SIM share of approximately 51%, up from 50% in 2016.

	Mobile Subscribers (Mn)	Penetration Rates (%)	Growth Rate
1998	1.62	2.5	43%
1999	2.68	3.8	65%
2000	5.26	8.6	96%
2001	10.53	14.2	100%
2002	15.17	19.0	44%
2003	22.31	27.3	47%
2004	32.87	39.4	47%
2005	34.61	40.6	5%
2006	42.04	48.3	21%
2007	54.86	61.2	30%
2008	68.03	74.6	24%
2009	75.43*	82.3	11%
2010	86.15*	93.0	14%
2011	93.74*	98.7	9%
2012	102.99*	106.4	10%
2013	108.52*	110.0	5%
2014	113.89*	116.0	5%
2015	117.87*	115.2	3%
2016**	125.56*	120.4	1%
2017***	118.98*	111.9	-5%

** Estimated end of year figures.*
Source: National Telecommunications Commission (Statistical Data 2007), publicly available information and Company estimates
***Starting 2016, nomadic subscribers are included in mobile subscribers (previously reported under broadband subscribers)*
****Starting 2017, the industry has excluded in their reporting the prepaid subscribers who do not reload within 90 days of the second expiry period, versus the previous cut-off of 120 days*

Since 2000, the mobile communications industry has experienced a number of consolidations and ushered in new entrants, namely:

- In 2000, Philippine Long Distance and Telephone Company ("PLDT") acquired and consolidated Smart and Piltel, complementing the former's fixed line businesses with the latter's wireless businesses. Subsequently in 2008, PLDT, through Smart, purchased CURE, one of the four recipients of 3G licenses awarded by the NTC, and has since launched another wireless brand in the market in Red Mobile, further heightening competition in the market at that time.

  In October 2011, PLDT also acquired 99.4% of the outstanding common stock of Digitel, which owns the Sun Cellular brand, thereby allowing it to control over two-thirds of the industry subscribers. As a condition of PLDT's acquisition of Digitel, PLDT returned to the NTC the 3G license in CURE, which is expected to be re-auctioned in the near-term.

- In 2008, San Miguel Corporation ("SMC"), partnering with Qatar Telecom, bought interests in Liberty Telecom Holdings, Inc. ("Liberty") and announced plans to enter the mobile and broadband businesses.

  In 2010, SMC acquired 100% stake in Bell Telecommunication Philippines, Inc. ("BellTel"), after acquiring shares in three companies that own the shares of BellTel. Also in 2010, SMC purchased a 40% stake in Eastern Telecommunications Philippines, Inc. ("ETPI") to expand its telecommunications services. SMC subsequently gained a majority stake of ETPI in 2011. It now owns 77.7% of the telecommunications company.

  In 2012, NTC has granted BellTel, San Miguel Corporation's mobile telephony arm, an extension to its operating license to provide cellular mobile telephone system (CMTS) service in the country for another three years.

- In 2001, Globe acquired Islacom (now Innove). Globe, likewise, acquired approximately 96.5% of the total debt of Bayantel, in December 2012. In October 2013, Globe converted a portion of the debt it holds in Bayantel into a 38% interest in the latter, based on the Amended Rehabilitation Plan approved by the Rehabilitation Court in August of the same year. Upon obtaining relevant and regulatory approvals, Globe would further convert debt into a total 56.6% share of the common stock of Bayantel.

- In May 2013, ABS-CBN Convergence, Inc. ("ABS-C", formerly Multimedia Telephony, Inc.) announced the launch of its mobile brand, ABS-CBN Mobile. The launch of the new mobile brand is being supported through a network sharing agreement with Globe, wherein the latter provides network capacity and coverage to ABS-C on a nationwide basis. ABS-C formally launched the brand in November 26, 2013.

- In November 2015, Cherry Mobile, a leading mobile phone company in the Philippines, entered into a co-branding partnership with Globe to launch the Cherry Prepaid SIM that also comes bundled with a Cherry Mobile phone. The Cherry Prepaid SIM will operate through a network sharing agreement with Globe, similar to ABS-CBN-Mobile

Today, only the PLDT Group and the Globe Group have built significant bases of mobile subscribers.

(b) <u>Fixed Line Market</u>

Fixed Line Voice

The fixed line voice market expanded by 7% with the number of lines in service estimated at 4.01 million lines as of December 31, 2017 with PLDT's subscriber market share at 66% and Globe subscriber market share at 34%.

Competition in the fixed line voice market intensified over the past years as the major players, Globe, Bayantel, and PLDT introduced fixed wireless voice services with limited mobile phone capabilities to take advantage of the increasing preference for mobile services. Fixed wireless services were initially offered in postpaid versions in selected areas where there were no available fixed line facilities but prepaid kits were eventually made available as coverage was expanded.

Corporate Data

The fixed line data business is a growing segment of the fixed line industry. As the Philippine economy grows, businesses are increasingly utilizing new networking technologies and the internet for critical business needs such as sales and marketing, intercompany communications, database management and data storage. The expansion of the local IT Enabled Service (ITES) industry which includes call centers and Business Process Outsourcing (BPO) companies has also helped drive the growth of the corporate data business.

Dedicated business units have been created and organized within the Company to focus on the mobile and fixed line needs of specific market segments and customers – be they residential subscribers, wholesalers and other large corporate clients or smaller scale industries. This structure has also been driven by Globe's corporate clients' preferences for integrated mobile and fixed line communications solutions.

(c) <u>Home Broadband Market</u>

Home broadband continues to be a major growth area for the local telecom industry. Industry home broadband subscribers is now at 3.25 million, growing 14% versus 2016. The aggressive network roll-out of the various operators, the wider availability of affordable prepaid broadband packages, as well as lower PC and tablet prices were the main drivers of subscriber growth. Operators used both wired and wireless technologies to serve the growing demand for internet connectivity.

While household penetration rates remains low, competition continues to intensify as telecom operators aim to capture the market by accelerating the rollout of broadband network to provide subscribers with faster internet connection and introducing more affordable and bundled offerings.

In February 2010, Liberty Telecoms Holdings, Inc, a partnership between San Miguel Corporation and Qtel Group of Qatar Telecom, launched its WiMAX broadband service under the brand name Wi-Tribe. It ended the year with an estimated 70,000 subscribers.

2. Principal Competitive Strengths of the Company

(a) Market Leadership Position

Globe is a major provider of telecommunications services in the Philippines. It is a strong player in the market and operates one of the largest and most technologically-advanced mobile, fixed line and broadband networks in the country, providing reliable, superior communications services to individual customers, small and medium-sized businesses, and corporate and enterprise clients. Globe's distinct competitive strengths include its technologically advanced mobile, fixed line and broadband network, a substantial subscriber base, high quality customer service, a well-established brand identity and a solid track record in the industry.

(b) Strong Brand Identity

The Company has some of the best-recognized brands in the Philippines. This strong brand recognition is a critical advantage in securing and growing market share, and significantly enhances Globe's ability to cross-sell and push other product and service offerings in the market.

(c) Financial Strength and Prudent Leverage Policies

Globe's financial position remains strong with ample liquidity, and gearing comfortably within bank covenants. At the end of 2017, Globe had total interest-bearing debt of ₱131 billion representing 66% of total book capitalization. As of December 31, 2017, consolidated gross debt to equity ratio is at 1.98x, well within the new 2.5:1 debt to equity limit. Additionally, debt to EBITDA is also well within the 3:1 covenant level, currently at 2.43x. Approximately 85% of its debt is in pesos while the balance of 15% is denominated in US dollars. Expected US dollar inflows from the business offset any unhedged US dollar liabilities, helping insulate Globe's balance sheet from any volatilities in the foreign exchange markets.

Globe intends to maintain its strong financial position through prudent fiscal practices including close monitoring of its operating expenses and capital expenditures, debt position, investments, and currency exposures.

(d) Proven Management Team

Globe has a strong management team with the proven ability to execute on its business plan and achieve positive results. With its continued expansion, it has been able to attract and retain senior managers from the telecommunications, consumer products and finance industries with experience in managing large scale and complex operations.

(e) Strong Shareholder Support

The Company's principal shareholders are Ayala Corporation (AC) and Singapore Telecom (STI), both industry leaders in the country and in the region. Apart from providing financial support, this partnership has created various synergies and has enabled the sharing of best practices in the areas of purchasing, technical operations, and marketing, among others.

F. Suppliers

Globe works with both local and foreign suppliers and contractors. Equipment and technology required to render telecommunications services are mainly sourced from foreign countries. Its principal suppliers, among others, are as follows:

The Company's suppliers of mobile equipment include Nokia Solutions and Networks (Finland); Ericsson Radio Systems AB (Sweden), Alcatel-Lucent (France), and Huawei Technologies Co., Ltd. (China). For transmission and IP equipment, Company has partnered with NEC (Japan), Alcatel-Lucent (France), ECI Telecom, Ltd. (Israel), Aviat Networks (USA), Cisco (USA). For the Company's network modernization program, Huawei was selected as the primary partner given its technical expertise and strong track record of success in international markets. Huawei has likewise committed to establish a Joint Innovation Center (JIC) that would bring the latest technological developments and help further the Company's service innovation initiatives all focused in providing relevant and customizable services for our various customer segments.

For fixed line and broadband, Globe's principal equipment suppliers include Fujitsu Ltd. (Japan), Alcatel-Lucent Technologies (France), NEC (Japan), AT&T Global (US), British Telecom (UK), Huawei Technologies Co., Ltd. (China), ZTE Corporation (China). Singapore Telecom (Singapore), and Tellabs (USA/Singapore).

For the Company's IT modernization program, Globe has selected Amdocs, the leading provider of customer experience systems and services, to improve and upgrade Globe's Business Support Systems (BSS) and enterprise data warehouse. As part of the transformation program, Amdocs is tasked to manage and consolidate all of Globe's legacy systems onto a single Business Support System (BSS) platform. This will enable the Company to manage its customer relationships better across all it various product offerings, simplify business processes and shorten the time to deliver bundled and more innovative products to the market.

G. Customers

Globe has a large subscriber base across the country. The Company ended 2017 with 60.7 million mobile subscribers (including fully mobile broadband), comprised of 2.5 million postpaid and 58.2 million prepaid subscribers. Meanwhile, Globe has over 1.4 million fixed line voice subscribers and around 1.3 million home broadband customers.

No single customer and contract accounted for more than 20% of the Company's total sales in 2017.

H. Transactions with Related Parties

The Globe Group, in their regular conduct of business, enter into transactions with their major stockholders, AC and Singtel, associates, joint ventures, and certain related parties. Please refer to the details of Related Party Transactions disclosure in Note 16 of Globe's 2017 Consolidated Financial Statements, which is part of exhibits to this report.

I. Licenses, Patents, and Trademarks

1. Licenses

Globe currently holds the following major licenses:

Service	Type of License	Date Issued or Last Extended	Expiration Date
Globe			
Wireless	CPCN (1)	July 22, 2002	December 24, 2030
Local Exchange Carrier	CPCN (1)	July 22, 2002	December 24, 2030
International Long Distance	CPCN (1)	July 22, 2002	December 24, 2030
Interexchange Carrier	CPCN (1)	February 14, 2003	December 24, 2030
VSAT	CPCN (1)	February 6, 1996	February 6, 2021
International Cable Landing Station & Submarine Cable System (Nasugbu, Batangas)	CPCN (1)	October 19, 2007	December 24, 2030
International Cable Landing Station & Submarine Cable System (Ballesteros, Cagayan)	CPCN (1)	June 29, 2010	December 24, 2030

Innove	Type of License	Date Issued or Last Extended	Expiration Date
Wireless	CPCN (1)	July 22, 2002	May 7, 2017
Local Fixed line	CPCN (1)	July 22, 2002	May 7, 2017
International Long Distance	CPCN (1)	July 22, 2002	May 7, 2017
Interexchange Carrier	CPCN (1)	April 30, 2004	May 7, 2017

Bayantel	Type of License	Date Issued or Last Extended	Expiration Date
Local Exchange Carrier			
(a) Quezon City, Malabon & Valenzuela, all in M.M., Albay, Camarines Norte, Camarines Sur, Catanduanes, Sorsogon & Masbate, all in Bicol Region	CPCN (1)	(a) July 9, 1999	(a) July 8, 2024
(b) Manila, Caloocan, Navotas	CPCN (1)	(b) May 3, 2007	(b) August 9, 2021
(c) Tacloban City, Tanauan and Palo, Leyte & Sogod, Southern Leyte	CPCN (1)	(c) March 16, 2004	(c) March 15, 2029
(d) Leyte (Abuyog, Baybay, Burauen, Carigara, Dulag, Hilongos, Isabel, Palompon & Hilaga) Eastern Samar (Guiuan & Borongan) Western Samar (Catbalogan & Basey) Southern Leyte (Maasin)	CPCN (1)	(d) March 18, 2008	(d) August 9, 2021
(e) Antique, Iloilo, Bohol, Bukidnon, Misamis Occidental, Misamis, Zamboanga del Sur, Davao del Norte, Davao del Sur, Davao Oriental, Saranggani, South Cotabato and Surigao del Sur	PA	(e) March 9, 1998	(e) July 25, 2006 (2)
(f) Aklan, Capiz (including Roxas City), Guimaras, Negros Occidental (including cities of Bacolod and Bago), Negros Oriental (including Dumaguete City), Cebu (including cities of Cebu, Lapu-Lapu and Mandaue), Zamboanga del Norte, Surigao del Norte (including Surigao City), Tagbilaran City, Cagayan de Oro City and Tagum City	PA	(f) November 18, 2004	(f) May 1, 2006 (2)
(g) Butuan City, Agusan del Norte & Agusan del Sur	PA	(g) December 14, 1998	(g) June 14, 2005 (2)
VSAT	CPCN (1)	January 11, 2001	January 10, 2026
International Gateway Facility	CPCN (1)	April 19, 1996	April 18, 2021
Trunked Mobile Radio System	CPCN (1)	April 2, 1998	April 1, 2023
Domestic Data and Voice Communications	CPCN (1)	April 10, 2008	August 9, 2021

[1]Certificate of Public Convenience and Necessity. The term of a CPCN is co-terminus with the franchise term.
[2] Motion for Extension of PA still pending with the NTC. No roll-out to justify the PA extension

In July 2002, the NTC issued CPCNs to Globe and Innove which allow the Company to operate respective services for a term that will be predicated upon and co-terminus with the Company's congressional franchise under RA 7229 (Globe) and RA 7372 (Innove). Globe was granted permanent licenses after having demonstrated legal, financial and technical capabilities in operating and maintaining wireless telecommunications systems, local exchange carrier services and international gateway facilities. Additionally, Globe and Innove have exceeded the 80% minimum roll-out compliance requirement for coverage of all provincial capitals, including all chartered cities within a period of seven years.

2. Trademarks

Globe has the following registered trademarks in the Philippines: Globe, Globe Life Device, #LevelUpPH, #Next Level Ka Tournament, 0917,Adblast,AdSpark, Airfair, Airfair Enterprise, Barkada Congress, Bingeon,, BingeWatch, BingeWatching, Create Wonderful, Creating a Wonderful World, Data Rollover, DigiAds,Digimall, Duo International,,Globe AppMarket, Globe At Home, Globe Broadband, Globe Creating a Wonderful World, Globe Home Broadband,,Globe International, Globe Live, Globe MyBusiness, Globe Prepaid #LevelUpPH, Globe Rollover, Globe Streamwatch, Globe Studios, Globe Switch, Gmovies Movies Ticket, GoBinge, Gocery,GoWatch, Konekt, My Shopkeeper, MyBizKit, MyBusiness Tracker, Park Ninja, Rollover, Rush, Seats, Sunkissed Boracay,, SurfAlert, Tattoo,Tattoo Home Broadband, Tattoo@Home, TM Barkada Congress, Txt Connect and W00T. Globe also applied for the following trademarks: Sarisari.ph, GG30, GG50, Game Sa Lahat, Good Games, Load Up, Globe At Home Streamfest, Barangay.Co, Globe Rewards, Points Battle and Globe Prism.

Further, Globe also applied and registered the following brand names: Globe Telecom (Australia, Taiwan, Japan, Singapore, Macau, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Korea, Canada, China, Saudi Arabia), Globe and Globe Life Device (Hong Kong, Taiwan, Singapore, Japan, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Macau, Qatar, UAE, USA, Saudi Arabia), Globe GCash (Singapore, Hong Kong, United Kingdom, Taiwan, Japan, Macau, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Qatar, Korea, UAE, Saudi Arabia, New Zealand, Ireland, Lebanon, Denmark, Sweden, Switzerland, Israel), Globe Kababayan (Singapore, Hong Kong, Taiwan, United Kingdom, Australia, Japan, Macau, USA, Saudi Arabia, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Malaysia, UAE, Italy, Korea, Taiwan), Globe Autoload Max (Norway, Singapore, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Japan, Hong Kong), Globe M-Commerce Hub (Taiwan, Singapore, Korea, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Australia, Macau, Qatar, Malaysia), Muzta, and Smiley With Salakot Device (Japan, UK, Australia, Kuwait, USA, Saudi Arabia, Bahrain, UAE), Smiley with Salakot (Japan, United Kingdom, Australia, USA, Saudi Arabia, Bahrain, UAE), and Muzta (Bahrain, UAE, Canada, Qatar, Saudi Arabia, UAE), GCash Remit and Logo (Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden. Lebanon, Japan, Switzerland, Macau, Hong Kong, Taiwan, New Zealand, China, Japan, Israel), GCash Express and Logo (Hong Kong, Singapore, Taiwan, Malaysia), Globe Load (Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Macau).

Globe subsidiaries and affiliates have applied/registered their respective marks with the Intellectual Property Office, namely:

a) Innove Communications, Inc. has registered the mark GoWifi. Innove also applied EasySurf and GoWifi Auto.
b) GXchange has the following registered trademarks GCash, GCash Remit, G-Xchange and PowerPay+. It has pending trademark applications for Cash In, GCash QR, GCash Mo na Yan! and GScore.
c) Globe Fintech Innovations, Inc. has the following registered trademarks: GPay and A Fresh Look at Money.
d) Fuse Lending, Inc. has the following registered marks Fuse, Fuse and Logo, First Loan for Everyone, Power Payday Advance, Go Loan, Spark Loan, Instaloan, and Fuse Business Loan
e) Asticom Technology, Inc. applied “Asticom”
f) Global Telehealth, Inc. applied “Konsulta MD”

3. Patents

Gxchange, Inc. and UTIBA Pty Ltd. have registered the following patents in the Philippines:

1. Person-to-Person Virtual Cash Transfer Transaction Using Mobile Phones;
2. A Method of Converting Cash into Virtual Cash and Loading it to Mobile Phone Cash Account;
3. A Method of Cashless, Cardless Purchase Transaction Using Mobile Phones; and
4. A Method of Converting Virtual Cash into Cash and Deducting it to Mobile Phone Cash Account.

Gxchange, Inc. and UTIBA Pty Ltd. have likewise registered the following patents in the United States:

1. Person-to-Person Virtual Cash Transfer Transaction Using Mobile Phones; and
2. A Method of Converting Virtual Cash into Cash and Deducting it to Mobile Phone Cash Account

Gxchange, Inc. and UTIBA Pty Ltd. have likewise filed the following patent applications in Indonesia, Singapore and Europe.

1. Person-to-Person Virtual Cash Transfer Transaction Using Mobile Phones;
2. A Method of Converting Cash into Virtual Cash and Loading it to Mobile Phone Cash Account;
3. A Method of Cashless, Cardless Purchase Transaction Using Mobile Phones; and
4. A Method of Converting Virtual Cash into Cash and Deducting it to Mobile Phone Cash Account.

Globe has applied the patent for “Systems and/or Methods for Authorizing and Facilitating Third-Party Withdrawals or Payment” with the Intellectual Property Office.

J. Government approvals/regulations

The Globe Group is regulated by the NTC under the provisions of the Public Service Act (CA 146), Executive Order (EO) 59, EO 109, and RA 7925. Under these laws, Globe is required to do the following:

a) To secure a CPCN/PA from the NTC for those services it offers which are deemed regulated services, as well as for those rates which are still deemed regulated, under RA 7925.
b) To observe the regulations of the NTC on interconnection of public telecommunications networks.
c) To observe (and has complied with) the provisions of EO 109 and RA 7925 which impose an obligation to rollout 700,000 fixed lines as a condition to the grant of its provisional authorities for the cellular and international gateway services.
d) Globe remains under the supervision of the NTC for other matters stated in CA 146 and RA 7925 and pays annual supervision fees and permit fees to the NTC.

On October 19, 2007, the NTC granted Globe a CPCN to operate and maintain an International Cable Landing Station and submarine cable system in Nasugbu, Batangas.

On May 19, 2008, Globe Telecom, Inc. announced that the National Telecommunications Commission (NTC) has approved the assignment by its wholly-owned subsidiary Innove Communications (Innove) of its Touch Mobile (*TM*) consumer prepaid subscriber contracts in favor of Globe. Globe would be managing all migrated consumer mobile subscribers of *TM*, in addition to existing Globe subscribers in its integrated cellular network.

On September 11, 2008, the NTC granted Globe a CPCN to operate and maintain an International Cable Landing Station in Ballesteros, Cagayan Province.

K. Research and Development

Globe did not incur any research and development costs from 2011 to 2015. In 2017, 150 million was spent on market research, 11% higher versus 2016 spend.

L. Compliance with Environmental Laws

The Globe Group complies with the Environmental Impact Statement (‘EIS’) system of the Department of Environment and Natural Resources (‘DENR’) and pays nominal filing fees required for the submission of applications for Environmental Clearance Certificates (‘ECC’) or Certificates of Non-Coverage (‘CNC’) for its cell sites and certain other facilities, as well as miscellaneous expenses incurred in the preparation of applications and the related environmental impact studies. The Globe Group does not consider these amounts material.

Globe has not **been subject to any significant legal or regulatory action regarding non-compliance to relevant environmental regulations.**

M. Employees

The Globe Group has 7,206 active regular employees as of December 31, 2017, of which 3.59% or 259 are covered by a Collective Bargaining Agreement (CBA) through the Globe Telecom Employee’s Union (GTEU).

Breakdown of employees by main category of activity from 2015 to 2017 are as follows:

Employee Type	2017	2016	2015
Rank & File, CBU	2,527	2,617	2,572
Supervisory	2,605	2,546	2,442
Managerial	1,598	1,540	1,386
Executives	476	477	464
Total *	**7,206**	**7,180**	**6,864**

**Includes Globe, Innove, & GXI (excluding Secondees)*

In conformance with the Department of Labor and Employment’s (DOLE) Collective Bargaining Agreement (CBA), the Globe Telecom Employees Union-Federation of Free Workers (GTEU-FFW) remains active to pledge the right of every Ka-Globe to form a collective bargaining unit. All employees are allowed to participate in CBA and through GTEU-FFW, everyone is informed and made aware of the mandates.

Globe has a long-standing, healthy, and constructive relationship with the GTEU characterized by healthy and constructive discussions and industrial peace. Both have shared goals such as enhancing productivity levels and ensuring consistent quality of service to customers across various segments.

Globe and GTEU-FFW renewed their collective bargaining agreement for another 5 years, beginning 2016. This is a testament to the strong partnership built between them and the alignment in their advocacies.

N. <u>Risk Factors</u>

The achievement of our key business objectives can be affected by a wide array of risk factors. Some of these risk factors are universal while some are unique to the telecommunications industry. The risks vary widely in occurrence and severity, some of which are beyond our control. There may also be risks that are either presently unknown or not currently assessed as significant, which may later prove to be material. The company aims to mitigate the exposures through appropriate RM strategies, strong internal controls and capabilities, close monitoring of risks and mitigation plans. The section below sets out the principal risk types, listed in no particular order of significance:

1. Political and Socio-Economic Risks

The growth and profitability of Globe may be influenced by the overall political and economic situation of the Philippines. Any political instability in the Philippines could negatively affect the country's general economic conditions which, in turn, could adversely affect the company's business, financial condition or results of operations, including the ability to enhance the growth of its customer base, improve its revenue base and implement its business strategies.

The newly-elected administration is seen to bring potential changes that can positively or negatively affect the telecommunications industry. These include:

- Pressure to improve network performance (i.e. network connectivity)
- Possible pressure on pricing
- Potential entry of foreign telecom players
- Potential improved LGU support
- Promise of increased infrastructure spend

A regular environmental scanning exercise is performed to ensure the identification of any uncertainties arising from political and socioeconomic factors. Management is closely monitoring the shift in policies to anticipate the potential impact to the business plans as well as maintaining open communication lines with the various government sectors.

2. Financial Markets Risk

(a) Foreign Exchange Risk

Exposure to foreign exchange risks remains a risk to Globe. Foreign exchange risk results primarily from movements of the Philippine peso against the US dollar (USD) with respect to the company's USD-denominated financial assets, liabilities, revenues and expenditures.

There are no assurances that declines in the value of the Peso will not occur in the future or that the availability of foreign exchange will not be limited. Recurrence of these conditions may adversely affect Globe's financial condition and results of operations.

(b) Interest Rate Risk

In order to fund major expenditures, Globe has entered into various short and long-term debt obligations, which exposes the company to the risk of changes in interest rates.

The company's exposure to interest rate risk and currency risk are being managed by:

- Using a mix of fixed and variable rate debt that are meant to achieve a balance between cost and volatility.

- Entering into interest rate swaps, in which the company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed upon notional principal amount.
- Using a combination of natural hedges an derivative hedging to manage foreign exchange exposure.

Globe also regularly evaluates its projected and actual cash flows and continuously assess conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise.

3. Industry and Operational Risks

(a) Competition Risk

(i) Traditional Competition

Competition remains intense in the Philippine telecommunications industry amidst a maturing mobile market and high growth data business, as current operators seek to increase market share with aggressive offerings while potential new entrants continue to further heighten the competitive dynamics amidst a maturing mobile market. The Philippine telecommunications industry continues to be a two-player market following the withdrawal of a new player in 2016, as such, the PLDT Group (composed of PLDT, Smart, and Digitel) continues to be our principal competitor.

(ii) Alternative Competition

The competitiveness of the industry is further underlined by cheap alternatives to communication such as instant messaging, social network services and voice over internet protocol. These alternatives are also driven by the proliferation of affordable smartphones and internet-capable mobile devices.

The continued growth and development of the telecommunications industry will depend on many factors. Any significant economic, technological, or regulatory development could result in either a slowdown or growth in demand for mobile services and may impact our business, revenues, and net income.

We continue to assert our market position through the offering of personalized plans and attractive product/device bundles, and launching innovative products and services that are relevant and responsive to the needs of the customers and focusing on superior customer experience. We also partner with leading providers of content, mobile messaging, social media and other popular applications in order to provide products and services that anticipate and cater to shifting customer preferences.

(b) Regulatory Risk

The Globe Group is regulated by the National Telecommunications Commission (NTC), an attached agency of the Department of Information and Communications Technology (DICT), for its telecommunications business, and by the Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP) for other aspects of its business. On the other hand, the newly-formed Philippine Competition Commission (PCC) has oversight on our mergers, acquisitions, and other similar transactions as it is tasked to effectively level the playing field among businesses and penalize anti-competitive agreements and abuse of market dominance.

The introduction of, changes in, or inconsistent application of laws or regulations from time to time, may materially affect the operations of Globe, and ultimately the earnings of the Company which could impair its ability to service debt. There is no assurance that the regulatory environment will support any increase in business and financial activity for Globe.

Globe manages its regulatory risks through regular monitoring of regulatory rulings, especially those that could negatively impact its businesses, and proactive engagement with the regulators.

(c) Customer Preference and Technology Shift Risk

Globe's ability to recognize and quickly respond to changes in customer preferences by upgrading existing infrastructure and systems may impact its competitiveness in the marketplace.

Mobile data applications and the rising popularity of smartphones and mobile and connected devices are key contributors to the explosion of data traffic. This phenomenon is placing a strain on network capacity as well as the supporting back end systems, negatively impacting customer experience.

Globe's business, product and technical teams continue to keep abreast of the latest innovations and trends in telecommunications technologies, devices and gadgets. The information and insights gathered are considered in the roadmap of future products and services and the company's network and IT infrastructure evolution. Proper timing of investments in technology and infrastructure always consider its strategic implications, velocity of technology cycles and customer adoption.

(d) Change Program Risk

Globe is in the process of transforming its Network infrastructure mainly to improve network quality, anticipate the surge in voice and data traffic, decrease total cost of ownership and make the network robust enough to meet future needs. On the other hand, the IT transformation is envisioned to re-engineer Globe Telecom's IT systems and key processes to enhance its ability to deliver superior customer experience while being able to roll out products to the market in a more efficient and effective manner.

Should Globe Telecom's ambitious and complex transformation programs prove to be unsuccessful, or fail to achieve the desired outcomes, Globe could ultimately lose market share thus impacting its financial results.

Globe has institutionalized the appropriate program governance organizations with Management Team oversight and accountability to ensure program risks are properly considered and managed with the end objective of improving customer experience. Globe ensures that a competent program office and project organization are in place for major change programs. Supporting processes have been established to closely monitor and provide a venue for regular progress updates, alignment of efforts, discussion of critical implementation issues and challenges and help ensure successful execution of its change programs.

(e) Reputational Risk

Globe is recognized as one of the Philippines' top companies which provides innovative services and delivers superior customer experience, while maintaining a socially responsible business. We are exposed to reputational risks which may result from our actions or that of our competitors; indirectly due to the actions of an employee; or consequently through actions of outsourced partners, suppliers, or join venture partners.

Damage to Globe Telecom's reputation and erosion of brand equity could also be triggered by the inability to swiftly and adequately handle negative traditional and social media sentiments on Globe Telecom's products and services resulting from unfavorable customer experience, among others.

Regular process effectiveness and efficiency reviews on existing customer-impacting processes and policies are being conducted to identify and address existing gaps, thus minimizing exposure to reputational risks arising from problem areas. Front line staff are regularly trained to enable them to effectively handle customer cases. On the other hand, close monitoring of customers' online sentiments is being performed to quickly detect subscriber issues being surfaced in social media and be able to manage them early on.

(f) Compliance Risks

(i) Revenue Leakage

The telecommunications industry is inherently vulnerable to revenue leakage with the dynamic changes in networks and IT systems and the multitude of its service offerings. Given the pace at which new offers are launched in the market and the speed of technological innovations being adopted by Globe to support such offers, the need to identify and plug revenue leakages becomes an even more important capability in maximizing revenues and returns.

Globe strengthens its capabilities through the identification and embedding of appropriate revenue assurance controls into new products, services, and new systems as well as the implementation of sound controls on existing products and services.

Globe is continuously improving control effectiveness, efficiency, and coverage through periodic controls review exercises, controls discovery, and controls automation initiatives.

(ii) Fraud

Globe runs the risk of falling victim to fraud perpetrated by unscrupulous persons or syndicates either to avail of "free" services, to take advantage of device offers or defraud its customers. With the increasing complexity of technologies, network and IT architecture, new types of fraud that are more difficult to detect or combat could also arise. This risk also involves irregularities in transactions or activities performed by Globe Telecom's employees for personal gain.

Globe remains committed to preventing and detecting fraud by institutionalizing processes and building capabilities that enable the early detection, investigation, resolution and enforcement of sanctions and legal options, close monitoring and timely reporting of various instances of fraudulent activities. The company has initiated various programs to equip its customers with the right information so that they do not fall victim to fraudsters. Moreover, the company closely coordinates with law enforcement agencies to help protect our customers as well as from the activities meant to defraud them.

(iii) Business disruptions

The quality and continued delivery of Globe's services are highly dependent on its network and IT infrastructure which are vulnerable to damages caused by extreme weather disturbances, natural calamities, fire, acts of terrorism, intentional damage, malicious acts and other similar events which could negatively impact the attainment of revenue targets and the company's reputation.

The company is continuously enhancing its incident and crisis management plans and capabilities and have incorporated disaster risk reduction and response objectives in its business continuity planning. Part of Globe's Business Continuity Management Program initiatives include:

- Partnering with the Metropolitan Manila Development Authority (MMDA) and the Philippine Disaster Recovery Foundation (PDRF), to create a network of support during disasters.
- Sponsored the development of hazard maps for 54 out of 81 Philippine provinces, which will be used by Phivolcs to assist the provinces in their disaster management plans.
- Reinforced Ayala ASSIST, an app that enables Globe and other Ayala employees to easily xseek assistance during disasters.
- Re-certification in Business Continuity on an enterprise-wide scale

(iv) Cyber Threats

The cyber security landscape is rapidly evolving and users are heavily relying on digitized information and sharing vast amounts of data across complex and inherently vulnerable networks. This exposes Globe to various forms of cyber-attacks which could result in disruption of business operations, damage to reputation, legal and regulatory fines and customer claims.

New technologies and systems being installed in the name of advanced capabilities and processing efficiencies may introduce new risks which could outpace the organization's ability to properly identify, assess and address such risks. Further, new business models that rely heavily on global digitization, use of cloud, big data, mobile devices and social media increase the organization's exposure to cyber-attacks.

Globe continues to strengthen and enhance its existing security detection, vulnerability and patch management, configuration management, identity access management, events monitoring, data loss prevention and network/end-user perimeter capabilities to ensure that cyber threats are effectively managed.

As part of our mission to promote the intelligent and judicious use of the internet, we also educate the youth to better understand the impact of their online behavior so they can be responsible digital citizens, thereby lessening cyber threats to Globe. This cyber wellness advocacy takes the form of the award-winning Digital Thumbprint Program (DTP), held in partnership with Optus and Singapore Telecommunications Ltd. (Singtel).

(v) Data Privacy

Globe, in the course of regular business acquires personal information of its subscribers and retains the same in its IT systems. Existing laws require that these information be adequately protected against unauthorized access and or/disclosure. The risk of data leakage is high with the level of empowerment granted to in-house and outsourced employees handling sales and after sales transactions to enable the efficient discharge of their functions.

Employee awareness on data protection and loss prevention is reinforced through regular corporate dissemination channels. Further, employees are made accountable for maintaining the confidentiality of data handled, including disclosures and information shared in various social media platforms. Controls over processes that require handling of subscriber's personal information are being tightened, coupled with enhancements in existing security capabilities to prevent compromise of customer data.

Management recently announced the appointment of the Chief Information Security Officer and concurrent Data Protection Officer to strengthen management of risks relating to the confidentiality and integrity of customer information while ensuring compliance with Data Privacy Act of 2012 (Republic Act 10173).

(g) Human Capital Risks

We are exposed to risks in staffing our critical functions with competent management and technical expertise. Our greatest asset is our people and our success is largely dependent on our ability to attract highly skilled personnel and to retain and motivate our best employees. Our people is the glue that brings everything together which is why it is crucial to ensure that we are able to acquire the right people and enhance their exceptional abilities further.

Various people-related programs designed to engage and motivate employees are being implemented in order to retain and attract key talents. Globe University was formally organized to address the growing competency and development needs of Globe. With the need to develop key talent imperatives, it is a significant move towards achieving key improvements in workforce capabilities and performance.

(h) Organizational Agility Risk

Leading the digital lifestyle for customers and diversification of Globe's business portfolio is critical to maintain market competitiveness. Failure to drive the entire organization to quickly adapt work practices and make the right shift in skills and competencies necessary for the company to lead in the digital space and forge into adjacent spaces may lead to missed business opportunities.

Globe has initiated cultural change programs that focus on customer centricity and innovation. Opportunistic hiring of talents required for innovation and new investment areas are also carefully considered. Further, through Kickstart Ventures the company invested in building to scale the technical foundation of digital and technology start-up businesses operating in the Philippines. Globe continues to build the right leadership structures and system team that will support an agile, future-ready and customer-centric organization.

O. <u>Management of Risks</u>

Realizing the need to protect the business from losses arising from failures in internal processes, people, and systems or external events, which is an integral part of Globe's RM responsibility, an Operational Risk Management and Business Protection (ORB) department was established. ORB's primary objective is to provide end-to-end support for all activities under risk management, overseeing safety, environment, infrastructure hazard management, insurance, as well as enterprise business continuity managemet. ORB reports to the Head of Logistics and Administrative Services who directly reports to the CFO/CRO. The department is mandated to do the following:

- Provide hazard identification and risk assessment for Globe Telecom's operations, activities, events, and infrastructure;
- Facilitate implementation of risk control and mitigation measures for safety and environmental management, in collaboration with operational and business groups;
- Provide and facilitate risk transfer and business protection solutions through insurance or contractor liability agreements;
- Establish an effective framework for business continuity management for the organization to effectively respond to threats such as natural disasters, equipment failure, data breaches, and in effect, protect its business interests.

P. <u>Debt Issues</u>

For details on Globe Group's Notes payable and Long Term debt, see Note 14 of Globe's 2017 Consolidated Financial Statements which is part of the exhibits to this report.

For further details on the Globe's financial condition and operations, please refer to its 2017 Consolidated Financial Statements which is incorporated herein as part of exhibits. Also, for further information on Globe, please refer to its SEC17A which are available in its website www.globe.com.ph.

Item 2. Properties

Ayala Corporation

Ayala Corporation owns, among others the following properties: significant area in the 4 floors of the Tower One Building located in Ayala Triangle, Ayala Avenue, Makati (which were purchased in 1995 and are used as corporate headquarters of the Company); various provincial lots relating to its business operations totaling about 1,390.4 hectares and Metro Manila lots totaling 2.75 hectares; and lots and buildings for the Honda Cars Makati, Honda Cars Pasig, Honda Cars Alabang and Isuzu Alabang dealerships (which are leased to these dealerships). Certain properties are subject to certain conditions, restrictions and covenants in which the Company is compliant.

ALI

The following table provides summary information on ALI's land bank as of December 31, 2017. Properties are wholly-owned and free of lien unless noted.

Estates	Location	Land Area in hectares
Makati CBD	Makati, MM	46
BGC	Taguig, MM	36
Vertis North	Quezon City, MM	15
Southpark District	Alabang, MM	2
Circuit	Makati, MM	12
Arca South	Taguig, MM	27
Cloverleaf	Quezon City, MM	8
Parklinks	Pasig City, MM	35
Luzon Estates		
Nuvali	Laguna, Region 4	950
Altaraza	Bulacan, Region 3	642
Alviera	Pampanga, Region 3	1,505
Vermosa	Cavite, Region 4	267
Evo City	Cavite, Region 4	216
Lio/El Nido	Palawan, Region 4B	963
Visayas Estates		
Cebu	Cebu	21
Gatewalk Central	Cebu	13
Seagrove	Cebu	7
Northpoint	Negros Occidental	124
Capitol Central	Negros Occidental	8
Atria	Iloilo	13
Sicogon	Iloilo	810
Mindanao Estates		
Centrio	Cagayan de Oro	3
Abreeza	Davao	11
Azuela Cove	Davao	27
Other Parcels		
Other Luzon		3,708
Other Visayas		198
Other Mindanao		616
TOTAL		10,285

LEASED PROPERTIES

ALI has an existing contract with BCDA to develop, under a lease agreement a mall with an estimated gross leasable area of 152,000 square meters on a 9.8-hectare lot inside Fort Bonifacio. 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 P106.5 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.

On January 28, 2011, a notice was given to ALI for the P4.0 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. ALI signed a 25-year lease contract for the property last June 22, 2011, with an option to renew for a 58,000 square meters another 25 years by mutual agreement. The project involves the construction of a retail establishment with 63,000 square meters of available gross leasable area and a combination of Headquarter-and-BPO- type buildings with an estimated 8,000 square meters of office space.

Rental Properties

ALI's properties for lease are largely shopping centers and office buildings. It also leases land, carparks and some residential units. As of December 31, 2017, rental revenues from these properties accounted for ₱30.96 billion or 21.76% of Ayala Land's consolidated revenues, 10% higher than the ₱28.07 billion recorded in the same period in 2015. Lease terms vary depending on the type of property and tenant.

Property Acquisitions

With 10,285 hectares in its land bank as of December 31, 2017, Ayala Land believes that it has sufficient properties for development in next 25 years.

Nevertheless, ALI continues to seek new opportunities for additional, large-scale, master-planned developments in order to replenish its inventory and provide investors with an entry point into attractive long-term value propositions. The focus is on acquiring key sites in the Mega Manila area and other geographies with progressive economies that offer attractive potential and where projected value appreciation will be fastest.

In January 2016, ALI and LT Group, Inc. (LTG) entered into an agreement 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.

In June 2015, ALI, through SM-ALI Group consortium, participated and won in the bidding for Lot No. 8-B-1, containing an area of 263,384 sqm, which is a portion of Cebu City-owned lot located at the South Road Properties, Cebu City covered by Transfer Certificate of Title No. 107-2011000963 (the "Property"). SM-ALI Group consortium is a consortium among SM Prime Holdings, Inc. ("SM"), Ayala Land, and Cebu Holdings, Inc. ("CHI", together with ALI collectively referred to as the "ALI Group"). The SM-ALI Group will co-develop the property pursuant to a joint master plan.

In April 2015, ALI purchased all of the 8.2 million common shares of Aegis PeopleSupport Realty Corporation amounting to ₱435 million. Aegis PeopleSupport Realty Corporation is a PEZA-registered entity and the owner of Aegis building along Villa Street, Cebu IT Park, Lahug, Cebu City. The building is a certified LEED-Gold Office with a gross leasable area of 18,092 sqm and is largely occupied by Teleperformance under a long-term lease.
On February 6, 2015, ALI purchased the combined remaining interest of Allante Realty and Development Corporation (Allante) and DBH, Inc. (DBH) in North Triangle Depot Commercial Corporation (NTDCC) consisting of 167,548 common shares and 703,904 preferred shares amounting to ₱229 million. This brings ALIC) consisting of 167,548 common shares and 703,904 total outstanding capital stock of NTDCC.

In January 2014, ALI entered and signed into a 50-50% joint venture agreement with AboitizLand, Inc. for the development of a 15-hectare mixed-use community in Mandaue City, Cebu. The first project of this joint venture will involve the construction of a mall and a residential condominium unit with an estimated initial cost of ₱3 billion.

On November 23, 2013, ALI, through its wholly-owned subsidiary, Ayala Hotels and Resorts Corp, (AHRC) signed an agreement to acquire 100% interest in Asian Conservation Company, Inc. (ACCI) which effectively consolidates the remaining 40% interest in Ten Knots Development Corp. (TKDC) and Ten Knots Philippines Inc. (TKPI) (60%-owned subsidiary of ALI prior to this acquisition). The agreement resulted in ALI effectively obtaining 100% interest in TKPI and TKDC.

On April 16, 2013, ALI entered into a Sale and Purchase Agreement (SPA) with Global International Technologies Inc. (GITI) to acquire the latter's 32% interest in ALI Property Partners Co. (APPCo) for ₱3.52 billion. GITI is a 100% owned company of the Goldman Sachs Group Inc. The acquisition increased ALI's stake in APPCo from 68% to 100%. APPCo owns BPO buildings in Makati, Quezon City and Laguna with a total gross leasable area of around 230,000 sqm. The carrying amount of the non-controlling interest is reduced to nil as APPCo became wholly owned by ALI. The difference between the fair value of the consideration paid and the amount by which the non-controlling interest is adjusted is recognized in equity attributable to ALI amounting to ₱2,722.6 million.

Mortgage, Lien or Encumbrance over Properties

ALI has certain properties in Makati City that are mortgaged with BPI in compliance with BSP rules on directors, officers, stockholders and related interests.

IMI

IMI has production facilities in the Philippines (Laguna, Cavite and Taguig), China (Shenzhen, Jiaxing, Chengdu, and Suzhou), Bulgaria, Czech Republic, Germany, Mexico and the UK. It also has a prototyping and NPI facility located in Tustin, California. Engineering and design centers, on the other hand, are located in the Philippines, Singapore, China, United States, Bulgaria, Czech Republic, and Germany. IMI also has a global network of sales and logistics offices in Asia, North America and Europe.

IMI's global facilities and capabilities of each location as of December 31, 2017 are shown below:

Location	Floor Area (square meters)	Capabilities
Manufacturing Sites		
Philippines-Laguna (2 sites)	96,182	▪ 31 SMT lines, 2 FC lines ▪ 5 COB/COF lines ▪ Box build to Complex Equipment manufacturing ▪ LVHM, HVLM ▪ Solder Wave, Potting, Al & AG W/B ▪ Protective Coating ▪ ICT, FCT, AOI, RF Testing ▪ Design & Development ▪ Test & System Development ▪ Cleanroom to class 100 ▪ Low Pressure Molding (Overmold) ▪ Precision Metals/Machining
Philippines-Cavite	2,350	▪ 3 SMT lines ▪ Box Build ▪ PTH, Solder Wave ▪ ICT, FCT, AOI ▪ 3D X-ray ▪ LVHM
Philippines-PSi Laguna	9,858	▪ Power Component Discrete Packaging, e.g., 3 - 7L TO-220, 3L TO-247, etc. ▪ Diversified Packaging - from Low to High Power and Small to Large Outline ▪ R&D line
China-Pingshan	29,340	▪ 17 SMT lines, 1 COB line ▪ Box Build ▪ PTH, Solder Wave ▪ POP, Auto Pin Insertion ▪ Potting, Conformal coating and Burn-in ▪ ICT, FCT, AOI, RF Testing ▪ Test & System Development ▪ Design & Development ▪ LVHM, HVLM
China-Kuichong	23,480	▪ 19 SMT lines ▪ Box Build

		▪ PTH, Auto Pin Insertion, Solder Wave ▪ ICT, FCT, AOI, RF Testing ▪ Test & System Development ▪ LVHM, HVLM
China-Jiaxing	18,452	▪ 13 SMT lines ▪ PCBA ▪ Box Build ▪ PTH, Auto Pin Insertion, Solder Wave ▪ Conformal Coating, Potting ▪ ICT, FCT, AOI, RF Testing ▪ Test & System Development ▪ LVHM, HVLM
China-Chengdu	7,500	▪ 7 SMT lines ▪ Box Build ▪ PTH, Auto Pin Insertion, BGA, X-Ray, COB ▪ Solder Wave ▪ Automated Conformal Coating ▪ ICT, FCT, AOI ▪ HVLM / LVHM ▪ Test Development
USA-Tustin, CA*	1,184	▪ 2 SMT prototyping lines ▪ Engineering Development ▪ Prototype Manufacturing Center ▪ Precision Assembly ▪ SMT, COB FCOF ▪ Process Development
Botevgrad, Bulgaria (2 sites)	29,394	▪ 15 SMT lines ▪ Box build ▪ PTH, Auto Pin Insertion, Solder Wave ▪ Protective Coating ▪ ICT, FCT, AOI ▪ Test & System Development ▪ Design & Development ▪ Plastic Injection, Embedded Toolshop, Overmolding
El Salto, Guadalajara, Mexico (2 sites)	24,910	▪ 6 SMT lines ▪ Box build ▪ PTH, Auto Pin Insertion, Solder Wave, Protective Coating, Polymer Coating ▪ ICT, FCT, AOI, ▪ X-ray ▪ Plastic Injection (50-1,600T) ▪ Overmolding ▪ Embedded Toolshop ▪ Automated BE Assembly
Třemošná, Plzeňská, Czech Republic	7,740	▪ 4 SMT lines ▪ PTH ▪ Pin Insertion ▪ Solder Wave ▪ Selective soldering ▪ Ultrasonic Welding ▪ Selective coating ▪ ICT, FCT, AOI ▪ Mechanical Assembly ▪ Automated line
Mörsdorf, Germany (VIA)	12,000	▪ Manual optical bonding lines, including different processes ▪ Semi-automatic optical bonding line, for medium and large size application ▪ Display backlight enhancement and modification ▪ Display and touch film lamination ▪ Film cutting for different application ▪ Mechanical assembly including electronics and housing ▪ Prototyping ▪ R&D process development ▪ R&D material development ▪ Engineering, prototyping and production process improvement

		▪ Test & system development (electrical) ▪ Optical test labor (mainly for display evaluation) ▪ Environmental test labor 3 Cleanrooms, class 1000, partial class 100
Suzhou, China (VIA)	9,750	▪ 4 Cleanrooms, class 1000, partial class 100 ▪ 4 optical bonding lines, including 1 fully auto line , 1 semi-auto line and 2 manual lines. ▪ Semi and full automatic optical bonding capacity to balance volume and flexibility ▪ High volume capacity and capable support from size 1.5" up to 85" ▪ R&D touch product development ▪ R&D display standard product development ▪ R&D bonding process development ▪ Test & system development (electrical) ▪ Prototyping ▪ Display and touch film lamination ▪ Film cutting for different application ▪ Mechanical assembly including electronics and housing ▪ Engineering, prototyping and production process improvement ▪ Optical test lab (mainly for display evaluation) ▪ Environmental test lab
UK-Hook (STI)	5,946	▪ 3 high-speed ASM Siplace SMT Lines (2.4m components/day) ▪ High Reliability PCB Assembly & Box Build ▪ Full Test facilities ▪ Dedicated prototype facility with 2 flexible Mydata lines ▪ Special processes & full repair and rework facility ▪ Clean Room, NPI, RF Screened Room
UK-Poynton (STI)	6,689	▪ Manufacturer of highly secure satellite communications equipment (under long term Airbus DS contract) ▪ Manufacturer of specialist amplifiers ▪ Specialist spares and repairs ▪ Full rack wiring and integration ▪ Specialist test facility – RF Testing, Anechoic Chamber, EMC Chamber & Moog 6 Degree of Freedom Motion Bed ▪ Complex Wiring & Heavy Metalwork ▪ Advanced Box Build
Cebu, Phils (STI)	2,601	▪ 3 high-speed placement systems (6m components/day capacity) ▪ High volume PCB Assembly and Box Build ▪ Equipment and operational standards fully compatible with Hook manufacturing site ▪ IP protection and full product traceability guaranteed
Total Manufacturing Space	**287,376**	
Sales and Marketing Support		
Hong Kong*	300	Procurement, marketing and supply chain support
Japan*	110	Sales Support
Total Support Space	**410**	
Total	**287,786**	

MWC

The Concession Agreement grants MWC the right to operate, maintain in good working order, repair, decommission, and refurbish the MWSS facilities in the East Zone, which include treatment plants, pumping stations, aqueducts and the business area office. However, legal title to these facilities remains with MWSS. The net book value of these facilities on Commencement Date based on MWSS' closing audit report amounted to Php4.6 billion, with a sound value, or the appraised value less observed depreciation, of Php10.40 billion. These assets are not reflected in the financial statements of MWC.

Pursuant to the terms of the Concession Agreement, new assets contributed to the MWSS system by MWC during the term of the Concession Agreement are reflected in the MWC's financial statements and remain with MWC until the Expiration Date (as defined in the Concession Agreement), at which time all right, title and interest in such assets automatically vest to MWSS. The Concession Agreement allows the MWC to mortgage or create security interests over its assets solely for the purpose of financing, or refinancing, the acquisition or construction of the said assets, provided that no such mortgage or security interest shall (i) extend beyond the Expiration Date of the Concession Agreement, and (ii) be subject to foreclosure except following an event of termination as defined under the Concession Agreement.

On July 17, 2008, the MWC Parent Company, 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 obligations of MWC to pay amounts due and owing or committed to be repaid to the lenders under the existing facility agreements were secured by Assignments of Interests by Way of Security executed by the MWC Parent Company 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 the MWC or MWSS. Currently, all lenders of MWC are considered Concessionaire Lenders and are on *pari passu* status with one another.

BPI

BPI's Head Office is located at the BPI Building, 6768 Ayala Avenue, Makati City. Of the 839 local branches, 682 operate as BPI branches: 355 in Metro Manila/Greater Metro Manila Area and 327 in the provincial area. The parent bank owns 32% of these branches and leases the remaining 68%. Total annual lease expenses amounted to P864 million in 2017. Expiration dates of the lease contracts vary from branch to branch.

BFSB's Head Office is located at BFB Center, Paseo De Roxas, corner Dela Rosa St., Makati City. It operates 157 branches of which 20% are bank owned while 80% are leased. Total annual lease amounted to P170 million.

The head offices of BPI and BPI Family Savings Bank as well as the 839 branches are maintained in good condition for the benefit of both the employees and the transacting public. The Bank enforces standards for branch facade, layout, number and types of equipment and upkeep of the premises.

All of the bank-owned properties are free from any lien.

BPI will continue to reconfigure the mix of its traditional branches, and kiosk branches as it adjusts to the needs of its customers. To date, BPI has not identified any property to acquire.

Total lease expense for 2017 for BPI and its subsidiaries amounted to P1,495 million as per Note 21 of the 2017 Audited Financial Statements. In 2017, monthly lease payments vary from one property to another, ranging from a low of P7.3 thousand to a high of P1.9 million, the average of which was P147 thousand.

Globe

Buildings and Leasehold Improvements
Globe Telecom's Corporate Office is located at The Globe Tower, 32nd Street corner 7th Avenue, Bonifacio Global City, Taguig.

Globe also owns several floors of condominium corporation Pioneer Highlands Towers 1 and 2, located at Pioneer Street in Mandaluyong City. In addition, Globe also owns host exchanges in the following areas: Bacoor, Batangas, Ermita, Iligan, Makati, Mandaluyong, Marikina, Cubao-Aurora, among others.

Globe leases office spaces in W City Center, located at 7th Avenue corner 30th Street, Bonifacio Global City, Taguig, for its Network Technical Group. It also leases the space for most of its Globe Stores, as well as Globe's base stations and cell sites scattered throughout the Philippines.

Globe's existing business centers and cell sites located in strategic locations all over the country are generally in good condition and are covered by specific lease agreements with various lease payments, expiration periods and renewal options. As Globe continues to expand its network, Globe intends to lease more spaces for additional cell sites, stores, and support facilities with lease agreements, payments, expiration periods and renewal options that are undeterminable at this time. *(For additional details, see Note 7 of Globe's 2017 Consolidated Financial Statements which is part of the exhibits to this report)*

Item 3. Legal Proceedings

Except as disclosed herein or in the Definitive Information Statements (DIS) of the Company or its subsidiaries or associates and joint ventures 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 associates and joint ventures 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. The Company's DIS is available at its website www.ayala.com.ph.

In any event, below are the significant legal proceedings involving the Company's subsidiaries, associates and joint ventures:

ALI

As of December 31, 2017, ALI, its subsidiaries, and its affiliates, are not involved in any litigation regarding an event which occurred during the past five (5) years that they consider material.

However, there are certain litigation ALI is involved in which it considers material, and though the events giving rise to the said litigation occurred beyond the five (5) year period, the same are still unresolved, as follows:

Las Piñas Property

Certain individuals and entities have claimed an interest in ALI's properties located in Las Piñas, Metro Manila, which are adjacent to its development in Ayala Southvale. Prior to purchasing the aforesaid properties, ALI conducted an investigation of titles to the properties and had no notice of any title or claim that was superior to the titles purchased by ALI. ALI traced its titles to their original certificates of title and ALI believes that it has established its superior ownership position over said parcels of land. ALI has assessed these adverse claims and believes that its titles are, in general, superior to the purported titles or other evidence of alleged ownership of these claimants. On this basis, beginning in October 1993, ALI filed petitions in the Regional

Trial Courts (RTC) in Makati City and Las Piñas City for quieting of title to nullify the purported titles or claims of these claimants. These cases are at various stages of trial and appeal. Some of these cases have been decided by the Supreme Court. These include decisions affirming the title of ALI to some of these properties, which have been developed and offered for sale to the public as Sonera, Ayala Southvale. The controversy involves the remaining area of approximately 126 hectares.

On July 26, 2017 and December 4, 2017, the Supreme Court ruled against ALI invalidating ALI's title to 46 hectares of the Southlinks Golf Course. ALI has filed a second motion for reconsideration.

ALI has made no allowance in respect of such actual or threatened litigation expenses.

IMI

There are no material pending 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 up to the present date to which IMI or any of its subsidiaries or its directors or executive officers is a party or of which any of its material properties are subject in any court or administrative government agency.

IMI filed a civil case on April 11, 2011 against Standard Insurance ("Standard") seeking to collect Standard's share in the loss incurred by IMI consisting in damage to production equipment and machineries as a result of the May 24, 2009 fire at IMI's Cebu facility which IMI claims to be covered by Standard's "Industrial All Risks Material Damage with Machinery Breakdown and Business Interruption" policy. The share of Standard in the loss is 22% or US $1,117,056.84 after its co-insurers all paid the amount of loss respectively claimed from them. IMI had to resort to court action after Standard denied its claim on the ground that the claim is an excepted peril. Standard filed a motion to dismiss on various grounds, such as lack of cause of action and of prescription. The Regional Trial Court denied the motion to dismiss but Standard filed a Motion for Reconsideration with the Court of Appeals (CA). On April 26, 2013, the CA dismissed the case on the ground that the claim has prescribed. On April 19, 2013, IMI filed a Motion for Reconsideration. On December 10, 2013, IMI received a decision promulgated on December 2, 2013 denying the said Motion for Reconsideration.

IMI filed a Petition for Review on Certiorari dated January 23, 2014 which is pending with the Supreme Court as of December 31, 2017.

MWC

MWC is presently involved in the following cases:

1. ***Manila Water Company, Inc. vs. The Republic of the Philippines***
In the Matter of the Notice of Arbitration to the Republic of the Philippines
Arbitration under the United Nations Commission on International Trade Law ("UNCITRAL") Rules (1976)
Permanent Court of Arbitration

On 23 April 2015, Manila Water Company, Inc. ("Manila Water") 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 Manila Water in accordance with the indemnity clauses in Republic's Letter Undertaking dated 31 July 1997 and Letter Undertaking dated 19 October 2009.

At present, the arbitration case remains pending.

2. ***Manila Water Company, Inc. and Maynilad Water Services, Inc. vs. Hon. Borbe, et al.***
CBAA Case No. L-69
Central Board of Assessment Appeals ("Central Board")

This is an appeal from the denial by the Local Board of Assessment Appeals of Bulacan Province (the "Local Board") of MWC's (and Maynilad Water Services, Inc.'s [Maynilad]) appeal from the *Notice of Assessment* and *Notice of Demand for Payment of Real Property Tax* in the amount of ₱357,110,945 made by the Municipal Assessor of Norzagaray, Bulacan. MWC is being assessed for half of the amount.

In a *letter* dated April 3, 2008, the Municipal Treasurer of Norzagaray and the Provincial Treasurer of the Province of Bulacan, informed both the Concessionaires (MWC and Maynilad) that their total real property tax accountabilities have reached ₱648,777,944.60 as of December 31, 2007. This amount, if paid by the Concessionaires, will ultimately be charged to the customers as part of the water tariff rate. The Concessionaires (and the MWSS, which intervened as a party in the case) are thus contesting the legality of the tax on a number of grounds, including the fact that the properties subject of the assessment are owned by MWSS, which is both a government-owned and controlled corporation and an instrumentality of the National Government exempt from taxation under the Local Government Code.

The Central Board conducted a hearing on June 25, 2009. In the said hearing, the parties were given the opportunity and time to exchange pleadings regarding a motion for reconsideration filed by the Municipality to have the case remanded to and heard by the Local Board rather than by the Central Board.
MWC and Maynilad have already concluded presentation of their respective evidence and witnesses, while MWSS waived its right to present evidence.

On August 12, 2015, the newly-constituted members of the Central Board's Panel conducted an ocular inspection of the subject property. On September 17, 2015, the Province of Bulacan presented its first witness, Ms. Gloria P. Sta. Maria, the former Municipal Assessor of Norzagaray, Bulacan. MWC, Maynilad and MWSS have completed their cross-examination of Ms. Sta. Maria.

In an *Order* dated July 15, 2016, the CBAA denied the motion for reconsideration of the Municipality of Norzagaray, for which it filed a *Petition for Certiorari* with the Court of Tax Appeals on August 24, 2016. In compliance with the directive of the Court of Appeals, MWC filed a *Comment* dated January 3, 2017. MWSS and Maynilad have likewise filed their respective *Comments*.

On January 31, 2017, the CTA requested the parties to file their respective memoranda. MWC filed its *Memorandum* on March 27, 2017. Maynilad filed its *Memorandum* dated March 16, 2017 while the Office of the Solicitor General (OSG) filed its *Memorandum* last March 29, 2017.

To date, this case remains pending.

3. ***Manila Water Company, Inc. vs. The Regional Director, Environmental Management Bureau-National Capital Region, et al.***
CA-G.R. No. 112023 (DENR-PAB Case No. NCR-00794-09), Supreme Court

This case arose from a complaint filed by the OIC Regional Director Roberto D. Sheen of the Environmental Management Bureau-National Capital Region (EMB-NCR) before the Pollution Adjudication Board (PAB) against MWC, Maynilad and the MWSS for alleged violation of R.A. No. 9275 (Philippine Water Act of 2004), particularly the five-year deadline imposed in Section 8 thereof for connecting the existing sewage line found in all subdivisions, condominiums, commercial centers, hotels, sports and recreational facilities, hospitals, market places, public buildings, industrial complex and other similar establishments including households, to an available sewerage system. Two (2) similar complaints against Maynilad and MWSS were consolidated with this case.

On April 22, 2009, the PAB, through the Department of Environment and Natural Resources (DENR) Secretary and Chair Jose L. Atienza, Jr., issued a *Notice of Violation* finding MWC, Maynilad and MWSS to have committed the aforesaid violation of R.A. 9275. Subsequently, a Technical Conference was scheduled on May 5, 2009. In the said Technical Conference, MWC, MWSS and Maynilad explained to the PAB their respective positions and it was established that DENR has a great role to play to compel people to connect to existing sewage lines and those that are yet to be established by MWC and Maynilad.

In addition to the explanations made by MWC during the Technical Conference, MWC together with MWSS and Maynilad wrote a letter dated May 25, 2009 and addressed to the respondent Secretary where they outlined their position on the matter.

In response to the May 25, 2009 letter, the OIC Regional Director for NCR, the Regional Director of Region IV-A and the Regional Director of EMB Region III submitted their respective *Comments*. MWC thereafter submitted its letter dated July 13, 2009 to the PAB where it detailed its compliance with the provisions of R.A. No. 9275 and reiterated its position that the continuing compliance should be within the context of MWC's Concession Agreement with MWSS. Despite the explanations of MWC, the PAB issued an *Order* dated October 7, 2009 which found MWC, Maynilad and MWSS to have violated R.A. 9275. MWC filed its *Motion for Reconsideration* dated October 22, 2009 which the PAB denied in an *Order* dated December 2, 2009. Hence, MWC filed its *Petition for Review* dated December 21, 2009 with the Court of Appeals. MWC thereafter filed an amended *Petition for Review* dated January 25, 2010.

In a *Decision* dated August 14, 2012, the Court of Appeals denied MWC's *Petition for Review* and on September 26, 2012, MWC filed a *Motion for Reconsideration* of the Court of Appeals' *Decision*.

On April 29, 2013, MWC received the *Resolution* dated April 11, 2013 of the Court of Appeals, denying its *Motion for Reconsideration*.

MWC has filed its appeal from the *Decision* and *Resolution* of the Court of Appeals in the form of a *Petition for Review on Certiorari* with the Supreme Court on May 29, 2013. In this *Petition*, MWC reinforced its argument that it did not violate Section 8 of R.A. 9275 as it was able to connect existing sewage lines to available sewage facilities, contrary to the findings of the Court of Appeals.

Per Resolution dated 19 September 2017, the Supreme Court acted on the *Manifestation and Motion to Withdraw Appearance* dated 1 August 2017 filed by Atty. A. Edsel C.F. Tupaz, counsel for petitioner Water for All Refund Movement, Inc. in G.R. No. 212581, and resolved to: (a) note the *Manifestation*, stating that he has been representing Petitioner Water for All Refund Movement in a pro bono capacity since the commencement of the case but he had recently been appointed to a public office since 13 March 2017; (b) defer action on the *Motion to Withdraw Appearance*; (c) grant Atty. Tupaz's request that notice relative to the instant *Manifestation and Motion to Withdraw Appearance* be sent to his current address of record; (d) note the *Letter* dated 15 August 2017 submitting the compact disc containing the soft copy of the aforementioned *Manifestation and Motion to Withdraw*.

To date, this case remains pending.

4. *The Consolidated Cases:*

- ***A. Waterwatch Coalition, Inc. et al. vs. Ramon Alikpala, MWSS, et al., G.R. No. 207444***
- ***B. Water for All Refund Movement vs. MWSS, et al., G.R. No. 208207***
- ***C. Javier vs. MWSS, et al., G.R. No. 210147***
- ***D. ABAKADA Guro Party List vs. MWSS, et al. GR No. 213227***
- ***E. Neri Colmenares and Carlos Isagani Zarate, Representatives of Bayan Muna Partylist vs. Cesar V. Purisima, in his capacity as the Secretary of Finance, et al. G.R. No. 219362***

A. The Waterwatch Petition:

On June 25, 2013, MWC received a copy of the *Petition for Certiorari and Mandamus with Prayer for the Issuance of a Temporary Restraining Order* dated June 20, 2013 filed by the Waterwatch Coalition ("Waterwatch"), Inc. The issues raised in the *Petition* are as follows:
(a) The Concession Agreements are unconstitutional for granting inherent sovereign powers to the Concessionaires which insist they are private entities and mere agents of the MWSS;
(b) The Concessionaires are public utilities;
(c) The Concession system of MWSS, MWC and Maynilad is in a state of regulatory capture;
(d) The Concession Agreements are State Contracts and cannot invoke the non-impairment clause in the Constitution;
(e) The Concessionaires have no vested property rights; and
(f) MWSS is in a state of regulatory capture.

B. The WARM Petition

On August 14, 2013, MWC received a copy of a *Petition for Certiorari, Prohibition and Mandamus* dated August 5, 2013 filed by the Water for All Refund Movement (WARM). The issues raised in the WARM *Petition* are as follows:
(a) The Concession Agreements unduly grant to the Concessionaires the exercise of governmental powers even without the benefit of legislation or, at the very least, a franchise for such purpose;
(b) Concessionaires are performing public service and are therefore, governed by the Public Service Law, and subject to the 12% rate of return cap;
(c) Concessionaires are public utilities, not mere agents or contractors of the MWSS;
(d) Public utility or not, Concessionaires may not pass on their income taxes to the water consumers as expenditures; and
(e) The Concession Agreements cannot cause the creation of a Regulatory Office, a public office performing public functions, or even source its funding from the Concessionaires, which are the very same entities it is supposed to regulate.

C. The Javier Petition

On January 3, 2014, MWC received a copy of a *Petition for Certiorari, Prohibition and Mandamus* dated December 13, 2013 filed by the Virginia S. Javier, et.al, ("Javier") who were suing in their capacity as consumers/customers of the Concessionaires. The issues raised in the Javier *Petition* are as follows:
(a) The Concession Agreements are unconstitutional and/or ultra vires for being delegations of sovereign power without the consent of Congress;
(b) The Concessionaires are public utilities;
(c) Respondents have improperly implemented RORB calculations for purposes of establishing tariffs;
(d) The Concession Agreements are not protected by the non-impairment clause;
(e) Respondents should be enjoined from proceeding with arbitration; and
(f) MWSS is in a state of regulatory capture.

On February 4, 2014, MWC received a copy of the Supreme Court's *Resolution* dated January 14, 2014 consolidating the three (3) cases. MWC filed a *Consolidated Comment* on the aforesaid *Petitions*. The arguments raised by MWC in response to the *Petitions* are as follows:

(a) The Concession Agreements are valid, legal and constitutional as these have statutory basis and do not involve any grant or delegation of the "inherent sovereign powers of police power, eminent domain and taxation";
(b) The Concessionaires are not public utilities in themselves but are mere agents and contractors of a public utility (MWSS);
(c) The Concession Agreements are protected by the non-impairment clause. Petitioners cannot invoke police power for courts to nullify, modify, alter or supplant the Concession Agreements. Police power is exercised by Congress, through the enactment of laws for the general welfare. No such law or enactment is involved in this case. If and when Congress passes a law affecting the Concession Agreements, only then will it be proper to examine the interplay between police power vis-à-vis due process and the non-impairment clause;
(d) The rates set under the Concession Agreements are compliant with the 12% rate of return cap in the MWSS Charter. Not being public utilities but mere agents of the MWSS, the Concessionaires are not subject to audit by the Commission on Audit (COA); and
(e) The Concessionaires are authorized to pass on corporate income taxes to water consumers.

D. The ABAKADA-Guro Petition

On September 22, 2014, MWC received another *Petition for Certiorari and Prohibition* filed by the ABAKADA-Guro Party List, represented by Atty. Florante B. Legaspi, Jr. This *Petition* was likewise consolidated with the Waterwatch, WARM and Javier *Petitions* due to similarities in the issues raised.

In particular, the *Petition* questions the constitutionality of the Concession Agreements entered into by MWSS with both MWC and Maynilad and the extension of the Concession Agreements for another 15 years from year 2022. The *Petition* also seeks to nullify the arbitration proceedings between MWSS and the Concessionaires. MWC has filed its *Comment* on the *Petition*.

In its *Resolution* dated April 21, 2015, the Supreme Court directed the parties to file their respective memoranda within thirty (30) days from notice thereof. After moving for the extension of the deadline on several occasions, on September 18, 2015, MWC filed its *Memorandum*.

Maynilad, MWSS and Waterwatch have likewise filed their respective *Memoranda*. Petitioners WARM, ABAKADA-Guro and Javier, et al. have manifested that they would adopt their respective *Petitions* as their *Memoranda*.

E. The Colmenares Petition

This case is a *Petition for Certiorari and Prohibition [with Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction]* dated August 6, 2015 filed by petitioners Neri Colmenares and Carlos Isagani Zarate, representatives of Bayan Muna Partylist. The *Petition* was filed primarily for the following purposes:
(a) To nullify, supposedly for being unconstitutional, the Arbitration Clause contained in the Concession Agreements entered into by MWSS with MWC and Maynilad, respectively;
(b) To nullify, supposedly for being unconstitutional, the Sovereign Guarantee contained in the Undertaking Letters executed by the Republic in favor of the Concessionaires; and
(c) To declare that the Concessionaires' payments for corporate income taxes cannot be deducted as part of their operational expenditures; and
(d) To prevent Secretary Cesar V. Purisima and President Benigno Simeon C. Aquino III from processing the Concessionaires' claims under the Sovereign Guarantee.

On November 16, 2015, the Supreme Court issued a *Resolution* consolidating the Colmenares *Petition* with the Waterwatch, WARM, Javier, and ABAKADA-Guro Petitions and directing the respondents to file their respective *Comments*. On November 23, 2015, MWC filed its *Comment/Opposition (Re: Petition for Certiorari and Prohibition [with Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction]* dated 06 August 2015). On November 13, 2015, the MWSS and MWSS-Regulatory Office filed their *Comment*. On November 28, 2015, Maynilad filed its *Comment with Opposition (To the Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction)*.

On 10 March 2016, MWC received the *Manifestation* dated 7 March 2016 of the OSG requesting that the Department of Finance and the said Office be excused from filing a *Comment* on the instant *Petition* in view of the pendency of the arbitration proceedings related to the Undertaking Letters.

On 26 May 2016, MWC received Maynilad's *Counter-Manifestation* and *Motions* dated 17 May 2016, praying that the OSG be required to comment on the instant Petition. Maynilad also prayed that the instant case be set for oral arguments in accordance with the Rules of Court.

In its *Resolution* dated 15 March 2016, the Supreme Court noted and granted the *Manifestation* dated 7 March 2016 of the OSG and excused the same from filing a *Comment* on the instant *Petition*. On 16 June 2016, MWC received Maynilad's *Motion for Reconsideration* dated 7 June 2016 praying that the Supreme Court reconsider its *Resolution* dated 15 March 2016.

On 25 July 2016, MWC filed its *Manifestation and Motion* of even dated ("*Manifestation and Motion*"), where MWC joined Maynilad in seeking a reconsideration of the Supreme Court's *Resolution* dated 15 March 2016 and moved to set the consolidated cases for oral arguments. MWC's *Manifestation and Motion* was noted in the Supreme Court's *Resolution* dated 2 August 2016.

On 15 August 2016, MWC received the *Manifestation* dated 10 August 2016 of the Secretary of Finance Carlos G. Dominguez III, represented by the OSG, stating that he is adopting the position taken by his predecessor in office as stated in the *Manifestation* dated 7 March 2016, that the Secretary of Finance and the OSG be excused from filing a comment on the instant Petition.

The *Manifestation and Motion* filed by MWC, as well as the *Manifestation* dated 10 August 2016 filed by Secretary of Finance Carlos G. Dominguez III, were noted in the Supreme Court's *Resolution* dated 23 August 2016.

In a *Resolution* dated September 19, 2017, the Supreme Court denied Maynilad's *Motion for Reconsideration*. Maynilad again filed another *Motion for Reconsideration* dated November 6, 2017 to apprise the Supreme Court that in the interim, the arbitration between the Republic and Maynilad had been resolved by the issuance of an award in favor of Maynilad. Thus, according to Maynilad, the OSG can no longer use said arbitration proceeding as an excuse from filing its comment. Last 13 December 2017, MWCI filed a *Manifestation and Comment* in support of Maynilad's *Motion*.

To date, the *Motion* remains pending.

5. ***Ofelia Lim Mendoza, et.al. vs. Manila Water Company, Inc.***
Court of Appeals
CA G.R. SP No. 142050
(NLRC NCR Case No. 06-08649-13)

This case arose from a *Complaint* for illegal dismissal and non-payment of 13th month pay filed by Ms. Ofelia L. Mendoza and 142 other former Manila Water employees with the National Labor Relations Commission (NLRC) on June 11, 2013 against MWC and its President, Mr. Gerardo C. Ablaza, Jr. The complainants were former employees of MWC whose separation from employment was due to a redundancy program implemented by MWC last August 2012. All of the complainants uniformly pray for reinstatement and payment of full backwages, 13th month pay, moral & exemplary damages, and attorney's fees.

In accordance with the rules and procedures of the NLRC, the parties submitted their respective *Position Papers* on July 25, 2013. In its *Position Paper*, MWC and Mr. Ablaza stated that complainants' employments were validly terminated on the ground of redundancy as a consequence of a valid exercise of management prerogative to contract out functions and positions. Moreover, the *Release, Waiver and Quitclaims* voluntarily executed by the complainants before a Labor Arbiter of the NLRC are valid and binding. For these reasons, the termination of employment was valid, and complainants are not entitled to reinstatement and to their money claims.

MWC and Mr. Ablaza filed their *Reply* to the *Position Paper* of the complainants on August 2, 2013 and a *Rejoinder* to the *Reply* of the complainants on August 30, 2013. On November 25, 2013, Labor Arbiter Eric Chuanico rendered a *Decision* dismissing the *Complaint* for lack of merit.

Complainants filed a *Memorandum of Appeal* dated December 17, 2013, with the NLRC. MWC and Mr. Ablaza filed an *Opposition* on January 13, 2014. The NLRC rendered a *Decision* dated April 29, 2014 reversing the decision of the Labor Arbiter.

On May 19, 2014, MWC and Mr. Ablaza filed a *Motion for Reconsideration*, raising the following arguments: (a) the decision to outsource non-core functions is a valid exercise of management prerogative; (b) MWC presented substantial evidence to prove the validity of its redundancy program;

(c) MWC has proved how outsourcing non-core functions has benefited its operations and its customers; and (d) the complainants' quitclaims and waivers are valid.

On August 13, 2015, MWC and Mr. Ablaza received a copy of the *Resolution* of the NLRC denying the *Motion for Reconsideration*. On September 7, 2015, MWC and Mr. Ablaza filed a *Petition for Certiorari (with Application for a Temporary Restraining Order and/or Writ of Preliminary Prohibitory Injunction)* with the Court of Appeals assailing the NLRC *Decision* and *Resolution*.

On October 7, 2015, MWC and Mr. Ablaza received the *Notice of Resolution* and *Resolution* of the Court of Appeals dated September 22, 2015 denying MWC and Mr. Ablaza's prayer for the issuance of an injunctive writ. MWC and Mr. Ablaza filed a *Motion for Reconsideration* on the denial of the issuance of the injunctive relief raising the following arguments: (a) MWC's management prerogative to streamline its redundant manpower complement to achieve operational efficiency exists prima facie; (b) the execution of the assailed resolution and assailed decision would violate MWC's exercise of management prerogative; and (c) MWC would suffer grave and irreparable injury if the assailed decision and the assailed resolution are enforced.

On October 13, 2015, MWC and Mr. Ablaza received a copy of private respondents' *Comment* dated October 8, 2015. On October 28, 2015, MWC and Mr. Ablaza filed its *Reply* to Private Respondents' *Comment*. In addition, MWC and Mr. Ablaza filed its *Supplemental Reply* on December 7, 2015.

Meanwhile, on January 8, 2016, MWC and Mr. Ablaza received an *Entry of Judgment* from the Sixth Division of the NLRC dated December 22, 2015. It states that the decision dated April 29, 2015 has become final and executory on October 12, 2015.

On January 21, 2016, MWC and Mr. Ablaza received a *Notice of Resolution* accompanied by the *Resolution* dated January 11, 2016 wherein the Court of Appeals ruled as follows: "(a) denies MWC and Mr. Ablaza's Motion for Reconsideration (Re: Denial of the Application for the Injunctive Writ); (b) notes the respondents' Comment (On Petitioner's Motion for Reconsideration Re: Injunctive Writ); and (c) notes MWC and Mr. Ablaza's Supplemental Reply (To Private Respondent's Comment to the Petition) and Rejoinder (To Private Respondents' Comment to the Motion for Reconsideration)."

On June 10, 2016, the Court of Appeals promulgated a *Decision* granting the *Petition for Certiorari*. In the said *Decision*, the Court of Appeals vacated the *Decision* of the National Labor Relations Commission, 6th Division dated April 29, 2014 and reinstated the *Decision* dated November 25, 2013 by the Labor Arbiter in NLRC Case NO. 06¬08649-13. The *Motion for the Issuance of a Writ of Temporary Restraining Order* was deemed moot and academic.

Complainants filed with the Supreme Court a *Petition for Review on Certiorari* dated July 29, 2016 which was docketed as G.R. No. 225081 to assail the decision of the Court of Appeals. In a Resolution dated September 14, 2016, the Supreme Court denied the petition for failure to sufficiently show any reversible error in the assailed judgment. The Supreme Court in a Minute Resolution denied with finality complainants' motion for reconsideration dated September 14, 2016 of the Supreme Court Resolution denying their petition for review on certiorari.

Entry of Judgment was made on February 7, 2017. On February 20, 2017, petitioners filed a (i) Motion for Leave and (ii) Second Motion for Reconsideration. The Supreme Court denied the Motion for Leave and noted the Second Motion for Reconsideration without action on April 19, 2017.

Considering that judgment has already been entered, this case may now be considered closed.

6. Allan Mendoza et al. vs. Manila Water Company, Inc.
Special Civil Action No. R-QZN-14-04863-SC, RTC QC Branch 77

On May 23, 2014, Allan Mendoza, et al. ("Petitioners") filed a *Petition for Mandamus* under Rule 65 of the Rules of Court praying that MWC and its President, Mr. Gerardo C. Ablaza, Jr. be commanded to: (a) reinstitute the Welfare Fund, under terms and conditions which are no less favorable than those provided in the MWSS Employees Savings and Welfare Plan; to make an accounting, and reimburse and/or return to the MWC Welfare Fund the employer's share as of December 2005 which was diverted to the MWC Retirement Plan; and to implement the progressive employer share from the time the Welfare Fund was dissolved in 2005 up to the time when the Fund is finally reinstituted for the petitioners who are still employed, and up to the end of employment for those who are already separated on account of resignation, retirement, termination, etc.; (b) to implement correctly the benefits of petitioners which are guaranteed against non-diminution, as indicated in Exhibit "F" of the Concession Agreement;

(c) to allow petitioners to accumulate their paid leaves of 15 days of vacation leave and 15 days of sick leave annually; and (d) to pay interest on the foregoing at 12% per annum.

In an *Order* dated June 11, 2014, MWC and Mr. Ablaza were directed to file their *Comment*. On June 27, 2014, MWC and Mr. Ablaza filed their *Comment* and argued as follows: (a) the court has no jurisdiction over the subject matter of the instant *Petition*; being essentially an action for payment of employee benefits, the Labor Arbiters under the National Labor Relations Commission have original and exclusive jurisdiction over this case; (b) petitioners have resorted to mandamus in order to avoid payment of filing fees for a collection case; thus, the court has not acquired jurisdiction over the case for failure of the petitioners to pay the prescribed docket fees as set forth in Rule 141 of the Rules of Court; (c) petitioners are not entitled to a writ of mandamus; (d) there was a plain, speedy and adequate remedy available to the petitioners; (e) the case should not be treated as a class suit; (f) the claims of petitioners have prescribed; (g) the *Complaint* should be dismissed because petitioners' alleged cause of action is barred by laches; and (h) petitioners have received benefits no less favorable than those granted to such employees by the MWSS at the time of their separation from MWSS.

In an *Order* dated July 28, 2014, the Court set the presentation of petitioners' evidence on September 10, 2014 and October 8, 2014. However, the September 10, 2014 hearing was cancelled because the branch clerk of court, the clerk-in-charge of civil cases, the court interpreter and the court aide of the branch were attending a seminar for the e-Court system.

Thereafter, petitioners filed a *Motion to Cancel* (the October 8, 2014) Hearing and to Allow Parties to Submit *Memoranda*. In their *Motion*, petitioners claimed that the issues for resolution in the instant case are legal questions and prayed that the parties be required to submit *Memoranda* in lieu of presentation of evidence.

On October 1, 2014, MWC and Mr. Ablaza filed a *Comment* on the *Motion* and stated that they do not entirely agree with petitioners' statement as they have made factual allegations in their *Petition* that would need to be proven in a full-blown trial. These allegations include, among others, that the employees have suffered diminution of benefits and that MWC had allegedly used part of the Welfare Fund as seed money for the Retirement Fund.

However, MWC and Mr. Ablaza proposed that the following legal issues be initially disposed of by way of simultaneous *Memoranda* to be submitted by the parties, namely, whether or not: (a) the court has jurisdiction over the subject matter of the *Petition* being essentially an action for payment of employee benefits; (b) the court has acquired jurisdiction over the case considering the failure of the petitioners to pay the prescribed docket fees as set forth in Rule 141 of the Rules of Court; (c) the petitioners are entitled to a writ of mandamus; (d) there was a plain, speedy and adequate remedy available to the petitioners; (e) this case should be treated as a class suit; (f) the claims of petitioners have prescribed; and (g) the *Petition* should be dismissed because petitioners' alleged cause of action is barred by laches.

On October 8, 2014, the scheduled hearing for the initial presentation of petitioners' evidence was cancelled reset to March 5, 2015 due to the absence of the presiding judge. At the March 5, 2015 hearing, petitioners reiterated their prayer that the parties be required to submit *Memoranda* in lieu of presentation of evidence considering that only legal questions are involved. MWC and Mr. Ablaza again countered that petitioners have made factual allegations in their Petition that would need to be proven in a full-blown trial.

The presiding judge stated that the proceedings for a petition for mandamus are summary in nature. Thus, he directed the parties to simultaneously submit their respective *Memoranda* within sixty days, or by May 5, 2015. He directed the parties to address all legal issues and if there are factual issues, to attach judicial affidavits of witnesses. Upon submission of the *Memoranda*, he will determine if a party would be allowed to cross-examine the other's witnesses or if he would still conduct oral arguments.

The parties subsequently filed their respective *Memoranda*.

In an Order dated September 14, 2015, the parties were directed to manifest whether they would be submitting the case on the basis of their respective *Memoranda* or if they would request for a trial on the merits. At the October 12, 2015 hearing before the clerk of court, MWC and Mr. Ablaza, through counsel, reiterated that they would prefer if the issues on jurisdiction and other grounds for dismissal be resolved first before deciding whether or not the case should go to trial. The clerk of court noted this manifestation for discussion with the presiding judge.

The trial court thereafter set the case for initial trial on March 30, 2016. During the hearing, both parties stated that their respective positions are already set forth in the *Memorandum* each submitted. The issues on jurisdiction and other grounds for dismissal were submitted for resolution. In an *Order* dated April 1, 2016, the trial court dismissed the case, without prejudice, on the ground that the *Petition* filed by Mr. Mendoza failed to state a cause of action for mandamus. In an *Order* dated July 14, 2016, the trial court denied the *Motion for Reconsideration* of the petitioners.

Mr. Allan M. Mendoza proceeded to file a *Petition for Certiorari* with the Court of Appeals. On October 24, 2016, the Court of Appeals ordered the counsel of Mr. Mendoza to submit an *Amended Petition*, this time impleading the names of the other petitioners, stating their actual addresses, and appending copies of their Special Powers of Attorney. On December 1, 2016, the Amended Petition was filed.

In a *Resolution* dated 19 January 2017, the Court of Appeals directed the counsel for the petitioners to submit the addresses of some of the co-petitioners and to implead one additional petitioner. On 21 February 2017, MWC received a *Second Amended Petition* filed by petitioners supposedly to comply with the directive of the court.

In a *Resolution* dated 8 September 2017, the Court of Appeals directed MWC to comment on the *Amended Petition*. MWC filed its *Comment* on 30 October 2017.

To date, this case remains pending.

BPI

BPI does not have any material pending legal proceedings to which BPI or any of its subsidiaries or affiliates is a party or of which any of their property is the subject.

Globe

a. On October 10, 2011, the NTC issued Memorandum Circular No. 02-10-2011 titled Interconnection Charge for Short Messaging Service requiring all public telecommunication entities to reduce their interconnection charges to each other from ?0.35 to ?0.15 per text, which Globe Telecom complied as early as November 2011. On December 11, 2011, the NTC One Stop Public Assistance Center (OSPAC) filed a complaint against Globe Telecom, Smart and Digitel alleging violation of the said MC No. 02-10-2011 and asking for the reduction of SMS off-net retail price from ₱1.00 to ₱0.80 per text. Globe Telecom filed its response maintaining the position that the reduction of the SMS interconnection charges does not automatically translate to a reduction in the SMS retail charge per text.

   On November 20, 2012, the NTC rendered a decision directing Globe Telecom to:
   - Reduce its regular SMS retail rate from ₱1.00 to not more than ₱0.80;
   - Refund/reimburse its subscribers the excess charge of ₱0.20; and
   - Pay a fine of ₱200.00 per day from December 1, 2011 until date of compliance.

   On May 7, 2014, NTC denied the Motion for Reconsideration (MR) filed by Globe Telecom last December 5, 2012 in relation to the November 20, 2012 decision. Globe Telecom's assessment is that Globe Telecom is in compliance with the NTC Memorandum Circular No. 02-10-2011. On June 9, 2014, Globe Telecom filed petition for review of the NTC decision and resolution with the Court of Appeals (CA).

   The CA granted the petition in a resolution dated September 3, 2014 by issuing a 60-day temporary restraining order on the implementation of Memorandum Circular 02-10-2011 by the NTC. On October 15, 2014, Globe Telecom posted a surety bond to compensate for possible damages as directed by the CA.

   On June 27, 2016, the CA rendered a decision reversing the NTC's abovementioned decision and resolution requiring telecommunications companies to cut their SMS rates and return the excess amount paid by subscribers. The CA said that the NTC order was baseless as there is no showing that the reduction in the SMS rate is mandated under MC No. 02-10-2011; there is no showing, either that the present ₱1.00 per text rate is unreasonable and unjust, as this was not mandated under the memorandum. Moreover, under the NTC's own MC No. 02-05-2008, SMS is a value added service (VAS) whose rates are deregulated.

Thereafter, the NTC and Bayan Muna Party List (Bayan Muna) Representatives Neri Javier Colmenares and Carlos Isagani Zarate, who, in the meantime, had intervened in the case, filed their respective motions for reconsideration, which motions were both denied by the CA.

The NTC thus elevated the CA's ruling to the Supreme Court (SC) via a Petition for Review on Certiorari dated 15 September 2017. Globe awaits the SC's action on said petition.

For its part, Bayan Muna filed its own Petition for Review on Certiorari of the CA's Decision. On 04 January 2018, Globe received a copy of the SC's Resolution dated 06 Nov. 2017, requiring it to comment on said petition.

Globe Telecom believes that it did not violate NTC MC No. 02-10-2011 when it did not reduce its SMS retail rate from Php 1.00 to Php 0.80 per text, and hence, would not be obligated to refund its subscribers. However, if it is ultimately decided by the Supreme Court (in case an appeal is taken thereto by the NTC from the adverse resolution of the CA) that Globe Telecom is not compliant with said circular, Globe may be contingently liable to refund to its subscribers the ₱0.20 difference (between ₱1.00 and ₱0.80 per text) reckoned from November 20, 2012 until said decision by the SC becomes final and executory. Management does not have an estimate of the potential claims currently.

b. On July 23, 2009, the NTC issued NTC Memorandum Circular (MC) No. 05-07-2009 (Guidelines on Unit of Billing of Mobile Voice Service). The MC provides that the maximum unit of billing for the CMTS whether postpaid or prepaid shall be six (6) seconds per pulse. The rate for the first two (2) pulses, or equivalent if lower period per pulse is used, may be higher than the succeeding pulses to recover the cost of the call set-up. Subscribers may still opt to be billed on a one (1) minute per pulse basis or to subscribe to unlimited service offerings or any service offerings if they actively and knowingly enroll in the scheme.

   On December 28, 2010, the Court of Appeals (CA) rendered its decision declaring null and void and reversing the decisions of the NTC in the rates applications cases for having been issued in violation of Globe Telecom and the other carrier‟s constitutional and statutory right to due process. However, while the decision is in Globe Telecom‟s favor, there is a provision in the decision that NTC did not violate the right of petitioners to due process when it declared via circular that the per pulse billing scheme shall be the default.

   Last January 21, 2011, Globe Telecom and two other telecom carriers, filed their respective Motions for Partial Reconsideration (MR) on the pronouncement that "the Per Pulse Billing Scheme shall be the default". The petitioners and the NTC filed their respective Motion for Reconsideration, which were all denied by the CA on January 19, 2012.

   On March 12, 2012, Globe and Innove elevated to the Supreme Court the questioned portions of the Decision and Resolution of the CA dated December 28, 2010 and its Resolution dated January 19, 2012. The other service providers, as well as the NTC, filed their own petitions for review. The adverse parties have filed their comments on each other‟s‟ petitions, as well as their replies to each other‟s‟ comments. The case is now submitted for resolution.

c. On May 22, 2006, Innove received a copy of the Complaint of Subic Telecom Company ("Subictel"), Inc., a subsidiary of PLDT, seeking an injunction to stop the Subic Bay Metropolitan Authority and Innove from taking any actions to implement the Certificate of Public Convenience and Necessity granted by SBMA to Innove. Subictel claimed that the grant of a CPCN allowing Innove to offer certain telecommunications services within the Subic Bay Freeport Zone would violate the Joint Venture Agreement ("JVA") between PLDT and SBMA. The Supreme Court ordered the reinstatement of the case and has forwarded it to the NTC-Olongapo for trial.

   On July 13, 2016, the RTC in Olongapo rendered its decision dismissing Subictel's complaint, as nothing in the JVA cited by Subictel supports its claim of exclusivity. Moreover, the Constitution clearly provides that no franchise or authorization for the operation of a public utility shall be exclusive in character. Subictel did not move for a reconsideration of the RTC's decision. On October 19, 2016, Innove received a copy of Subictel's Petition for Review to the Supreme Court dated September 13, 2016 assailing the trial court's decision. Innove awaits the High Court's action on said petition.

In a Resolution dated April 25, 2017, received by Globe on July 3, 2017, the Supreme Court denied the petition for failure of the petitioner to sufficiently show that the RTC committed any reversible error in the challenged decision as to warrant the exercise of the Court's discretionary appellate jurisdiction.

d. (1) PLDT and its affiliate, Bonifacio Communications Corporation (BCC) and Innove are in litigation over the right of Innove to render services and build telecommunications infrastructure in the Bonifacio Global City. In the case filed by Innove before the NTC against BCC, PLDT and the Fort Bonifacio Development Corporation (FBDC), the NTC has issued a Cease and Desist Order preventing BCC from performing further acts to interfere with Innove's installations in the BGC.

On 21 January 2011, BCC and PLDT filed with the Court of Appeals a Petition for Certiorari and Prohibition against NTC, et al. seeking to annul the Orders of the NTC dated October 28, 2008 directing BCC, PLDT and FBDC to comply with the provisions of NTC MC 05-05-02 and to cease and desist from performing further acts that will prevent Innove from implementing and providing telecommunications services in the Fort Bonifacio Global City pursuant to the authorization granted by the NTC.

On April 25, 2011, Innove Communications filed its comment on the Petition. On August 16, 2011, the Ninth Division of the CA ruled that PLDT's case against Innove and the NTC lacked merit, holding that neither BCC nor PLDT could claim exclusive right to install telecommunications infrastructure and providing telecommunications services within the BGC. Thus the CA denied the petition and dismissed the case. PLDT and BCC filed their motions for reconsideration thereto, which the CA denied.

On July 6, 2012, PLDT and BCC assailed the CA's rulings via a petition for review on certiorari with the Supreme Court. Innove and Globe filed their comment on said petition on January 14, 2013, to which said petitioners filed their reply on May 21, 2013. The case remains pending with the Supreme Court.

(2) In a case filed by PLDT against the NTC in Branch 96 of the Regional Trial Court (RTC) of Quezon City, where PLDT sought to obtain an injunction to prevent the NTC from hearing the case filed by Innove, the RTC denied the prayer for a preliminary injunction and the case has been set for further hearings. PLDT has filed a Motion for Reconsideration and Globe Telecom has intervened in this case. In a resolution dated October 28, 2008, the RTC QC denied BCC„s motion for the issuance of a temporary restraining order (TRO) on the ground that the NTC has primary administrative jurisdiction over the case. On October 14, 2013, the RTC issued an order dismissing the case. On November 12, 2013, PLDT elevated the case to the CA. On July 25, 2016, the CA granted PLDT‟s petition, holding that the trial court had jurisdiction, since the issues raised by PLDT were supposedly purely legal in character. On August 17, 2016, the NTC through the Office of the Solicitor General (OSG) moved for a reconsideration of the CA's decision. On January 10, 2017, the CA issued a resolution denying NTC‟s motion for reconsideration.

On March 10, 2017, the NTC elevated the case to the SC via a Petition for Review on Certiorari dated March 6, 2017. PLDT subsequently filed its Comment thereon dated July 10, 2017. The NTC thereafter filed its Reply to said Comment dated December 5, 2017.

(3) In a case filed by BCC against FBDC, Globe Telecom and Innove, Bonifacio Communications Corp. before the Regional Trial Court of Pasig, which case sought to enjoin Innove from making any further installations in the BGC and claimed damages from all the parties for the breach of the exclusivity of BCC in the area, the court did not issue a Temporary Restraining Order and has instead scheduled several hearings on the case. The defendants filed their respective motions to dismiss the complaint on the grounds of forum shopping and lack of jurisdiction, among others. On 30 March 2012, the RTC of Pasig, as prayed for, dismissed the complaint on the aforesaid grounds. The motion for reconsideration filed by BCC on July 20, 2012 remains pending with the trial court.

e. In a letter dated June 7, 2016 issued by Philippine Competition Commission (PCC) to Globe Telecom, PLDT, SMC and VTI regarding the Joint Notice filed by Globe Telecom, PLDT and SMC on May 30, 2016 disclosing the acquisition by Globe Telecom and PLDT of the entire issued and outstanding shares of VTI, the PCC claims that the Notice was deficient in form and substance and concludes that the acquisition cannot be claimed to be deemed approved.

On June 10, 2016, Globe Telecom formally responded to the letter reiterating that the Notice, which sets forth the salient terms and conditions of the transaction, was filed pursuant to and in accordance with Memorandum Circular No. I6-002 (MC No. I6-002) issued by the PCC. MC No. 16-002 provides that before the implementing rules and regulations for Republic Act No. 10667 (the Philippine Competition Act) come into full force and effect, upon filing with the PCC of a notice in which the salient terms and conditions of an acquisition are set forth, the transaction is deemed approved by the PCC and as such, it may no longer be challenged. Further, Globe Telecom clarified in its letter that the supposed deficiency in form and substance of the Notice is not a ground to prevent the transaction from being deemed approved. The only exception to the rule that a transaction is deemed approved is when a notice contains false material information. In this regard, Globe Telecom stated that the Notice does not contain any false information.

On June 17, 2016, Globe Telecom received a copy of the second letter issued by PCC stating that notwithstanding the position of Globe Telecom, it was ruling that the transaction was still subject for review.

On July 12, 2016, Globe Telecom asked the CA to stop the government's anti-trust body from reviewing the acquisition of SMC's telecommunications business. Globe Telecom maintains the position that the deal was approved after Globe Telecom notified the PCC of the transaction and that the anti-trust body violated its own rules by insisting on a review. On the same day, Globe Telecom filed a Petition for Mandamus, Certiorari and Prohibition against the PCC, docketed as CA-G.R. SP No. 146538. On July 25, 2016, the CA, through its 6th Division issued a resolution denying Globe Telecom's application for TRO and injunction against PCC's review of the transaction. In the same resolution, however, the CA required the PCC to comment on Globe Telecom's petition for certiorari and mandamus within 10 days from receipt thereof. The PCC filed said comment on August 8, 2016. In said comment, the PCC prayed that the ₱70 billion deal between PLDT-Globe Telecom and San Miguel be declared void for PLDT and Globe Telecom's alleged failure to comply with the requirements of the Philippine Competition Act of 2015. The PCC also prayed that the CA direct Globe Telecom to: cease and desist from further implementing its co-acquisition of the San Miguel telecommunications assets; undo all acts consummated pursuant to said acquisition; and pay the appropriate administrative penalties that may be imposed by the PCC under the Philippine Competition Act for the illegal consummation of the subject acquisition. The case remains pending with the CA.

Meanwhile, PLDT filed a similar petition with the CA, docketed as CA G.R. SP No. 146528, which was raffled off to its 12th Division. On August 26, 2016, PLDT secured a TRO from said court. Thereafter, Globe Telecom's petition was consolidated with that of PLDT, before the 12th Division. The consolidation effectively extended the benefit of PLDT's TRO to Globe Telecom. The parties were required to submit their respective Memoranda, after which, the case shall be deemed submitted for resolution.

On February 17, 2017, the CA issued a Resolution denying PCC's Motion for Reconsideration dated September 14, 2016 for lack of merit. In the same Resolution, the Court granted PLDT's Urgent Motion for the Issuance of a Gag Order and ordered the PCC to remove the offending publication from its website and also to obey the sub judice rule and refrain from making any further public pronouncements regarding the transaction while the case remains pending. The Court also reminded the other parties, PLDT and Globe, to likewise observe the sub judice rule. For this purpose, the Court issued its gag order admonishing all the parties "to refrain, cease and desist from issuing public comments and statements that would violate the sub judice rule and subject them to indirect contempt of court. The parties were also required to comment within ten days from receipt of the Resolution, on the Motion for Leave to Intervene, and Admit the Petition-in Intervention dated February 7, 2017 filed by Citizenwatch, a non-stock and non-profit association.

On April 18, 2017, PCC filed a petition before the Supreme Court docketed as G.R. No. 230798, to lift the CA's order that has prevented the review of the sale of San Miguel Corp.'s telecommunications unit to PLDT Inc. and Globe Telecom. On April 25, 2017, Globe filed before the Supreme Court a Motion for Intervention with Motion to Dismiss the petition filed by the PCC.

As of June 30, 2017, the Supreme Court did not issue any TRO on the PCC's petition to lift the injunction issued by the CA. Hence, the PCC remains barred from reviewing the SMC deal.

On July 26, 2017, Globe received the Supreme Court's en banc Resolution granting Globe's Extremely Urgent Motion to Intervene. In the same Resolution, the Supreme Court treated as

Comment, Globe's Motion to Dismiss with Opposition Ad Cautelam to PCC's Application for the Issuance of a Writ of Preliminary Injunction and/or TRO.

On August 31, 2017, Globe received another Resolution of the Supreme Court en banc, requiring the PCC to file a Consolidated Reply to the Comments respectively filed by Globe and PLDT, within ten (10) days from notice. Globe has yet to receive the Consolidated Reply of PCC since the latter requested for extension of time to file the same.

In the meantime, in a Decision dated October 18, 2017, the Court of Appeals, in CA-G.R. SP No. 146528 and CA-G.R. SP No. 146538, granted Globe and PLDTs Petition to permanently enjoin and prohibiting PCC from reviewing the acquisition and compelling the PCC to recognize the same as deemed approved. PCC elevated the case to the Supreme Court via Petition for Review on Certiorari.

f. Other Developments

On February 17, 2017, Globe Telecom’s BOD approved the signing of an agreement among Alipay Singapore Holdings PTE. LTD. (Alipay), Ayala Corporation (Ayala), Globe Telecom, GCVHI and GFI, wherein both Alipay and Ayala will invest in the unissued common shares of GFI subject to the fulfillment of certain conditions including the approval of the Philippine Competition Commission (PCC). On September 27, 2017, the signing of its relevant definitive documents was closed and completed. At closing, Globe Capital Venture Holdings, Inc. holds 45% ownership stake in Globe Fintech Innovations, Inc. (GFI/Mynt), Ant Financial at 45% and AC Ventures Holding Corp, a wholly-owned subsidiary of Ayala at 10%, following the assignment of rights and obligations under the definitive documents by Ayala. Globe’s equity stake remains less than 10% of our total shareholders’ equity.

Details on these transactions have been extensively discussed in the disclosures filed by Globe with the SEC and PSE and may be accessed from the PSE and Globe websites.

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

Except for matters taken up during the annual meeting of stockholders, there was no other matter submitted to a vote of security holders during the period covered by this report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

A) Market Information

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:

	2017		2016	
	High	Low	High	Low
1st qtr	850.00	722.50	765.00	600.00
2nd qtr	899.00	837.00	870.50	723.00
3rd qtr	995.00	841.00	908.00	833.00
4th qtr	1,116.00	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. Nolledo	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 January 2, 2016	2.88/share 2.88/share	July 9, 2015 December 17, 2015
2016	July 24, 2016 January 1, 2017	2.88/share 2.88/share	July 11, 2016 December 16, 2016
2017	July 22, 2017 December 31, 2017	3.46/share 3.46/share	July 7, 2017 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 Sales 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:

	No. of shares	
Year	**ESOP**	**ESOWN***
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.

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

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, GNPower 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.

Capital Expenditure

Ayala

In 2017, Ayala spent ₱16.1 billion with significant allocation for the expansion plans of its power unit, ACEHI, and AC Industrial's Automotive group. The Company continues to strategically deploy capital across its businesses to explore new avenues of growth.

ALI

Ayala Land spent ₱91.4 billion in capital expenditures, higher than its estimated budget of ₱88.0 billion at the start of 2017, to support the aggressive completion of new projects in its pipeline. 48% was spent on residential projects, 29% on commercial projects, 17% for land acquisition and other investments and 6% for the development of the estates.

MWC

MWC ended 2017 with total capital expenditures of ₱13.03 billion, posting a growth of 48% over the previous year.

Manila Concession spent a total of ₱10.63 billion (inclusive of concession fee payments) for capital expenditures in 2017, 64% more than the ₱6.46 billion spent in the same period the previous year. Of the total amount, 91% was spent on wastewater expansion, network reliability and water supply projects, while the balance of 9% was accounted for by concession fees paid to MWSS.

Meanwhile, total capital expenditures of the domestic subsidiaries grew by 3% to ₱2.41 billion from the ₱2.34 billion spent in 2016. Of the total amount, ₱955 million was used by Laguna Water for its development of new water sources and network expansion, while Boracay Water and Clark Water disbursed ₱464 million and ₱263 million, respectively. Estate Water spent ₱481 million for its greenfield and brownfield projects while the balance was spent by Cebu Water, Tagum Water, Zamboanga Water and MWTS.

IMI

In 2017, IMI spent $65.3 million on capital expenditures as it continues to expand its footprint in higher complex box build offerings, while making disciplined investments to fund its growth initiatives. For 2018, IMI expects additional $75 million of capital expenditures majority of which are new SMT lines for expansions and new businesses, new manufacturing facilities and expansion buildings, innovation and automation, and additional software licenses. These are intended to expand IMI's capacity and support expected increases in demand, as well as to sustain IMI's productivity and efficiency.

ACEHI

In 2017, ACEHI spent ₱17.16 billion in capital expenditures which were partly funded through capital infusions from Ayala Corporation, internally generated funds and long-term borrowings. These investments are geared towards completion of project development in the country, investment tie-ups for offshore energy projects and the recent retail electricity supply area.

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' Equity[1] (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, MWCI, 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.

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.[1] 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 than1% of the total liabilities as of December 31, 2017 and 2016.

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 liabilities[1] – 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.

[1] 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.

<u>Cost of share based payments – 50% decrease from ₱496 million to ₱248 million</u>
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.

<u>Remeasurement gains (losses) on defined benefit plan – 16% increase from negative ₱1,548 million to negative ₱1,303 million</u>
Increase attributable to the effect of PAS 19- immediate recognition of service cost and re-measurement of unrealized actuarial gains/losses.

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

<u>Cumulative translation adjustments - 98% increase from ₱1,415 million to ₱2,794 million</u>
Increase due to upward impact of net foreign assets, significantly coming from ALI, IMI, ACI/Automotive groups and ACIFL and BHL. Forex of Ph₱ 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.

<u>Equity Reserve - 5% decrease from ₱12,211 million to ₱11,600 million</u>
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.

<u>Retained earnings – 17% increase from ₱145,622 million to ₱170,302 million</u>
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.

<u>Non-controlling interests – 10% increase from ₱140,073 million to ₱154,745 million</u>
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)

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.

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

<u>Dividend and other income – 64% increase from ₱13,146 million to ₱21,592 million</u>
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 GNPower 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 AYCs 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 GNPower Dinginin. ALI's investments into various properties, as well as its new acquistions 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 contruction 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.

<u>Ayala Corporation (Consolidated)</u>

(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

<u>Ayala Land, Inc.</u>

(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

<u>Integrated Micro-Electronics, Inc.</u>

(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

<u>Manila Water Company, Inc.</u>

(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' Equity[1] (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
<u>As of December 31, 2016 (Audited) vs. December 31, 2015 (Audited)</u>

<u>Cash and cash equivalents – 27% decrease from ₱82,154 million to ₱60,223 million</u>
Decline due to AC parent's payment of loans and payable to DBS; AYC and MWC'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 MWC'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's 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 MWC'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 MWC'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.[1] 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 MWC'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.

Income tax payable – 17% increase from ₱1,943 million to ₱2,270 million
Mainly due to higher tax payable of ALI, Automotive, IMI and MWC 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, MWC 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 MWC'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; MWC, 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 MWC'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.

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[1] 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.

<u>Cumulative translation adjustments - 390% increase from ₱289 million to ₱1,415 million</u>
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).*

<u>Cost of share based payments – 13% decrease from ₱569 million to ₱496 million</u>
Pertains to adjustments in stock options of AC employees.

<u>Remeasurement gains on defined benefit plan – 24% decrease from negative ₱1,250 million to negative ₱1,548 million</u>
Decrease attributable to the effect of PAS 19- immediate recognition of service cost and re-measurement of unrealized actuarial losses.

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

<u>Retained earnings – 17% increase from ₱124,468 million to ₱145,622 million</u>
Represents share in full year 2016 group net income partially offset by dividends declared.

<u>Non-controlling Interests (NCI) – 17% increase from ₱119,887 million to ₱140,073 million</u>
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
<u>For the Period Ended December 31, 2016 (Audited) vs. December 31, 2015 (Audited)</u>

<u>Sale of goods and rendering services – 14% increase from a total of ₱174,035 million to ₱199,209 million</u>
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 MWC, IMI and ACEHI. As a percentage to total income, this account is at 84% in both December 31, 2016 and 2015, respectively.

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

<u>Interest income – 7% decrease from ₱7,297 million to ₱6,777 million</u>
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.

<u>Other income – 16% increase from ₱11,297 million to ₱13,146 million</u>
Increase due to MWC'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.

<u>Cost of sales and rendering services – 15% increase from ₱123,061 million to ₱141,350 million</u>
Increase resulting from higher sales of ALI, IMI, Automotive, ACEHI and MWC groups. As a percentage to total costs and expenses, this account is at 77% in both December 31, 2016 and 2015.

<u>General and administrative expenses – 8% increase from ₱18,052 million to ₱19,412 million</u>
Increase mainly on combined increments in the group's expenses specifically from: ALI (contracted services), AC (manpower costs), MWC (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 MWC 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.

Item 7. Financial Statements and Supplementary Schedules

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

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

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 consolidated 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.

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.

Information on Independent Public Accountant

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.

External Audit Fees and Services

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

	Audit Fees	Audit-related Fees	Tax Fees	Non-Audit Fees
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.

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

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.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

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	FERNANDO ZOBEL DE AYALA
KEIICHI MATSUNAGA	XAVIER P. LOINAZ
RAMON R. DEL ROSARIO, JR.	ANTONIO JOSE U. PERIQUET
DELFIN L. LAZARO	

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.

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

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

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 (JCCIPI) 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.

<u>Nominees to the Board of Directors for election at the stockholders' meeting</u>

All the above incumbent directors.

<u>Ayala Group Management Committee Members / Senior Leadership Team</u>

*/***	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 JL 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-notcher 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 Fun 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 an 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.

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.

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.

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.

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

Involvement in Certain Legal Proceedings
Please refer to Part I - Item 3. Legal Proceedings.

Resignation of Directors/Management Committee members/Key Officers
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 10. 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)	₱258.70M	₱180.89M	₱ 0
	Actual 2017	₱279.04M	₱210.51M	₱ 0
	Projected 2018	₱301.36M	₱228.73M	₱ 0
All other officers** as a group unnamed	Actual 2016 (restated)	₱669.85M	₱340.71M	₱ 0
	Actual 2017	₱704.72M	₱442.48M	₱ 0
	Projected 2018	₱759.60M	₱459.47M	₱ 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.

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:

	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.

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 10 above.

ii. **Other arrangement**

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.

Item 11. Security Ownership of Certain Beneficial Owners and Management

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%
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%

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%

[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.
[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.

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%
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.

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

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

Item 12. 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.

For detailed discussion on related party transactions, please refer to Note 30 of the Consolidated Financial Statements for December 31, 2017 which forms part of the Index of this SEC17A report.

Transactions with Promoters

There are no transactions with promoters within the past five (5) years.

Awards and Recognitions

- For 2017, Ayala Corporation was ranked second in FinanceAsia's "Best Managed Companies," "Most Committed to Corporate Governance," and "Best at Corporate Social Responsibility" polls. It also ranked fifth for investor relations, while its CEO, Jaime Augusto Zobel de Ayala, was ranked third for "Best CEO."

- #18 in Forbes Magazine's "Global 2000: World's Best Employers" list, the only Philippine company in the Top 20.

- Chairman and CEO Jaime Augusto Zobel de Ayala recognized by the UN Global Compact as one of ten United Nations Sustainable Development Goals (UN SDGs) Pioneers—the first in the Philippines—for his leadership of Ayala's sustainable business strategy and operations.

- President and COO Fernando Zobel de Ayala awarded the Andrea Palladio International Prize at the 10th Dedalo Minosse, a unique awards program organized by ALA-Assoarchitetti, the Italian association for professional architects. Dedalo Minosse recognizes and celebrates the role of clients in architectural achievements.

- CFO Jose Teodoro K. Limcaoco awarded "CFO of the Year" by the Financial Executives Institute of the Philippines (FINEX) and ING Bank NV.

- Ayala Corporation's US$400M fixed-for-life perpetual bond issuance was named "Philippine Capital Market Deal of the Year" by Thomson Reuters' International Financing Review Asia (IFR Asia) and "Best Corporate Bond in the Philippines" by The Asset in its Triple A Country Awards. It was also included in the Best Deals in Southeast Asia category.

- In Investor Relations Magazine's "IR Magazine Awards – Southeast Asia for 2017," Ayala Corporation won "Best Annual Report." It also placed second for "Best in Sector-Financials."

- Shortlisted finalist for the "Sustainability Team of the Year Award" by the Ethical Corporation for the 8th Annual Responsible Business Awards held in London, the United Kingdom, last October 2017

- Shortlisted finalist for "Asia's Best Integrated Report" and "Best Reporting on the SDGs" for the Asia Sustainability Reporting Awards of CSRWorks. (**note:** official results on February 6)

- Shortlisted finalist for the Philippine Stock Exchange's "PSE Bell Awards 2017" for "Best Sustainability Program" and "Best Investor Relations Program"

Website

Information on the company's corporate governance initiatives is available at www.ayala.com.ph. As part of our stakeholder engagement, Ayala also maintains social media accounts at Facebook.com/AyalaCorporation, Twitter.com/Ayala_1834, Instagram.com/Ayala_Corporation, Linkedin.com/company/ayala-corporation, and Youtube.com/user/ayala1834.

Other Information

Other information about the Group are disclosed in appropriate notes in the accompanying Audited Consolidated Financial Statements for December 31, 2017 or discussed in previously filed SEC17Q and SEC17-C reports for 2017 (listed in the Exhibits and Schedules Reports on SEC Form 17-C also in Index of this SEC17A report).

Also, the Company's Definitive Information Statement (DIS) report and Annual Report (AR) document are also sources of other information about Ayala group. These documents are available at the Company's website www.ayala.com.ph.

In addition, the Group has the following other major information:

Ayala

- On February 7, 2018, the Company clarified the news article entitled, "Ayala Corp. set to acquire KIA Philippines, but PBA comeback not part of plan, says source" posted in spin.ph on February 5, 2018. The Company confirmed that the wholly-owned subsidiary, AC Industrial Technology Holdings, Inc., through one of its group companies, has 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 and appropriate disclosure of any agreement reached will be made.

- On February 8, 2018, the Company clarified the news article entitled, “Group taps Changi operator for airport plan” posted in Inquirer.net on February 8, 2018. The Company confirmed that the parties* have agreed to engage Changi Airport Consultants Pte. Ltd. (Changi), a wholly-owned subsidiary of Changi Airports International Pte. Ltd., to provide technical support in relation to their unsolicited proposal to rehabilitate and expand the Ninoy Aquino International Airport

  On February 9, 2018, the Company clarified the news article entitled, “Super consortium shapes up” published in the February 9, 2018 issue of the Philippine Daily Inquirer. The Company clarified that the specific percentage interests of the parties*, including any further involvement of Changi Airport Consultants Pte. Ltd. in the unsolicited proposal, have not been determined at this time.

  *Metro Pacific Investments Corp, Andrew Tan’s Alliance Globe Group Inc., Ayala Corp., Aboitiz Equity Ventures Inc., Gokongwei-led JG Summit Holdings Inc., Gotianun’s Filinvest Development Corp., and Lucio Tan’s LT Group.

- On March 12, 2018, in a press statement, the Company reported a net income of ₱30.3 billion in full year 2017, climbing 16% from the previous year on the back of robust double-digit growth of its real estate and power businesses.

ACEHI Group

- On January 22, 2018, AC Energy Vietnam Investments PTE. LTD. (ACEV), a wholly-owned subsidiary of AC Energy International Pte Ltd. (ACEHI SG), entered into a 50-50 joint venture with AMI Renewables Energy Joint Stock Company (AMI RE JSC), a joint stock company incorporated in Vietnam, to invest in New Energy Investments Corporation (NEI), a joint stock company with a 100% ownership shares in AMI Energy Khanh Hoa Joint Stock Company (AMI KH JSC), a 50MWp Solar Farm in Khanh Hoa, in AMI Energy Binh Thuan Joint Stock Company (AMI BT JSC), a 50MWp Solar Farm in Bihn Thuan and in B&T Windfarm Joint Stock Company (B&T QB JSC), a 200MW Wind Farm in Quang Binh, all of which are situated in Vietnam. Please refer to Note 38 of the Group’s Consolidated Financial Statements for December 31, 2017 which forms part of the Index of this SEC17A report.

MWC Group

- On March 15, 2018, MWC has successfully completed its acquisition of a significant stake in Eastern Water Resources Development and Management Public Company Limited, a publicly listed water supply and distribution company in Thailand. This follows the fulfilment of conditions precedent in line with the Share Purchase Agreement signed in February by Manila Water and Electricity Generating Public Company Limited for and 18.72% stake in East Water.

BPI Group

- On January 17, 2018, the Board of Directors of BPI approved a rights offering of common shares to be offered first to eligible shareholders of BPI ("Rights Offer"). BPI expects to raise proceeds of up to ₱50.0 billion from the Rights Issue. On March 14, 2018, BPI obtained the approval of PSE to list new common shares to be issued through Stock Rights Offer (SRO of the Rights Offer) that would raise up to ₱50 billion. On March 27, 2018, BPI has set the final terms for its SRO: Offer price - ₱89.50 per share; Rights entitlement – 1 rights share for every 7.0594 shares held; Rights shares – 558,659,210 shares; and Gross proceeds - ₱50 billion.

Events after the Reporting Period

For detailed discussion, please refer to Note 38 of the Ayala Corporation’s Consolidated Financial Statements for December 31, 2017 which forms part of the Index of this SEC17A report.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Please refer to the Definitive Information Sheet and Annual Corporate Governance Report posted in the Company's Official Website www.ayala.com.ph. The detailed discussion of the Annual Corporate Governance Section deleted as per SEC Memorandum Circular No. 5, series of 2013, issued last March 20, 2013.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C (Current Report)

(a) Exhibits - See accompanying Index to Financial Statements and Supplementary Schedules

(b) Reports on SEC Form 17-C

Aside from compliance with periodic reporting requirements, Ayala promptly discloses major and market sensitive information such as dividend declarations, joint ventures and acquisitions, the sale and disposition of significant assets, and other information that may affect the decision of the investing public.

In 2017 the Company filed, among others, unstructured disclosures involving the following:

Unstructured Disclosures

1. Ayala Corporation's Second P10B Issuance in its Fixed Rate Bond Program Rated PRSAaa
2. AC Health invests in MedGrocer ePharmacy service
3. Ayala acquires 43.3% stake in Zalora Philippines
4. Ayala group allots ₱185 billion capex in 2017
5. AYC Holdings transfers ownership in Integrated Micro-Electronics to AC Industrials
6. Ayala and Ant Financial Services Group invest in Globe Fintech Innovations, Inc.
7. SEC's approval of the Amended Articles of Incorporation (Extension of Corporate Term)
8. Board Approval of ESOWN Grants
9. Results of the 2016 and 2017 ESOWN Grant
10. Results of Annual Stockholders' Meeting and Organizational Board of Directors' Meeting
11. Redemption of AC's PhP10 Billion 7.20% Fixed Rate Putable Bonds due 2017
12. Participation of Directors and Officers in Corporate Governance Seminars
13. Retirement of an Officer
14. Shelf Registration with the SEC of up to PhP30 Billion Debt Securities
15. Ayala Corporation Successfully Launches US$400Mn senior unsecured and guaranteed fixed for life perpetual notes
16. Notice and agenda of the 2017 Annual Stockholders' Meeting (ASM) with detailed explanation of the agenda items
17. Attendance of the Board of Directors in 2017
18. Top 100 Stockholders' Reports
19. Notices of Analysts' Briefing
20. Public Ownership Reports
21. Certification of Nominees for Independent Directors
22. Updates on Annual Corporate Governance Report for the year 2017
23. Notice of Interest Payment for all Outstanding Corporate Bonds.
24. Annual and quarterly press statements on the financial and operating results
25. Declaration of Cash Dividends to Outstanding Common and Preferred Shares
26. Setting of the 2018 annual stockholders' meeting
27. AC Energy acquires renewable energy development platform
28. AC Energy completes acquisition of Chevron's Indonesia geothermal assets
29. AC Infrastructure and SM Investments Corporation submit unsolicited proposal for C3 Elevated Expressway (C3EX)
30. AC Energy and UPC Renewables to Develop Small Island Power Projects in Indonesia
31. AC Energy Consortium transfers interest in Philippine BidCo to AllFirst Equity Holdings, Inc.
32. AC Energy and UPC Renewables to Develop Small Island Power Projects in Indonesia
33. AC Energy Consortium transfers interest in Philippine BidCo to AllFirst Equity Holdings,
34. Financial Close of GNPower Dinginin Unit 2
35. AYC Holdings transfers ownership in Integrated Micro-Electronics to AC Industrials
36. AC Industrials acquires MT Misslbeck Technologies
37. Light Rail Manila Takes Over LRT 1 Operations

Clarification of News Reports

1. AC Energy eyes P7.489-billion RE investment deal in Indonesia
2. Ayala to expand healthcare business
3. Ayala also looking at logistics business
4. Ayala also keen on rehab of MRT3
5. MetroPac offers P12-b MRT3 rehab
6. Big Consortium to Rebuild NAIA

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Makati on APR 12 2018.

AYALA CORPORATION

By:

Jaime Augusto Zobel de Ayala
Chairman of the Board and
Chief Executive Officer

Fernando Zobel de Ayala
Vice Chairman, President and
Chief Operating Officer

Jose Teodoro K. Limcaoco
Chief Finance Officer, Chief Risk Officer
Chief Sustainability Officer,
and Finance Group Head

Solomon M. Hermosura
Chief Legal Counsel, Corporate Secretary,
Compliance Officer, Data Protection Officer,
and Corporate Governance Group Head

Josephine G. de Asis
Comptroller

SUBSCRIBED AND SWORN to before me this APR 12 2018 at Makari City, affiants exhibiting to me their respective passports/driver's license, to wit:

Name	Passport No.	Date and Place of Issue
Jaime Augusto Zobel de Ayala	EC4856934	August 4, 2015 - Manila
Fernando Zobel de Ayala	EC6148225	December 8, 2015 - Manila
Jose Teodoro K. Limcaoco	EC0985685	May 2, 2014 – DFA NCR South
Solomon M. Hermosura	EC5542302	September 30, 2015 - Manila
Josephine G. De Asis	EC2074520	September 12, 2014 – DFA NCR East

MARIA PAULA G. ROMERO-BAUTISTA
Notary Public – Makati City
Appt. No. 153 until December 31, 2019
Roll of Attorneys No. 58335
IBP No. 026373 - 01/11/2018 - Makati City
PTR No. 6628678MD - 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

MARIA PAULA G. ROMERO-BAUTISTA
NOTARY PUBLIC
ROLL NO. 58335
MAKATI CITY, PHILS

Doc. No. 11
Page No. 4
Book No. III
Series of 2018
Notarial DST pursuant to
Sec. 188 of the Tax Code
affixed on Notary Public's copy.

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

I. 2017 Consolidated Financial Statements of Registrant

Ayala

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.	Date & Place of Issue
Jaime Augusto Zobel de Ayala	EC4856934	August 4, 2015 – Manila
Fernando Zobel de Ayala	EC6148225	December 8, 2015 – Manila
Jose Teodoro K. Limcaoco	EC0985685	May 2, 2014 – Manila

NIMFA L. PEREZ-PARAS
NOTARY PUBLIC
ROLL NO. 37625
MAKATI CITY, PHILIPPINES

Doc. No. 338 ;
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.

NIMFA L. PEREZ-PARAS
Notary Public – Makati City
Appt. No. M-473 until December 31, 2018
Attorney's Roll No. 37625
PTR No. 6623529MD; 01-08-2018; Makati City
IBP Lifetime Roll No. 011985
MCLE Compliance No. V-0020970; 03May2016
27th Floor, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue,
Makati City, Philippines

C O V E R S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

3	4	2	1	8						

COMPANY NAME

AYALA CORPORATION AND SUBSIDIARIES

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

32F-35F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AACFS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
acquery@ayala.com.ph	908-3000 / 908-3357	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
		December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Josephine G. De Asis	deasis.jg@ayala.com.ph	908-3000	

CONTACT PERSON's ADDRESS

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

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

SGV
Building a better working world

SyCip Gorres Velayo & Co.
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ey.com/ph

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

INDEPENDENT AUDITOR'S REPORT

The 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

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)			
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:			
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)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
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			
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:			
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)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
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											
			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, 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)**
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											
			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, 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.

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:

		% of Economic Ownership Interest held by the Group	
Subsidiaries	**Nature of Business**	**2017**	2016
AC Energy, Inc. (ACEHI) *(formerly AC Energy Holdings, Inc.)*	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) *(formerly Ayala Automotive Holdings Corporation)*	Industrial Technology and Automotive	100.0	100.0
Ayala Aviation Corporation (AAC)	Air Charter	100.0	100.0
AC Education, Inc. (AEI) *(formerly Ayala Education, Inc.)*	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) *(formerly Water Capital Works, Inc.)*	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 Motorycle 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, LiveIt Investments, Limited (LiveIt), 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:

a. Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
b. Exposure, or rights, to variable returns from its involvement with the investee, and
c. 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 losses 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.

<u>Changes in Accounting Policies and Disclosures</u>
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.

<u>Significant Accounting Policies</u>

<u>Current versus Noncurrent Classification</u>
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 convertion 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.

<u>Offsetting Financial Instruments</u>
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 assesse 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.

<u>Business Combinations and Goodwill</u>
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.

<u>Fair Value Measurement</u>
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 consolidates 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.

<u>Income Tax</u>
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.

<u>Share-based Payments</u>
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).

<u>Management's Use of Estimates</u>
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 (₱394.0 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 ₱5,625.0 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 Sport 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.

Maloekoe Capital Fund 2
Maloekoe 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 (₱24.7 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 (₱22.9 million) and US$0.6 million (₱28.8 million), respectively. In 2016, the Group received cash contribution from Arbor Fund I amounting to US$0.03 million (₱1.6 million) which includes return on capital amounting to US$0.02 million (₱1.2 million).

As of December 31, 2017 and 2016, the carrying amount of the investment in Arbor Fund I amounted to US$1.6 million (₱77.5 million) and US$1.1 million (₱56.4 million), respectively. The Group's remaining capital commitment amounted to US$0.4 million (₱22.3 million) and US$0.9 million (₱44.7 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 (₱20.0 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 ₱779.5 million, ₱473.8 million and ₱243.4 million in 2017, 2016 and 2015, respectively, is included under "Other income" in the consolidated statements of income (see Note 22).

<u>Creditable withholding tax</u>
The Group will be able to apply the creditable withholding taxes against income tax payable.

<u>Deposits in escrow</u>
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.

<u>Concession financial receivable</u>
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 ₱24.59 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 (SIDECO) 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 milllion.

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)	
Domestic:				
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 (₱1.9 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 ₱26.6 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 ₱1.8 billion (VND858.0 billion). The investment in TDW include notional goodwill amounting to ₱1.4 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 ₱1.7 billion.

The consideration paid by MWC for its investment in KDW amounted to ₱1.6 billion (VND785.2 billion). Contingent consideration included in the purchase price allocation amounted to ₱95.9 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 ₱1.4 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, LiveIt 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, LiveIt 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

<u>Service Concession Assets (SCA)</u>
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:

a. Servicing the aggregate peso equivalent of all liabilities of BWSS as of commencement date;
b. 5% of the monthly gross revenue of BIWC, inclusive of all applicable taxes which are for the account of BIWC; and
c. 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:

a. Annual franchise fee of ₱1.5 million;
b. 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	Total
						(In Thousands)					
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	₱15,121,417
Additions during the year	–	–	–	6,169	–	164,428	–	–	306,393	15,067	492,057
Additions through business combination (Note 23)	5,565,680	–	–	18,332	–	–	–	–	243	–	5,584,255
Exchange differences	8,321	4,130	–	18,698	1,421	21,181	–	–	1,068	–	54,819
Reclassification/Others	(217,511)	–	(4,128)	372,583	–	(2,359)	–	–	(739,366)	1,195,421	604,640
At December 31	12,677,470	1,886,728	–	447,941	440,741	605,032	84,733	57,811	834,436	4,822,296	21,857,188
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	5,405,014
Amortization (Note 22)	–	1,252	–	105,508	–	79,805	–	–	41,480	179,235	407,280
Impairment Loss (Note 22)	–	–	–	–	–	–	–	–	26,112	–	26,112
Exchange differences	–	4,130	–	229	1,421	15,410	–	–	1,541	–	22,731
Reclassification/Others	–	–	(4,128)	(4,122)	–	(1,947)	–	–	(739,366)	40,614	(708,949)
At December 31	1,981,708	1,830,072	–	113,920	373,054	372,648	84,733	46,166	51,520	298,367	5,152,188
Net book value	₱10,695,762	₱56,656	₱–	₱334,093	₱67,687	₱232,384	₱–	₱11,645	₱782,844	₱4,523,929	₱16,705,000

	2016										
	Goodwill	Customer Relationships	Order Backlog	Unpatented Technology	Developed Software	Licenses	Technical Service Agreement	Trademarks	Project Development Cost	Leasehold Rights	Total
						(In Thousands)					
Cost											
At January 1	₱5,657,998	₱1,236,134	₱4,128	₱4,105	₱367,859	₱306,673	₱84,733	₱66,604	₱457,312	₱–	₱8,185,546
Additions during the year	–	–	–	–	–	228,146	–	–	305,230	–	533,376
Additions through business combination (Note 23)	2,456,982	–	–	24,530	–	–	–	–	–	3,611,808	6,093,320
Retirement/Disposals	(918,691)	(12,923)	–	–	–	(367,781)	–	(8,793)	(143,791)	–	(1,451,979)
Exchange differences	124,691	52,313	–	3,524	–	1,364	–	–	–	–	181,892
Reclassification/Others	–	607,074	–	–	71,461	253,380	–	–	647,347	–	1,579,262
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	15,121,417
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	–	4,275,943
Amortization (Note 22)	–	40,503	–	3,370	–	58,585	–	–	–	78,518	180,976
Retirement/Disposals	(338,968)	(12,923)	–	–	–	(235,125)	–	(8,180)	(97,694)	–	(692,890)
Exchange differences	–	50,213	–	4,830	–	6,681	–	–	–	–	61,724
Reclassification/Others	–	607,074	–	–	147,181	177,659	–	–	647,347	–	1,579,261
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	5,405,014
Net book value	₱5,339,272	₱57,908	₱–	₱19,854	₱67,687	₱142,402	₱–	₱11,645	₱544,345	₱3,533,290	₱9,716,403

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 rigts 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 (₱6.8 million) and US$0.03 million (₱1.4 million), respectively (see Note 22). In 2016, the Group received return of capital and realized loss amounting to US$0.5 million (₱23.9 million) and US$0.01 million (₱2.4 million), respectively (see Note 22).

The aggregate carrying amount of GOF and SOF amounted to US$1.6 million (₱79.4 million) and US$3.6 million (₱178.2 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 (₱84.5 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 (₱248.6 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 (₱30.0 million) and US$0.6 million (₱29.8 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 (₱94.9 million) and US$9.4 million (₱467.4 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 (₱239.7 million).

In 2017 and 2016, Sares Regis returned capital amounting to US$0.3 million (₱15.2 million) and US$9.8 million (₱487.3 million), respectively. As of December 31, 2017 and 2016, the carrying amount of the investment in Sares Regis amounted to US$19.0 million (₱947.2 million) and US$10.5 million (₱522.1 million), respectively.

ACI Solar Holdings NA (ACI Solar)
In 2016, ACIFL invested US$4.6 million (₱228.7 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 (₱228.7 million). In 2017, ACI Solar provided a loan to MSI amounting to US$2.2 million (₱109.8 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

<u>ALI Group</u>
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.

<u>AITHI Group</u>
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.

<u>AIVPL Group</u>
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.

<u>IMI Group</u>
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 P2.0 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) 2017	2016	Features
2010	7 years	7.20%	₱10,000,000	**₱–**	₱9,994,372	Puttable on the 20th coupon payment date
2011	10 years	6.80%	10,000,000	**9,959,350**	9,948,974	20% balance puttable on the 5th anniversary of the issue date; balance puttable on the 8th anniversary issue date
2012	15 years	6.875%	10,000,000	**9,939,791**	9,933,361	Callable from the 10th anniversary issue until every year thereafter until the 14th anniversary issue date
2016	7 years	3.92%	10,000,000	**9,913,730**	9,903,942	Callable from the 5.5th anniversary issue until every year thereafter until the 7th anniversary issue date
2017	8 years	4.82%	10,000,000	**9,906,788**	–	Callable from the 6.5th anniversary issue until every year thereafter
			₱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.

<u>MWC Group</u>
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.

<u>ALI Group</u>
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), repriceable 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), repriceable 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.

<u>Philippine Peso Debt</u>

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 facilty 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 (PWRF) 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 excercised 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 PWRF;
- Sub-tranche 1B, the loan in the amount of ₱125.0 million to be provided by SBC and funded through PWRF; 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 PWRF
- Sub-tranche 2B, the loan in the amount of ₱125.0 million to be provided by SBC and funded through PWRF
- 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 amouted 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) 2017	2016	Features
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 (₱1.2 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
	(In Thousands, except par value per share)									
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	**₱100**	₱100	**₱100**	₱100	**₱100**	₱100	**₱1**	₱1	**₱50**	₱50
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	**₱100**	₱100	**₱100**	₱100
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 ₱500.00 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 ₱100.00 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%.

<u>Common Shares</u>
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 Occidential.

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
	194,047
Liabilities	
Accounts payable and accrued expenses	148,965
	148,965
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 Default[1] occurring in respect of that Founder; • a Leaver Event[2] 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 value[3] 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 Event[4] – 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.

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[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, AI 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.

<u>Asian Land Strategies Corporation (Asian Land)</u>
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.

<u>Solar Resources, Inc. (Solar Resources)</u>
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.

<u>Borland Development Corporation (Borland)</u>
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
	1,821,049
Liabilities	
Accounts and other payables	88,312
Loans payable	80,000
Other noncurrent liabilities	417,537
	585,849
Non-controlling interests	₱85,252

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	₱47,209

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.

<u>VIA Optronics GmbH (VIA)</u>
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
	4,960,868
Liabilities	
Accounts payable and accrued expenses	211,957
Deferred tax liability	129,675
Loans payable	2,237,909
	2,579,541
Net Assets	2,381,327
Negative goodwill	(149,849)
Fair value of previously held interest	(1,099,998)
Non-controlling interest	(775,598)
Acquisition cost	₱355,882

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
	₱1,455,880

Cash on acquisition follows (amounts in thousands):

Cash acquired from Northwind	₱241,033
Cash paid	(355,882)
Net cash flow	(₱114,849)

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	Difference recognized within Equity
		(In Thousands)	
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	**(₱3,887,223)**	(₱4,090,901)
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	**(₱8,108,305)**	(₱9,543,754)

Deferred tax related to remeasurement gain on defined benefit plans recognized in OCI amounted to ₱51.1 million and ₱19.5 million in 2017 and 2016, respectively.

The Group has NOLCO amounting to ₱16.7 billion and ₱16.3 billion in 2017 and 2016, respectively, and MCIT amounting to ₱75.7 million and ₱82.2 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 ₱14.6 billion and ₱57.7 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	MCIT
		(In Thousands)	
2015	2018	₱5,233,048	₱26,391
2016	2019	5,835,744	23,198
2017	2020	5,632,420	26,132
		₱16,701,212	₱75,721

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**	**Reclassi-fications**	**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

	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	Reclassi-fications	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%	**(₱485,593)**	(₱639,250)
	(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 ₱710.1 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	**₱1,122,351**	₱915,860
More than 1 year to 5 years	**14,392,011**	3,895,336
More than 5 years	**27,956,423**	41,518,162
	₱43,470,785	₱46,329,358

As of December 31, 2017 and 2016, the plan assets include shares of stock of the Parent Company with total fair value of ₱459.8 million and ₱738.7 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%
1st Anniversary	5.0%
2nd Anniversary	7.5%
3rd 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 (portfolo 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	₱298	₱117,532	₱–	₱–	₱16,090	₱39,994	₱203	₱25,092	₱–	₱199,209
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)	(₱5,618)	₱24,430	₱10,637	₱4,754	₱5,566	₱1,430	₱2,359	₱142	(₱267)	₱43,433
Other information										
Segment assets	₱49,110	₱501,579	₱–	₱–	₱95,040	₱31,540	₱43,067	₱26,245	(₱27,605)	₱718,976
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	₱180,344	₱536,433	₱–	₱–	₱102,896	₱31,617	₱56,811	₱30,814	(₱27,210)	₱911,705
Segment liabilities	₱101,980	₱359,393	₱–	₱–	₱40,993	₱19,727	₱27,903	₱8,772	(₱27,603)	₱531,165
Deferred tax liabilities	97	4,357	–	–	4,728	63	203	96	–	9,544
Total liabilities	₱102,077	₱363,750	₱–	₱–	₱45,721	₱19,790	₱28,106	₱8,868	(₱27,603)	₱540,709
Segment additions to property, plant and equipment and investment properties	₱105	₱33,649	₱–	₱–	₱944	₱2,404	₱21,703	₱734	(₱6,746)	₱52,793
Depreciation and amortization	₱333	₱5,873	₱–	₱–	₱3,734	₱1,158	₱86	₱371	₱5	₱11,560
Non-cash expenses other than depreciation and amortization	₱388	₱434	₱–	₱–	₱46	(₱121)	₱488	₱971	₱–	₱2,206
Cash flows provided by (used in):										
Operating activities	(₱5,244)	₱12,807	₱–	₱–	₱1,256	₱2,441	₱7,166	(₱131)	₱16,922	₱35,217
Investing activities	(₱2,406)	(₱39,648)	₱–	₱–	(₱598)	(₱5,136)	(₱21,268)	₱626	(₱7,753)	(₱76,183)
Financing activities	(₱22,387)	₱28,683	₱–	₱–	(₱3,239)	₱2,220	₱22,757	₱170	(₱9,169)	₱19,035

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	₱52	₱100,266	₱–	₱–	₱15,867	₱36,958	₱–	₱20,892	₱–	₱174,035
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)	(₱5,458)	₱20,897	₱8,856	₱4,899	₱5,495	₱1,360	₱1,977	₱448	(₱179)	₱38,295
Other information										
Segment assets	₱69,090	₱416,909	₱–	₱–	₱96,401	₱24,398	₱10,517	₱23,792	(₱19,486)	₱621,621
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	₱190,766	₱442,343	₱–	₱–	₱103,050	₱24,387	₱24,126	₱28,524	(₱19,121)	₱794,075
Segment liabilities	₱103,839	₱290,734	₱–	₱–	₱40,952	₱13,449	₱4,260	₱8,576	(₱2,720)	₱459,090
Deferred tax liabilities	89	1,782	–	–	4,393	64	47	27	39	6,441
Total liabilities	₱103,928	₱292,516	₱–	₱–	₱45,345	₱13,513	₱4,307	₱8,603	(₱2,681)	₱465,531
Segment additions to property, plant and equipment and investment properties	₱310	₱23,339	₱–	₱–	₱726	₱1,653	₱5,536	₱1,559	(₱4,662)	₱28,461
Depreciation and amortization	₱219	₱4,247	₱–	₱–	₱3,468	₱1,054	₱10	₱440	₱5	₱9,443
Non-cash expenses other than depreciation and amortization	₱611	₱156	₱–	₱–	₱5,139	₱104	₱271	₱113	₱154	₱6,548
Cash flows provided by (used in):										
Operating activities	(₱12,736)	₱21,175	₱–	₱–	₱4,927	₱2,580	₱1,055	₱499	₱1,085	₱18,585
Investing activities	₱21,443	(₱48,946)	₱–	₱–	(₱622)	(₱1,659)	(₱3,705)	(₱2,166)	(₱3,166)	(₱38,821)
Financing activities	(₱11,401)	₱18,583	₱–	₱–	(₱3,705)	(₱1,403)	₱4,707	₱2,761	₱2,080	₱11,622

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**

<u>Finance leases - as lessee</u>
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

<u>Operating lease commitments - as lessee</u>
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
	(In Thousands)	
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

<u>Operating leases - as lessor</u>
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
	(In Thousands)	
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
	(In Thousands)	
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:

i. Leasing and project development and management services rendered by ALI Group.
ii. Water and sewerage services rendered by MWC.
iii. Automotive sales and repair services rendered by AITHI Group.
iv. Interest and miscellaneous income from cash deposits and money market placement as well as financing dealer incentive from BPI and other entities.
v. Others include various income such as interest and management fees.

Expenses recognized from related parties include:

i. Interest expense from short-term and long-term debt and credit card and other bank charges payable to BPI.
ii. Purchases of communications software and billings for mobile phone charges and internet connections with Globe.
iii. Building rental, leased lines, internet connections and ATM connections with Innove, subsidiary of Globe.
iv. 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	**(₱69,169)**	(₱30,250)
	-100	**69,169**	30,250
Subsidiaries - Floating rate Borrowings	+100	**(₱563,358)**	(₱435,510)
	-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**
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	**5,400,239**	**5,400,239**	**–**	**–**	**5,400,239**
Accounts and notes receivable	Fixed at the date of sale or transaction	Various	**1,023,623**	**93,431**	**842,510**	**87,682**	**1,023,623**
AFS financial asset - Quoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	**–**	**–**	**–**	**–**	**–**
			₱70,642,506	**₱69,712,314**	**₱842,510**	**₱87,682**	**₱70,642,506**
Parent Company							
Long-term debt							
Fixed							
	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**
Floating							
	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							
Fixed							
Peso and foreign currency	Fixed at 1.86% to 9.00%	3,4,5,7,10 and 15 years	**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**
Floating							
	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	₱60,195,546	₱60,195,546	₱–	₱–	₱60,195,546
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
			₱62,509,843	₱62,232,297	₱219,449	₱58,097	₱62,509,843
Parent Company							
Long-term debt							
Fixed							
	Fixed at 3.92% to 7.20%	7 years	₱20,000,000	₱9,994,372	₱–	₱9,903,942	₱19,898,314
	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
Floating							
	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							
Fixed							
Peso and foreign currency	Fixed at 0.50% to 10.21%	3,4,5,7,10 and 15 years	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
Floating							
	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
			₱298,558,354	₱50,650,806	₱102,576,617	₱141,626,528	₱295,853,951

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.

<u>IMI Group</u>
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.

<u>MWC Group</u>
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%	**₱354,563**
		(5%)	**(354,563)**
2016	PSEi	5%	₱306,121
		(5%)	(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	Individually	
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	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	Individually	
	High Grade	Medium Grade	Low Grade	Total	not impaired	Impaired	Total
Cash and cash equivalents	₱60,223,324	₱–	₱–	₱60,223,324	₱–	₱–	₱60,223,324
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
	₱149,580,684	₱20,541,866	₱2,429,619	₱172,552,169	₱18,646,438	₱1,781,605	₱192,980,212

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	**₱–**	**₱82,978**	**₱5,980,607**	**₱6,063,585**
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**	**₱10,615,299**
Recurring financial assets for which fair values are disclosed:				
Trade and nontrade receivables	**₱–**	**₱–**	**₱102,513,458**	**₱102,513,458**
Concession financial receivable	**–**	**–**	**3,188,264**	**3,188,264**
Deposits	**–**	**–**	**4,499,695**	**4,499,695**
	₱–	**₱–**	**₱110,201,417**	**₱110,201,417**
Recurring financial liabilities measured at fair value				
Financial liabilities on put option	**₱–**	**₱–**	**₱1,094,079**	**₱1,094,079**
Contingent consideration (noncurrent liability)	**–**	**–**	**1,247,052**	**1,247,052**
Derivative liabilities				
Freestanding	**–**	**1,505**	**–**	**1,505**
	₱–	**₱1,505**	**₱2,341,131**	**₱2,342,636**
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**
	₱–	**₱–**	**₱355,631,312**	**₱355,631,312**
Nonfinancial assets for which fair values are disclosed:				
Investment properties	**₱–**	**₱–**	**₱334,437,827**	**₱334,437,827**
Investments in associates and joint ventures*	**216,671,968**	**–**	**–**	**216,671,968**
	₱216,671,968	**₱–**	**₱334,437,827**	**₱551,109,795**

**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	₱–	₱1,736,759	₱4,927,256	₱6,664,015
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
	₱2,243,515	₱ 2,714,050	₱6,517,416	₱11,474,981
Recurring financial assets for which fair values are disclosed:				
Loans and receivables	₱–	₱–	₱80,706,268	₱80,706,268
Concession financial receivable	–	–	2,080,736	2,080,736
Deposits	–	–	6,683,135	6,683,135
	₱–	₱–	₱89,470,139	₱89,470,139
Recurring financial liabilities measured at fair value				
Financial liabilities on put option	₱–	₱–	₱563,541	₱563,541
Contingent consideration (noncurrent liability)	–	–	–	–
Derivative liabilities				
Freestanding	₱–	₱525	₱1,927	₱2,452
Embedded	–	–	3,357	3,357
	₱–	₱525	₱ 568,825	₱569,350
Recurring financial liabilities for which fair values are disclosed:				
Long-term debt	₱–	₱–	₱263,904,537	₱263,904,537
Service concession obligation	–	–	9,590,173	9,590,173
Deposits and other noncurrent liabilities	–	–	20,064,469	20,064,469
	₱–	₱–	₱293,559,179	₱293,559,179
Nonfinancial assets for which fair values are disclosed:				
Investment properties	₱–	₱–	₱295,508,639	₱295,508,639
Investments in associates and joint ventures*	168,647,494	–	–	168,647,494
	₱168,647,494	₱–	₱295,508,639	₱464,156,133

**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:

a) Final Maturity Date on January 31, 2017.
b) 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.
c) The Borrower is liable for 12% penalty on both principal and accrued interest if not paid on maturity.
d) With option to convert both principal and accrued interest during an equity financing transaction to raise capital with the requisite corporate approvals.
e) 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 asets 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

- Tansfer 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 AYCFL'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 AYCFL 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 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 AYCFL'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, NTDCC
On March 21, 2007, DOTC, National Housing Authority (NHA), MRTDC, and NTDCC 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/NTDCC to remit the Depot DRP Payable and the Depot DRP to NHA directly which shall be credited by DOTC in favour of MRTDC/ NTDCC as payment for the DRP.

Funding and Repayment Agreement between NTDCC, MRTDC and MRTDC Shareholders
On December 17, 2014, NTDCC, MRTDC and MRTDC shareholders executed a “Funding and Repayment Agreement” wherein the latter agrees to repay NTDCC, 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 Bloomberry 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 Goevernment 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

<u>MWC's Concession Agreement (the "Agreement")</u>

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/m^3 to ₱24.63/m^3) effective September 1, 2014, subject to the Extraordinary Price Adjustment; and

e. Increase in tariff rates by:
   - ₱0.41/m3 (from ₱24.63/m^3 to ₱25.04/m^3) in 2018
   - ₱0.42/m3 (from ₱25.04/m^3 to ₱25.45/m^3) in 2019
   - ₱0.42/m3 (from ₱25.45/m^3 to ₱25.87/m^3) in 2020
   - ₱0.43/m3 (from ₱25.87/m^3 to ₱26.30/ m^3) 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.

<u>Bulk Water Supply Agreement with MCWD</u>
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 vehile (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 unforseen 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 Hodings, 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 LAWC, such property shall be returned to PGL in its then condition at no charge to PGL or LAWC.

In 2014, LAWC 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.

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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 Februar 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 Disctrict (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 managment 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 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.

II. 2017 Supplementary Schedules

SGV
Building a better working world

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ey.com/ph

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

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The 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, included in this Form 17-A, 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 K listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Lucy L. Chan

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

Schedule A – Financial Assets (Current Marketable Equity Securities and Other Short-Term Cash Investments)
As of December 31, 2017
(In Thousand Pesos)

Name of Issuing Entity & Association of Each Issue	Amount Shown in the Balance Sheet	Income Received & Accrued
A. OTHER SHORT-TERM CASH INVESTMENTS [1/]		
Time Deposits (FX)		
BPI	1,876,694	
Others	823,186	
Sub-Total	**2,699,880**	
Time Deposits (Peso)		
BPI	3,414,990	
Others	3,821,809	
Sub-Total	**7,236,799**	
Money Market Placements (FX)		
BPI	15,488,686	
DBS HK	1,537,596	
Security Bank	965,734	
Mizuho Corporate Bank Ltd.	762,001	
BNP	699,020	
BTMU	102,457	
Others	2,078,784	
Sub-Total	**21,634,278**	
Money Market Placements (Peso)		
BPI	5,446,410	
BDO Unibank	487,095	
Metrobank	480,000	
Security Bank	170,000	
Chinabank	100,000	
Maybank	92,000	
Others	4,464,769	
Sub-Total	**11,240,274**	
Total	**42,811,231**	**484,920**
B. SHORT-TERM INVESMENTS [2/]	**NOT APPLICABLE**	
C. CURRENT MARKETABLE SECURITIES [3/]	**NOT APPLICABLE**	

[1/] *Short-term highly liquid investments with varying periods up to three months shown as part of the Cash and Cash Equivalents account in the Balance Sheet. Cash Equivalents is 4.2% of the P1,021,545,752k Total Assets as of December 31, 2017.*

[2/] *Money Market Placements with varying maturity periods of more than three months and up to six months amounting to P5,400,239k is 0.5% of the P1,021,545,752k Total Assets as of December 31, 2017. This is booked under the Short-term Investment account.*

[3/] *Current marketable securities are composed of Financial Assets at FVPL amounting to P6,063,585k. An amount of P82,978k is placed under BPI's UITF. The total FVPL account is shown under the Other Current Assets account and is 0.6% of the P1,021,545,752k Total Assets as of December 31, 2017.*

Schedule B – Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
As of December 31, 2017
(In Thousand Pesos)

Account Type	Beginning Balance	Additions	Deductions	Ending Balance	Current	Non-current	Payment Period
Advances to Employees	439,421	2,721,819	(2,403,746)	757,494	756,492	1,002	30 days to 1 year
Housing and Related Loan	430,208	246,251	(260,360)	416,099	292,879	123,220	1 year to 15 years
Car and Related Loan	148,597	116,355	(120,296)	144,656	74,656	70,000	1 year to 5 years
Others	72,575	1,117,176	(1,028,468)	161,283	77,738	83,545	6 months to 1 year
TOTAL*	**1,090,801**	**4,201,601**	**(3,812,870)**	**1,479,532**	**1,201,765**	**277,767**	

** Please refer to Notes 7 and 31 in the 2017 Consolidated Audited Financial Statements for detailed account analysis and discussion.*

Schedule C.1. – Amounts Receivable from Related Parties which are Eliminated during the 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	84,650	(39,850)	44,800	Dividends from AGCC and DADC
AC	Parent	Other receivable	71,573	(28,290)	43,283	Rental fees, with interest on overdue accounts; other receivables
AAC	Subsidiary	Subscription receivable	16,660	(16,660)	-	Deposits on subscriptions, non-interest bearing
ACIFL	Subsidiary	Other receivable	110,995	469	111,463	Other receivables from AIVPL
ACIFL	Subsidiary	Other receivable	6,563,040	(6,563,040)	-	Other receivables from ACEHI
AC Ventures	Subsidiary	Subscription receivable	-	568,825	568,825	Deposits on subscriptions, non-interest bearing
AGCC	Subsidiary	Trade receivable	0	30,101	30,101	Legal fees
AIVPL	Subsidiary	Other receivable	-	77,530	77,530	Other receivables from BHL
ALI	Subsidiary	Accounts receivable	168,054	(18,378)	149,675	Advances, non-interest bearing and retention accounts for construction projects
AYC	Subsidiary	Other receivable	17,520,107	2,706,454	20,226,561	Mainly non-interest bearing receivable from ACIFL (for various investment initiatives)
IMI	Subsidiary	Other receivable	24,007	(8,110)	15,897	Advances, non-interest bearing
BHL	Subsidiary	Other receivable	1,858,363	(1,858,363)	-	Other receivables from ACIFL
PFIL	Subsidiary	Other receivable	76,556	323	76,879	Other receivables from ACIFL
Others	Subsidiary	Other receivable	73,115	9,045	82,160	Reimbursement of expenses, etc.
TOTAL			**26,567,119**	**(5,139,945)**	**21,427,174**	

Schedule C.2. – Amounts Payable to Related Parties which are Eliminated during the 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	123,834	1,073,631	1,197,465	Advances, non-interest bearing
AC	Parent	Subscription payable	16,660	552,165	568,825	Deposits on subscriptions, non-interest bearing
AAHC	Subsidiary	Accounts payable	37,293	19,740	57,033	Rental fees, with interest on overdue accounts
ACEHI	Subsidiary	Accounts payable	24,007	(24,007)	-	Other payables to IMI
ACEHI	Subsidiary	Accounts payable	6,563,040	(6,563,040)	-	Other payables to ACIFL
ACIFL	Subsidiary	Accounts payable	17,520,107	1,656,560	19,176,667	Non-interest bearing payable to AYC (for various investment initiatives)
ACIFL	Subsidiary	Accounts payable	1,858,363	(1,858,363)	-	Other payables to BHL
ACIFL	Subsidiary	Accounts payable	76,556	323	76,879	Other payables to PFIL
AGCC	Subsidiary	Accounts payable	21,768	1,819	23,587	Rental fees, with interest on overdue accounts
AGCC	Subsidiary	Dividends payable	30,000	5,000	35,000	Dividends
AIVPL	Subsidiary	Other payables	110,995	469	111,463	Other payables to ACIFL
ALI	Subsidiary	Other payables	5,240	5,454	10,694	Advances, non-interest bearing
Bestfull	Subsidiary	Accounts payable	-	77,530	77,530	Other payables to AIVPL
DADC	Subsidiary	Dividends payable	14,600	(4,800)	9,800	Dividends
IMI	Subsidiary	Accounts payable	29,040	(29,040)	-	Other payables to AC
MWCI	Subsidiary	Retention payable	22,451	(20,097)	2,354	Retention accounts for construction projects
PHI	Subsidiary	Dividends payable	40,000	(40,000)	-	Dividends
Others	Subsidiary	Other payables	73,165	6,711	79,876	Reimbursement of expenses, etc.
TOTAL			**26,567,119**	**(5,139,945)**	**21,427,174**	

Schedule D – Intangible Assets and Other Assets (Deferred Charges)
As of December 31, 2017
(In Thousand Pesos)

DESCRIPTION	CAFS Notes*	BEGINNING BALANCE	ADDITIONS AT COST	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	OTHER CHANGES ADD/(DED)	ENDING BALANCE
INTANGIBLE ASSETS	**15**	**9,716,403**	**6,076,312**	**(433,392)**	**32,088**	**1,313,589**	**16,705,000**
OTHER ASSETS - DEFERRED CHARGES	**16**	**10,655,977**	**-**	**(2,898,405)**	**-**	**-**	**7,757,572**

** Please refer to respective notes in the 2017 Consolidated Audited Financial Statements (CAFS) for detailed account analysis and discussion.*

Schedule E – Long-term Debt
As of December 31, 2017
(In Thousand Pesos)

TITLE OF ISSUE & TYPE OF OBLIGATION	CURRENT	NON-CURRENT	TOTAL
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	1,875,500	7,323,322	9,198,822
Bonds	-	39,719,659	39,719,659
	1,875,500	47,042,981	48,918,481
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	4,817,290	53,862,729	58,680,019
MWC	3,993,854	17,678,146	21,672,000
ALI	478,597	1,038,027	1,516,624
ACEHI	-	27,244,072	27,244,072
IMI	343,153	7,900,127	8,243,280
AIVPL	1,686	2,357	4,043
Philippine peso - with interest rates ranging from 1.86% to 9.00% in 2017 and 1.80% to 9.00% in 2016	7,010,543	59,965,486	66,976,029
ALI	6,094,179	42,255,538	48,349,717
MWC	508,406	12,737,929	13,246,335
ACEHI	288,434	4,624,210	4,912,644
AAC	111,768	336,175	447,943
Others (AC Industrial)	7,756	11,634	19,390
	11,827,833	113,828,215	125,656,048
Bonds:			
Fixed for life bonds	-	19,843,316	19,843,316
Exchangeable bonds due 2019	-	14,551,428	14,551,428
Due 2019	-	12,299,234	12,299,234
Due 2020	-	3,984,041	3,984,041
Due 2021	-	5,000,000	5,000,000
Due 2022	-	12,591,034	12,591,034
Due 2023	-	6,943,949	6,943,949
Due 2024	-	14,910,133	14,910,133
Due 2025	-	14,882,298	14,882,298
Due 2026	-	7,932,643	7,932,643
Due 2027	-	6,966,801	6,966,801
Due 2033	-	1,983,990	1,983,990
	-	121,888,867	121,888,867
Short-dated notes	-	7,063,367	7,063,367
Fixed Rate Corporate Notes (FXCNs)	28,634	17,151,832	17,180,466
TOTAL	**13,731,967**	**306,975,262**	**320,707,229**

Schedule F – Indebtedness to Related Parties (Long-term Loans from Related Parties)
As of December 31, 2017
(In Thousand Pesos)

Name of Related Parties	Balance at Beginning of Period	Balance at End of Period
Bank of the Philippine Islands*	33,381,925	29,591,410
*The Group also has ₱1.9B in payables to unconsolidated subsidiaries and related parties**		

**Please refer to Note 30 of the 2017 Consolidated Audited Financial Statements for detailed account analysis and discussion.*

Schedule G – Guarantees of Securities of Other Issuers
As of December 31, 2017
(In Thousand Pesos)

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guaranty
AYC Finance Limited *	Various *	Various *	None	The Parent Company unconditionally guaranteed the due and punctual payment of loans if, for any reason AYCFL 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. *

** Please refer to Note 34 of the 2017 Consolidated Audited Financial Statements for the detailed discussion.*

Schedule H – Capital Stock*
As of December 31, 2017
(In Thousand Pesos)

TITLE OF ISSUE	NUMBER OF SHARES AUTHORIZED	NUMBER OF SHARES ISSUED AND OUTSTANDING	NUMBER OF SHARES RESERVED FOR OPTIONS, WARRANTS, CONVERSION & OTHER RIGHTS	NUMBER OF SHARES HELD BY RELATED PARTIES	DIRECTORS, OFFICERS & EMPLOYEES
Common Stock issued & subscribed a/	900,000,000	620,224,590			
Issued and subscribed on exercise of share options		1,067,420			
Common shares outstanding	**900,000,000**	**621,292,010**	*Refer to "Warrants and options outstanding; repricing" portion of Item 10 of the SEC17A report.*	*Refer to "Security ownership of certain record and beneficial owners" portion of Item 11 of the SEC17A report.*	**3,783,476**
Preferred A shares b/	**12,000,000**	**-**			
Preferred B shares c/	**58,000,000**	**47,000,000**			**420,000**
Preferred C shares	**40,000,000**	**-**			
Voting Preferred shares d/	**200,000,000**	**200,000,000**			**1,481,472**

a/ Ayala Corporation has stock option plans for the key officers (Executive Stock Option Plan-ESOP) and employees (Employee Stock Ownership Plan - ESOWN) covering 3% of the Company's capital stock.

b/ Cumulative, nonvoting and redeemable with a par value of P100 per share and is listed and traded at the Philippine Stock Exchange. It may be redeemed at the option of Ayala Corporation starting in the fifth year. The offering price is P500 per share with a dividend rate of 8.88% per annum. This security was redeemed on Nov. 25, 2013.

c/ Cumulative, nonvoting and redeemable with a par value of P100 per share. It is listed and traded at the Philippine Stock Exchange and may redeemed at the option of Ayala Corporation starting on the fifth year of issue date. The offering price is P500 per share with a fixed quarterly dividend rate of 5.25% per annum for the Preferred B Series 1 and 5.575% per annum for the Preferred B Series 2.

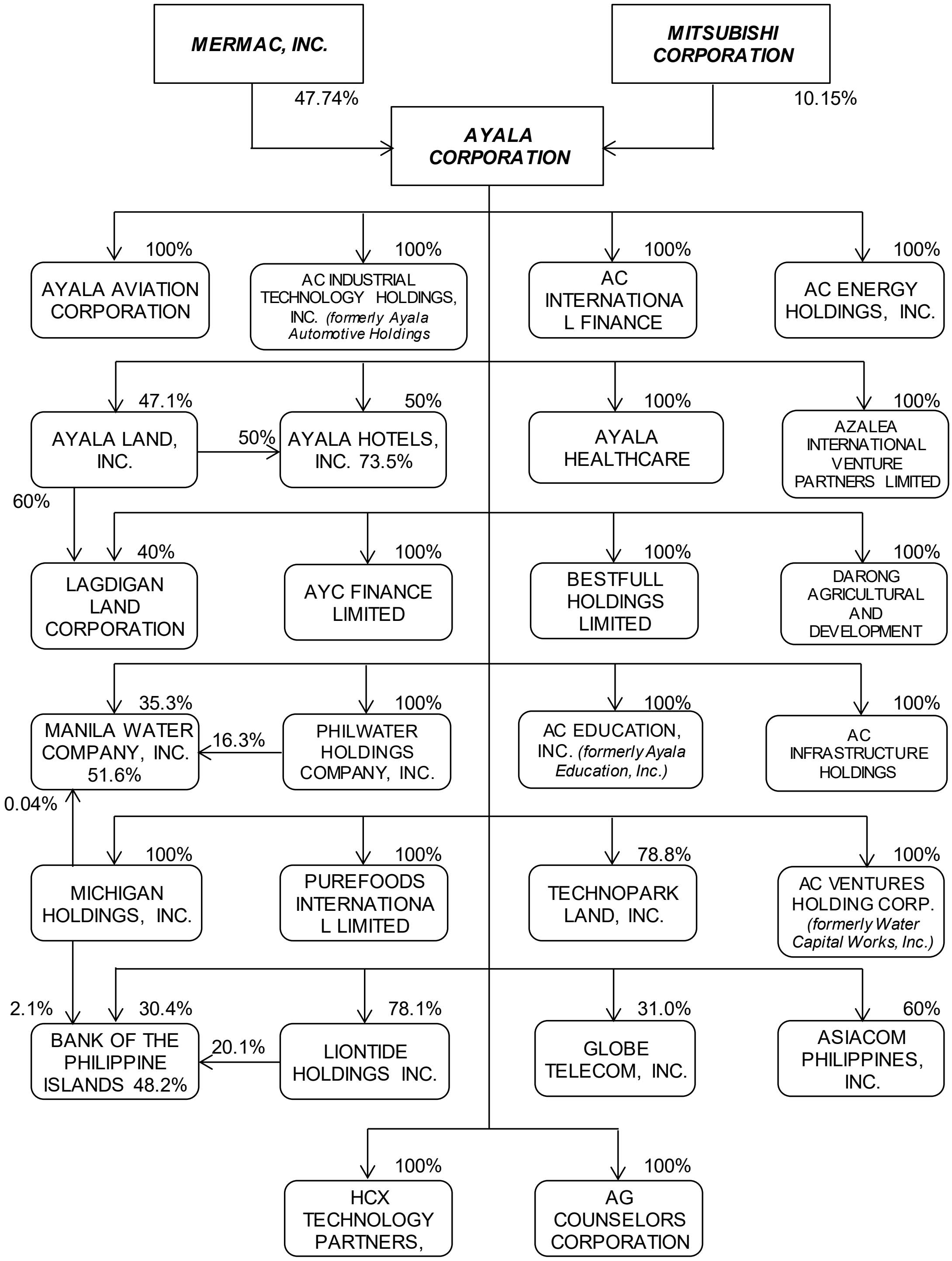
d/ Cumulative, voting and redeemable at the option of Ayala Corporation with a par value of P1 per share and dividend rate of 1.875% per annum.

** Please refer to Note 21 of the 2017 Consolidated Audited Financial Statements for the related discussion.*

Schedule I – Reconciliation of Retained Earnings Available for Dividend Declaration
As of December 31, 2017
(In Thousand Pesos)

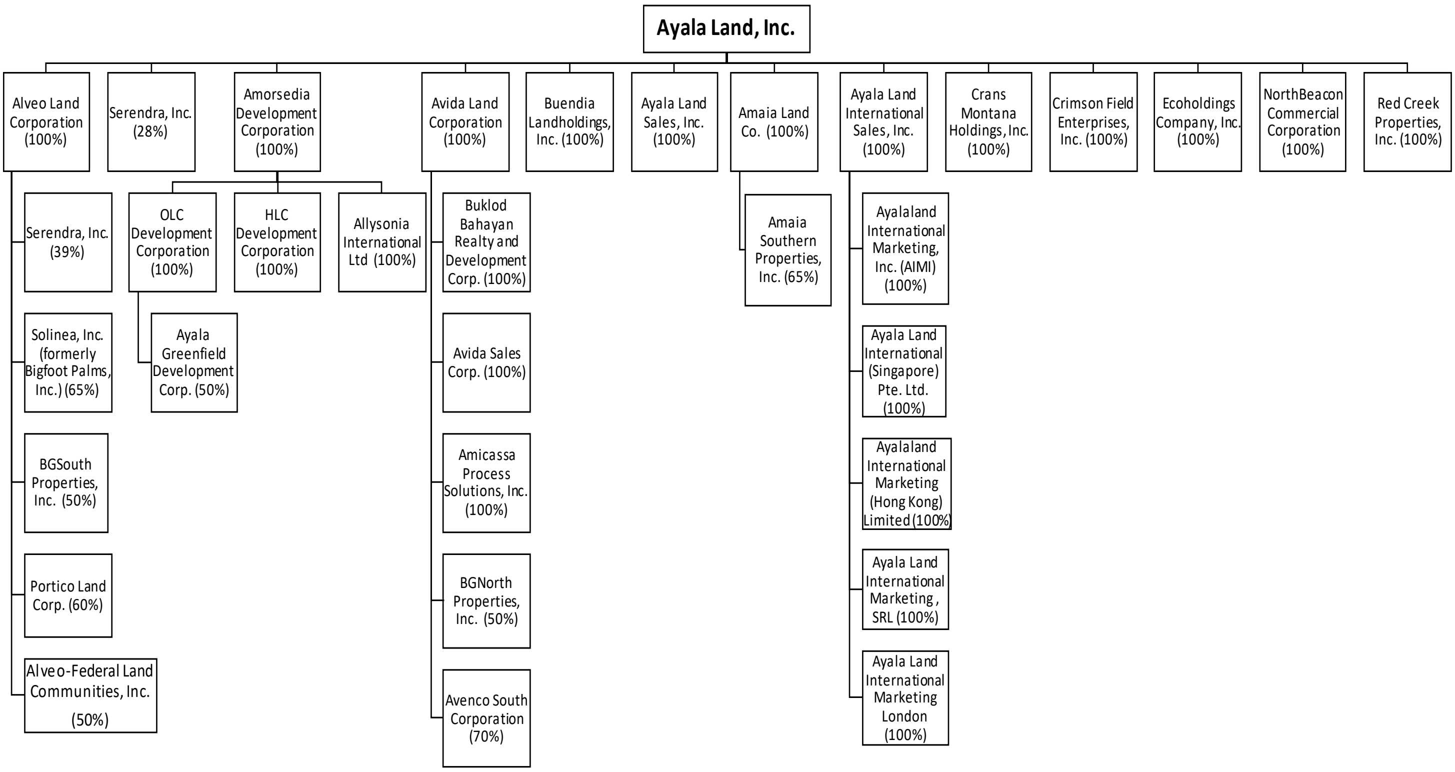
	December 31, 2017		December 31, 2016	
Unappropriated retained earnings, as adjusted to available for *dividend distribution, beginning**		₱ **30,518,035**		₱ **29,271,260**
Add: Net income actually earned/realized during the period - Parent co.		8,061,091		6,288,408
Add (Less):				
Dividend declarations during the period	₱ (5,584,124)		₱ (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*		₱ **33,179,220**		₱ **30,518,035**
**Reconciliation of consolidated retained earnings to retained earnings*				
	January 1, 2017	**December 31, 2017**	**January 1, 2016**	**December 31, 2016**
Consolidated retained earnings balance	₱ 145,622,311	₱ 170,302,028	₱ 124,468,464	₱ 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	₱ 30,518,035	₱ 33,179,220	₱ 29,271,260	₱ 30,518,035

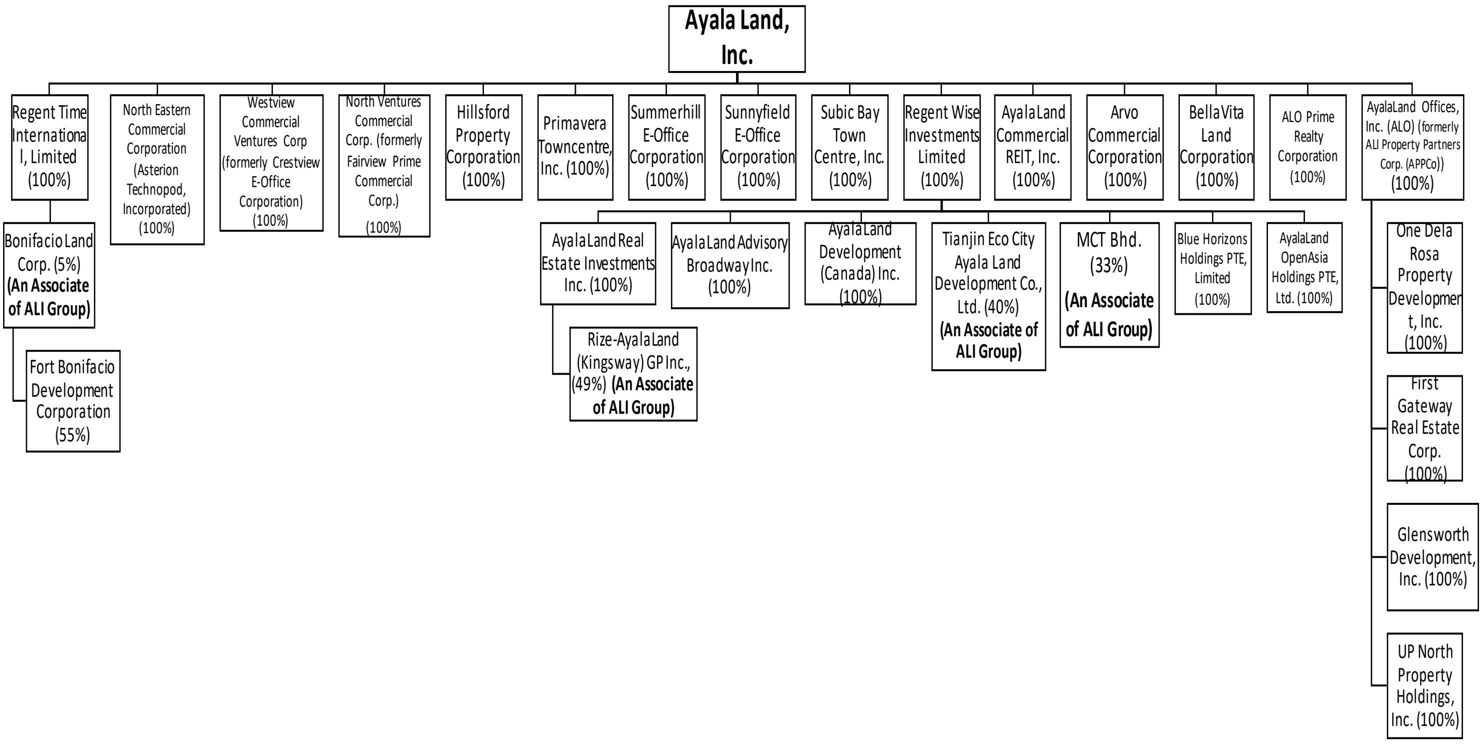
Schedule J – Map of the Relationships of the Companies within the Group (part 1)
As of December 31, 2017



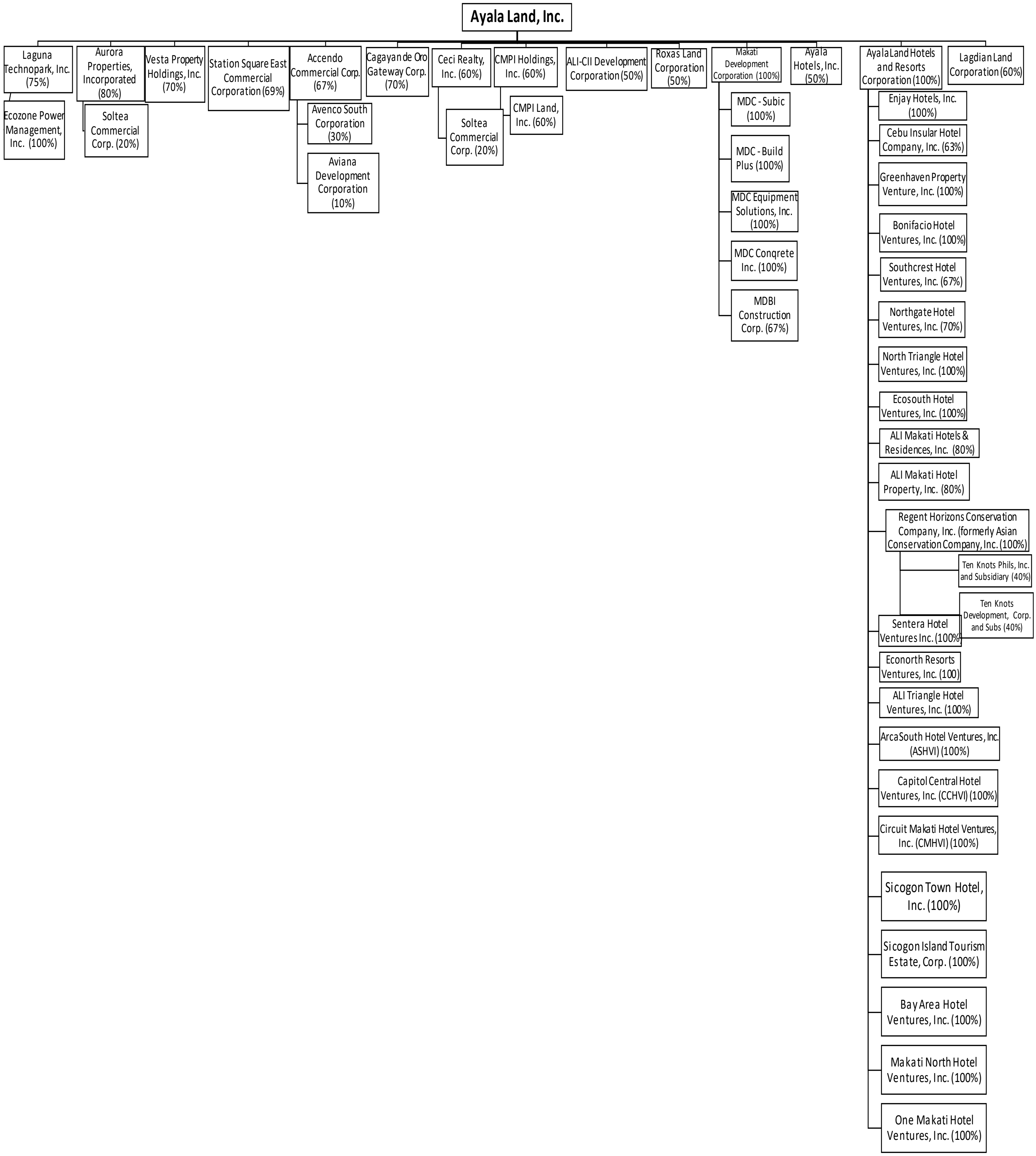
Legend:
% of ownership appearing on top of the box - direct economic % of ownership
% of ownership appearing inside the box - effective % of economic ownership

Schedule J – Map of the Relationships of the Companies within the Group (part 2)
As of December 31, 2017

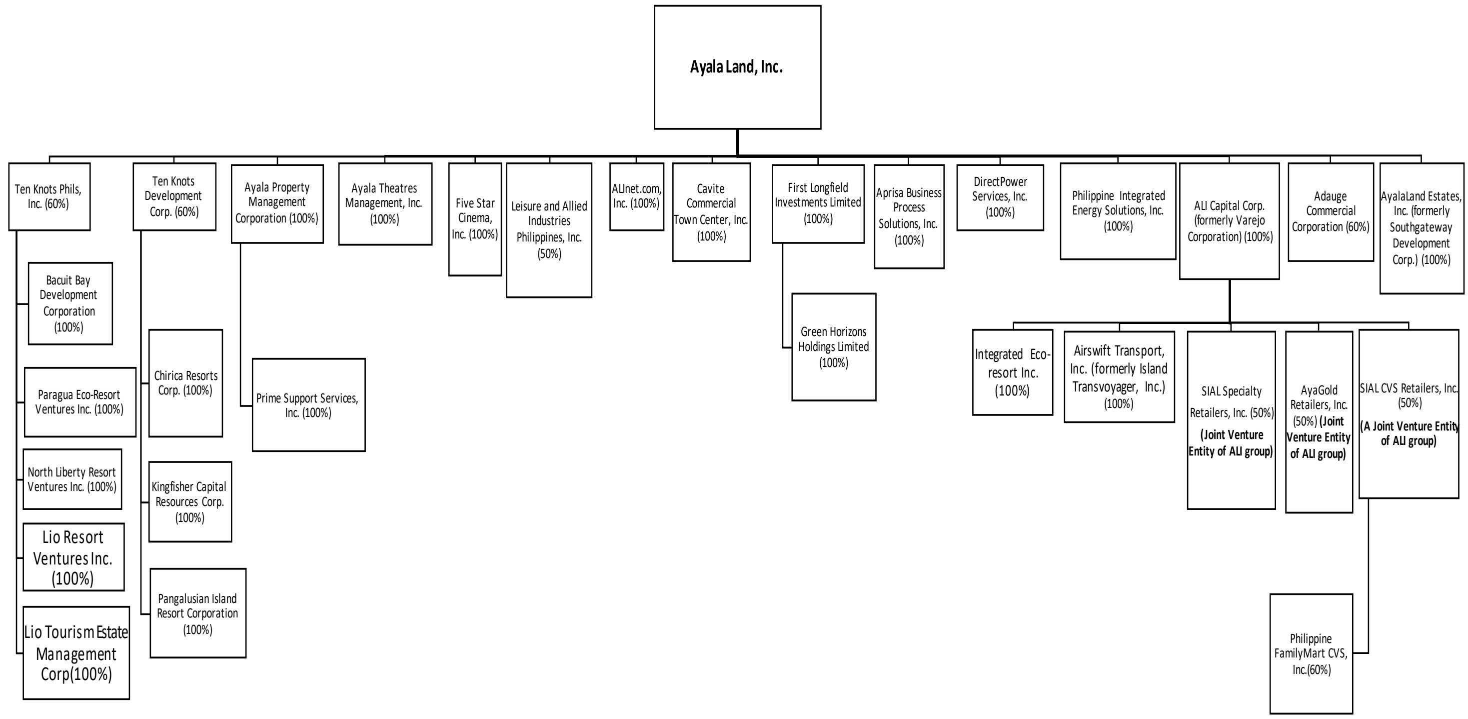


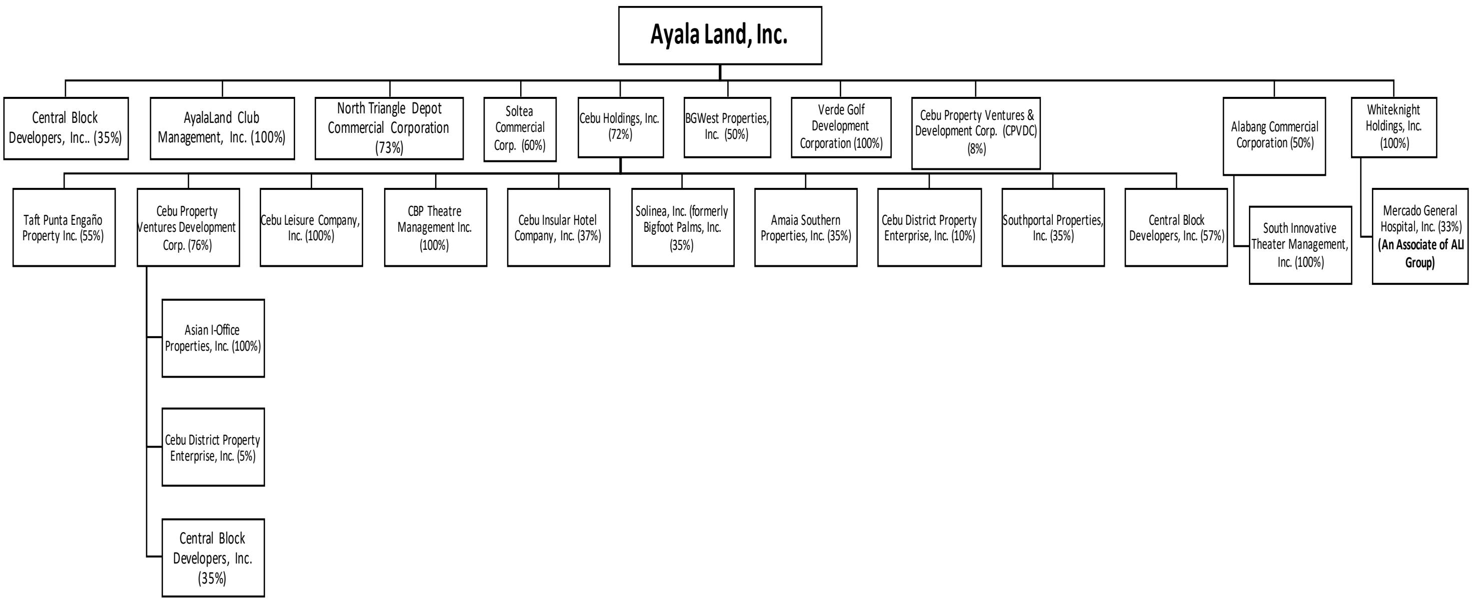


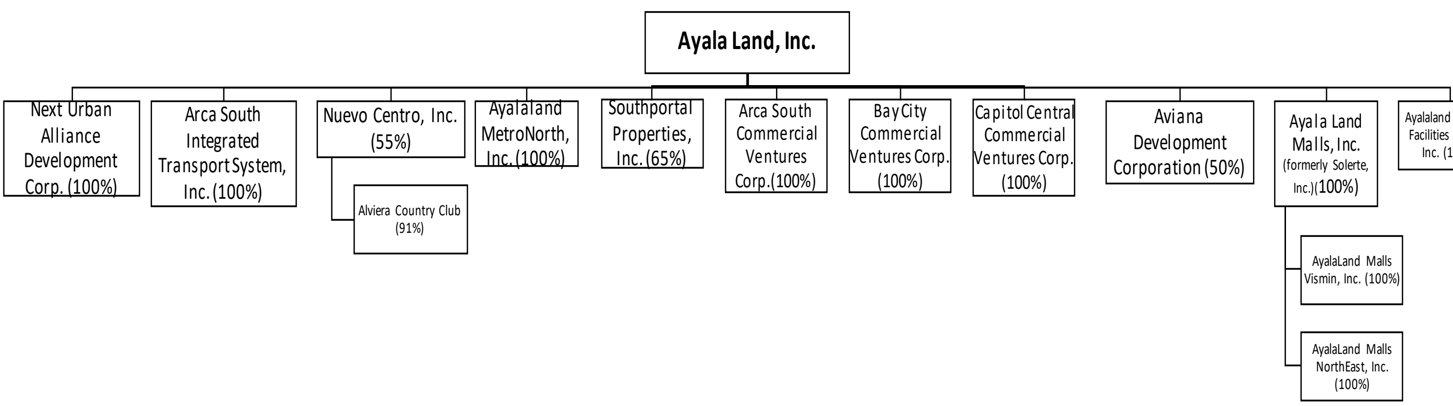
Schedule J – Map of the Relationships of the Companies within the Group (part 3)
As of December 31, 2017



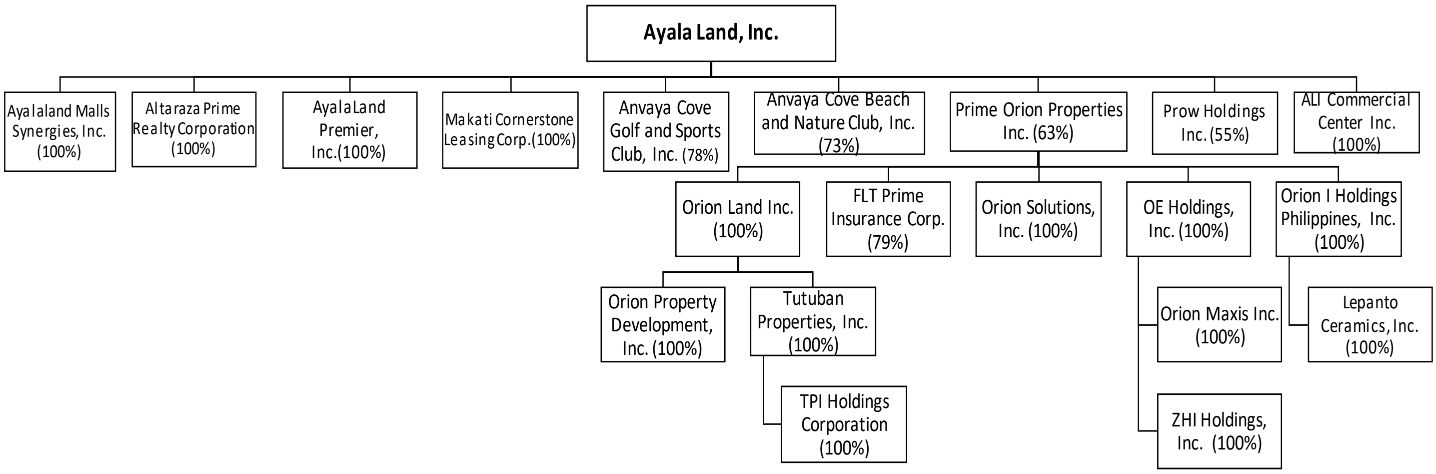
Schedule J – Map of the Relationships of the Companies within the Group (part 4)
As of December 31, 2017



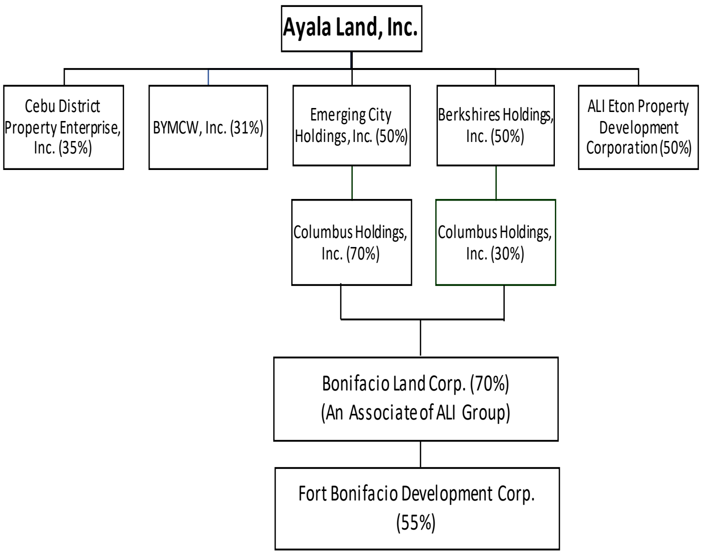




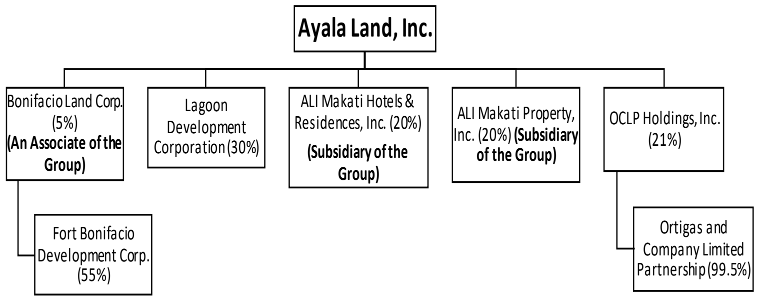
Schedule J – Map of the Relationships of the Companies within the Group (part 5)
As of December 31, 2017



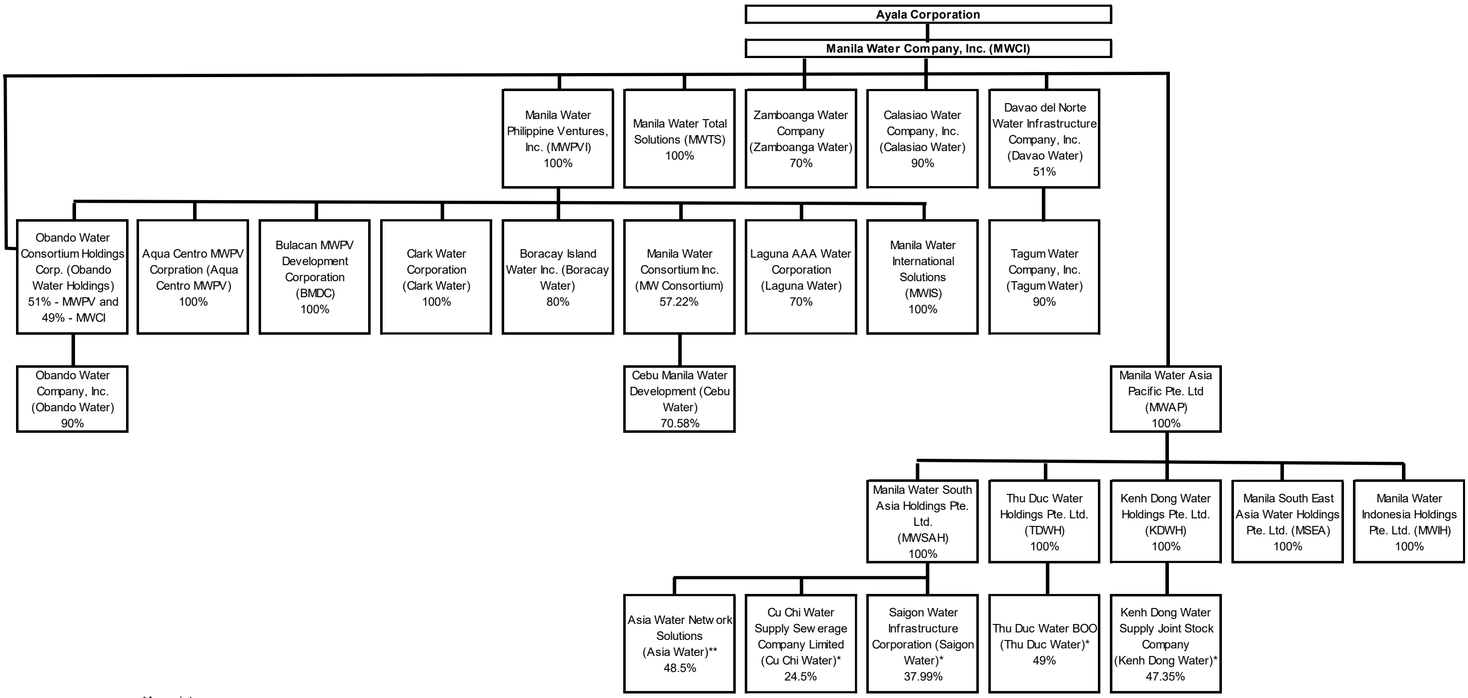
Direct Investments in Joint Ventures



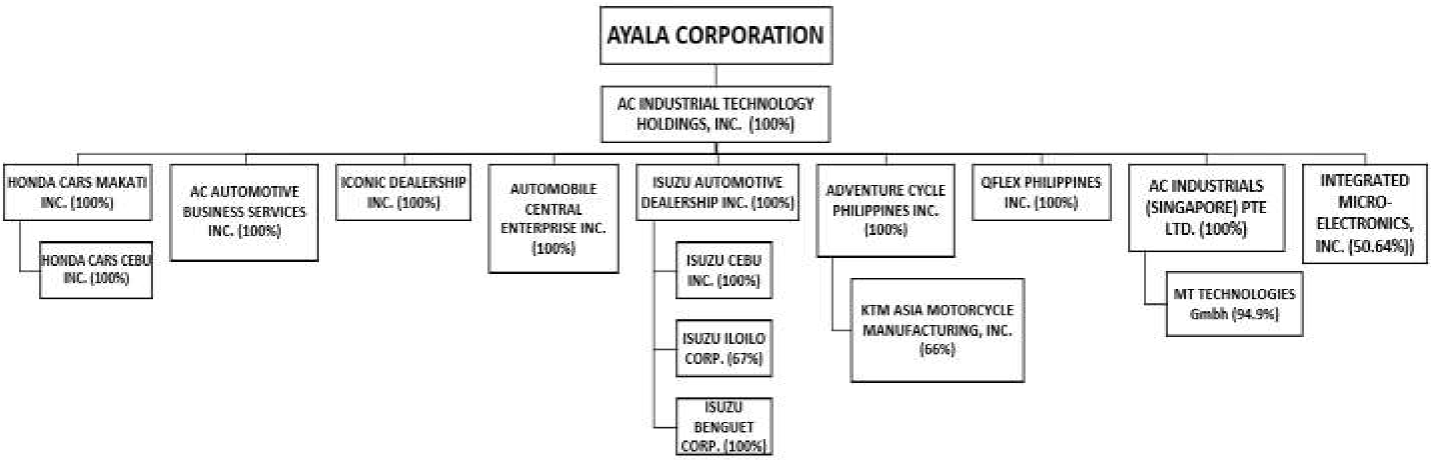
Direct Investments in Associates



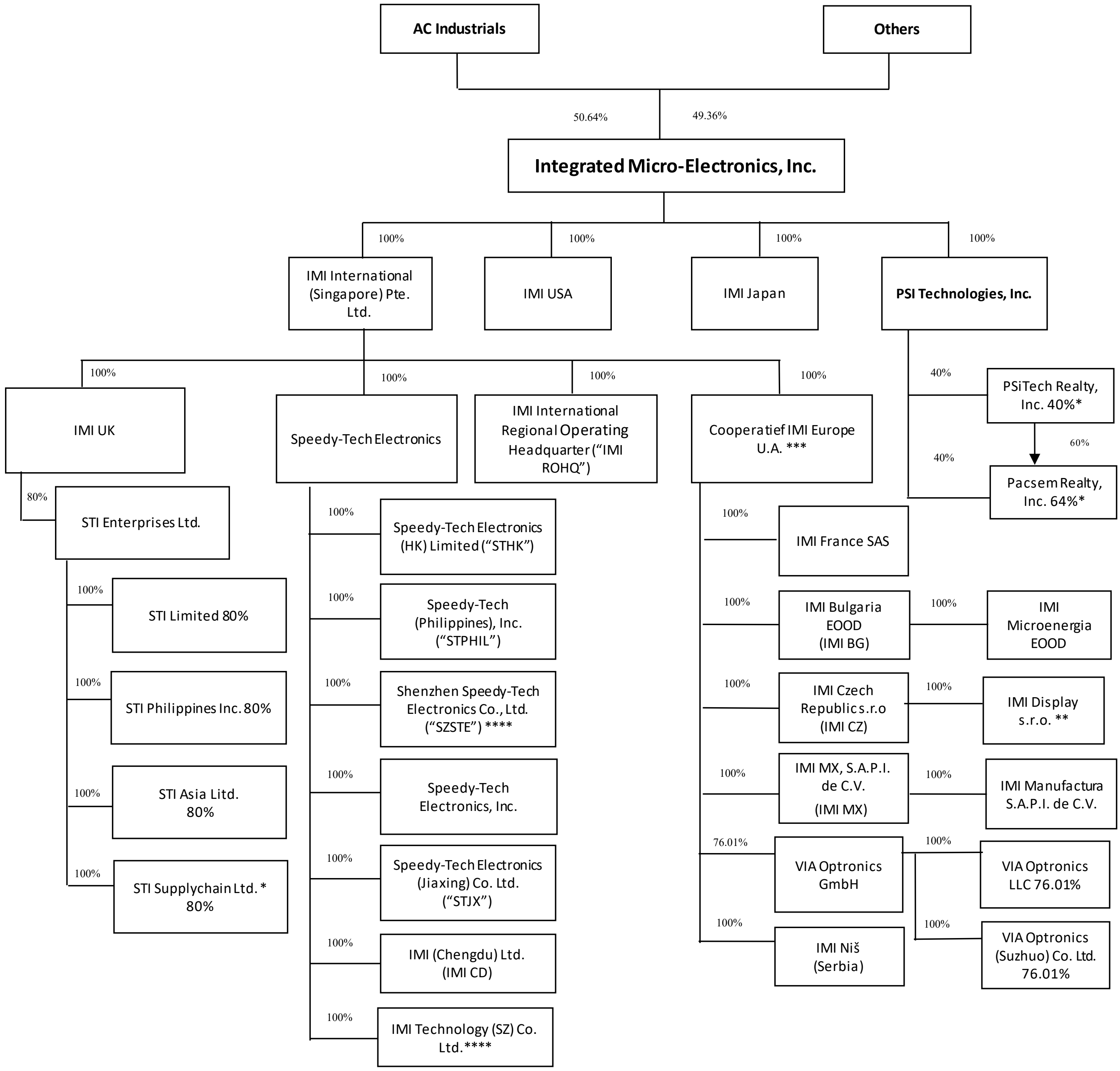
Schedule J – Map of the Relationships of the Companies within the Group (part 6)
As of December 31, 2017



*Associates
**Asia Water is 51.0% owned by Saigon Water and 48.50% owned by MWSAH.



Schedule J – Map of the Relationships of the Companies within the Group (part 7)
As of December 31, 2017



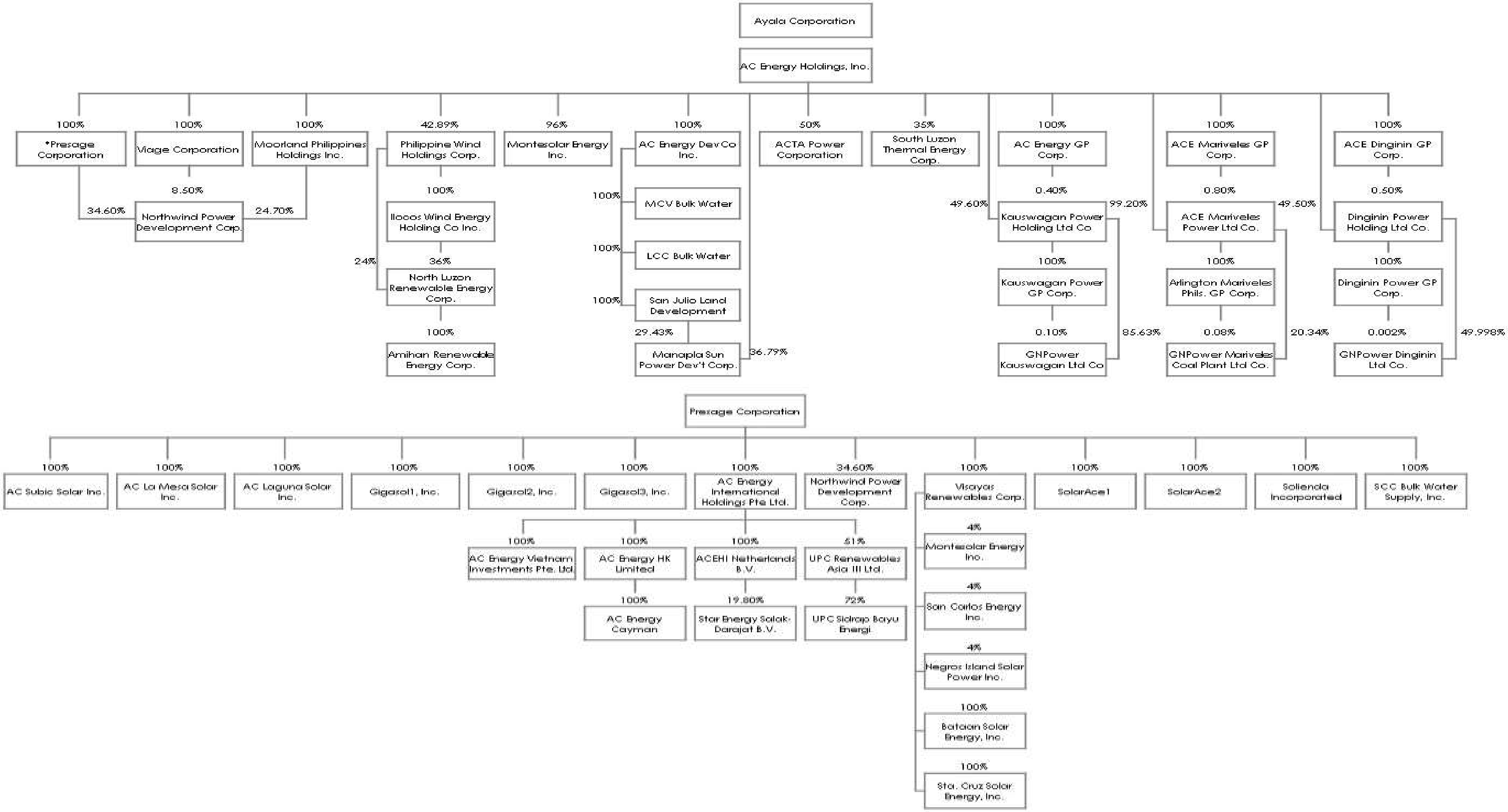
* In the process of liquidation.

** No active operations.

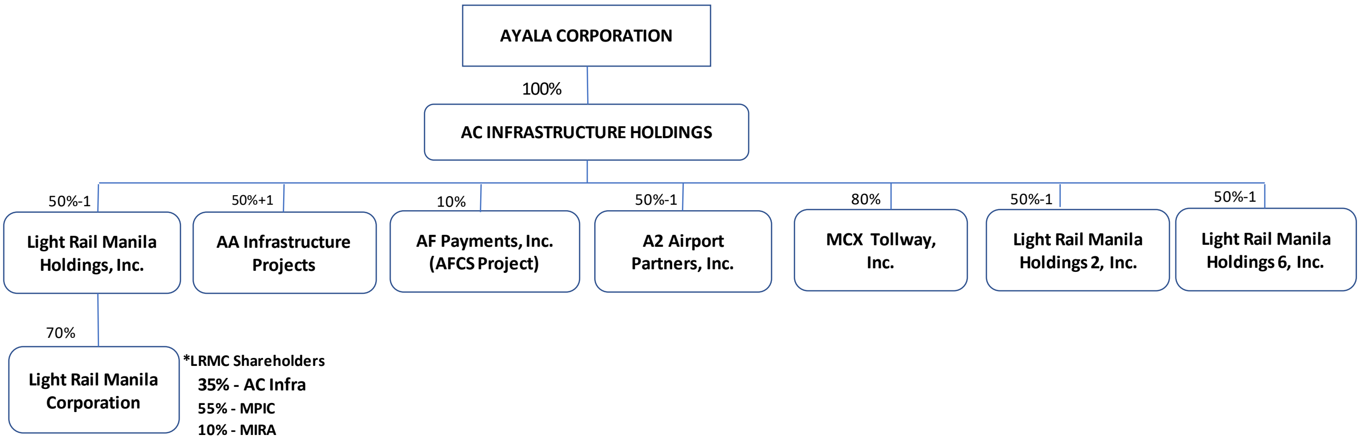
*** Previously under Monarch Elite Ltd. In June 2017, Monarch agreed to sell its net target assets and transfer its membership rights to IMI Singapore. Monarch is in the process of liquidation.

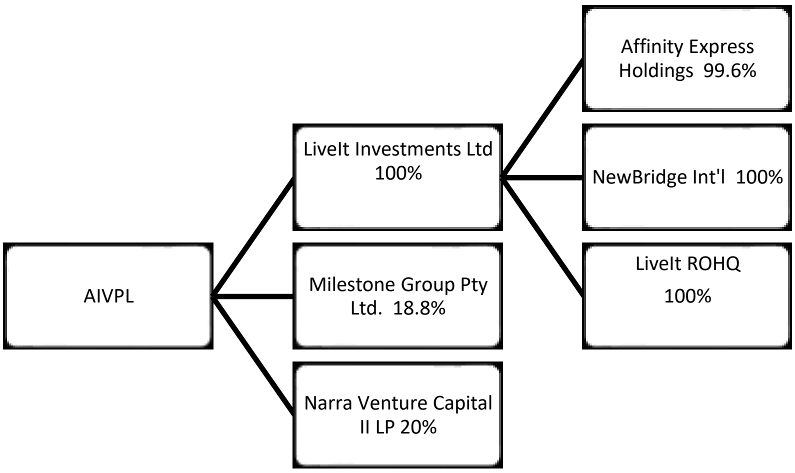
**** New entity incorporated in Shenzhen which now runs the manufacturing operations of Pingshan and Kuichong. SZSTE being sold to a third party.

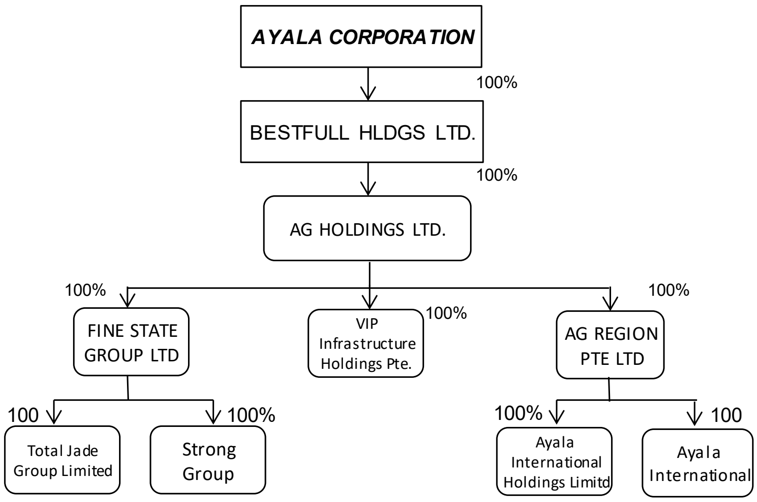
Schedule J – Map of the Relationships of the Companies within the Group (part 8)
As of December 31, 2017



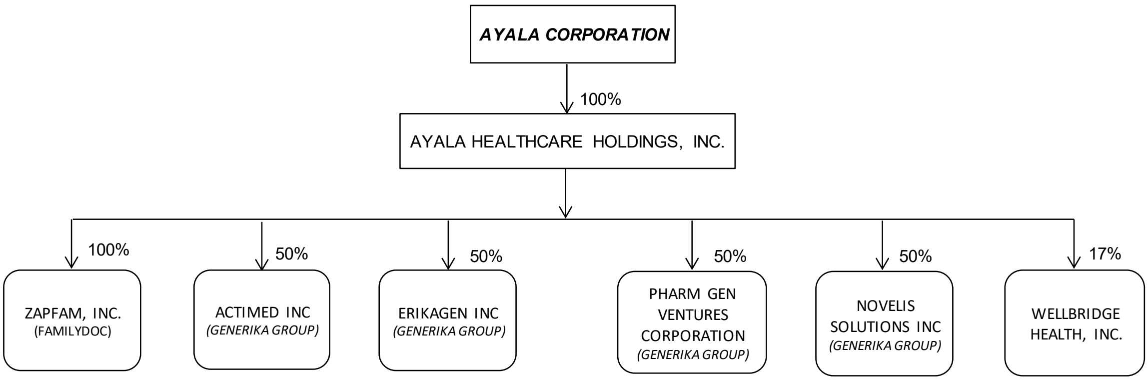
Schedule J – Map of the Relationships of the Companies within the Group (part 9)
As of December 31, 2017



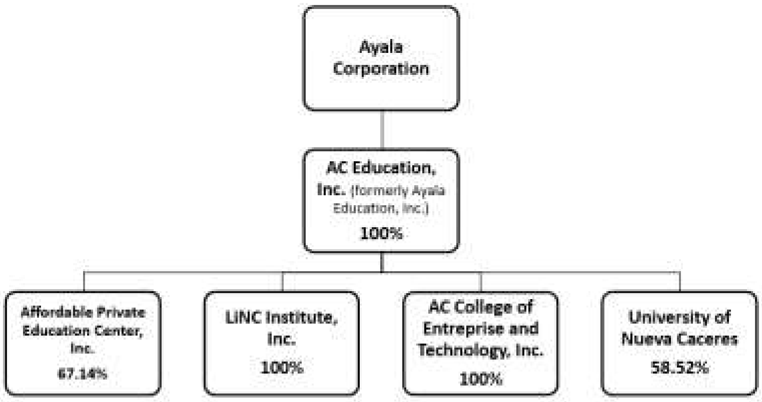


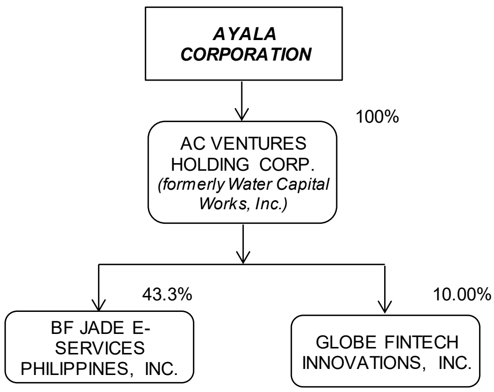


Schedule J – Map of the Relationships of the Companies within the Group (part 10)
As of December 31, 2017



Note: Entities under dissolution
Talentworks Asia, Inc.
Wireless Internet Sol, Inc.
Cng Global Data Hub
Ayala Port, Inc.





Schedule K – Schedule of All the Effective Standards and Interpretations Under Philippine Financial Reporting Standards (PFRS)
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	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	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	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2	✓		

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	*Interim Financial Reporting and Impairment*			✓
IFRIC 11	PFRS 2- Group and Treasury Share Transactions	✓		
IFRIC 12	Service Concession Arrangements	✓		
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments 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 FRSC.*

Schedule L – Financial Ratios
As of December 31, 2017

Ratio	Formula	December 2017	December 2016
Liquidity Ratio	Cash/ Cash equivalents + Short-term cash investments / Current Liabilities	**0.29**	0.26
Current ratio	Current assets / Current liabilities	**1.31**	1.22
Solvency Ratio	After-Tax Net Profit + (Depreciation + Amortization)+ Provision for Bad Debts / Total Liabilities	**0.07**	0.07
Debt-to-Equity Ratio (Total SHE)	Long-term Loans + Short Term Loans / Total Stockholders' Equity	**0.85**	0.80
Assets- to-Equity Ratio	Total Assets / Equity Attributable to Owners of the Parent	**3.98**	3.95
Interest Expense Coverage Ratio	EBITDA / Interest Expense	**6.16**	5.59
Return on Equity	Net Income to Owners of the Parent / Equity Attributable to Owners of the Parent (Average)	**12.4%**	11.8%
Return on Common Equity	Net Income to Owners of the Parent Less Dividends on Preferred Shares / Common Equity Attributable to Owners of the Parent (Average)	**13.2%**	12.6%
Return on Assets	Net Income / Total Assets	**4.9%**	4.8%

Schedule M – Non-Current Marketable Equity Securities, Other Long-term Investment in Stocks and Other Investments (Non-Current Investments) (part 1)
As of December 31, 2017
(In Thousand Pesos)

NAME OF COMPANY	BEGINNING BALANCE		ADDITIONS		DEDUCTIONS		ENDING BALANCE	
	Effective % of Ownership	Amount in Pesos	Equity in Earnings (Losses) of Investees for the period	Others (Cost, Equity Adj. & OCI gain-net)	Distribution of Earnings by Investees	Others (Cost, Equity Adj. & OCI loss-net)	Effective % of Ownership	Amount in Pesos
INVESTMENTS IN ASSOCIATES & JOINT VENTURES								
Domestic:								
Bank of the Philippine Islands	32.5%	72,532,117	7,238,207	32,320	(2,305,750)	(2,194)	32.5%	77,494,700
Liontide Holdings, Inc.	73.8%	39,418,363	3,533,645	16,573	(1,113,009)	(1,059)	78.1%	41,854,513
Globe Telecom, Inc.	31.0%	20,143,429	4,508,936	286,900	(3,745,312)	-	31.0%	21,193,953
GNPower Mariveles Coal Plant Ltd. Co.	17.1%	8,789,835	583,325	121,381	-	(1,488,869)	20.4%	8,005,672
OCLP Holdings, Inc.	21.0%	7,320,660	305,550	111,502	-	-	21.0%	7,737,712
Emerging City Holdings, Inc.	50.0%	4,159,038	292,335	-	-	(534,999)	50.0%	3,916,374
South Luzon Thermal Energy Corp.	35.0%	2,784,546	740,524	760	(821,910)	-	35.0%	2,703,920
GNPower Dinginin Ltd. Co.	50.0%	1,158,021	(113,333)	1,220,847	-	-	50.0%	2,265,535
Berkshires Holdings, Inc.	50.0%	1,833,775	125,167	-	-	(48,582)	50.0%	1,910,360
Light Rail Manila Holdings, Inc.	50.0%	1,647,174	177,819	212	-	-	50.0%	1,825,205
Cebu District Property Enterprise, Inc.	42.0%	1,487,279	(11,227)	-	-	-	42.0%	1,476,052
Bonifacio Land Corporation	10.0%	1,369,884	119,630	6,566	-	(101,045)	10.0%	1,395,035
Asiacom Philippines, Inc.	60.0%	1,252,742	50,122	-	-	(388)	60.0%	1,302,476
Philippine Wind Holdings Corporation	42.9%	993,272	64,635	-	-	(51,921)	42.9%	1,005,986
BF Jade E-Services Philippines, Inc.	-	-	(112,331)	1,163,006	-	-	44.2%	1,050,675
Rize-Ayalaland (Kingsway) GP Inc.	49.0%	624,000	4,805	44,963	-	-	49.0%	673,768
Alveo-Federal Land Communities, Inc.	50.0%	604,633	56,569	-	-	-	50.0%	661,202
ALI-ETON Property Development Corporation	50.0%	14,472	(34,451)	623,698	-	-	50.0%	603,719
Generika Group	50.0%	442,526	7,364	50,110	-	-	50.0%	500,000
Globe Fintech Innovations, Inc. (Mynt)	-	-	(45,296)	506,290	-	-	10.0%	460,994
Foreign:								
Star Energy Salak-Darajat B.V.	-	-	508,507	8,536,429	-	-	19.8%	9,044,936
Modular Construction Technology Bhd.	33.0%	6,400,000	205,291	866,147	-	-	33.0%	7,471,438
Thu Duc Water B.O.O. Corporation	49.0%	2,586,096	241,946	6,876	(109,688)	-	49.0%	2,725,230
Kenh Dong Water Supply Joint Stock Company	47.4%	2,417,144	148,387	81,904	(73,076)	-	47.4%	2,574,359
UPC Renewables Asia III Ltd.	-	-	(3,012)	1,183,065	-	-	51.0%	1,180,053
Saigon Water Infrastructure Joint Stock Company	31.5%	851,830	66,875	231,841	-	-	38.0%	1,150,546
VinaPhil Technical Infrastructure Investment Joint Stock Company	49.0%	501,682	-	-	-	(501,682)	-	-
Others	various	981,225	(165,531)	395,748	(55,857)	(690,698)	various	464,887
TOTAL INVESTMENTS IN ASSOCIATES & JOINT VENTURES		**180,313,743**	**18,494,458**	**15,487,138**	**(8,224,602)**	**(3,421,437)**		**202,649,300**

Schedule M – Non-Current Marketable Equity Securities, Other Long-term Investment in Stocks and Other Investments (Non-Current Investments) (part 2)
As of December 31, 2017
(In Thousand Pesos)

NAME OF COMPANY	BEGINNING BALANCE	ADDITIONS	DEDUCTIONS	ENDING BALANCE
	Amount in Pesos	Others (Cost & Equity Adj)	Others (Cost & Equity adj)	Amount in Pesos
INVESTMENTS IN BONDS & OTHER SECURITIES				
AFS financial assets:				
Quoted equity investments:				
Cyber Bay Corporation	777,387	-	(122,362)	655,025
UPC Renewables Asia I Ltd	-	449,370	-	449,370
IMA	517,752	-	(128,807)	388,945
CII	1,104,285	307,964	(1,103,608)	308,641
Club Shares	106,891	18,910	(2,220)	123,581
Others	72,822	202,165	(127,587)	147,400
	2,579,137	978,409	(1,484,584)	2,072,962
Unquoted equity investments:				
Sares Regis fund	521,151	426,352	-	947,503
Milestone Group Pty. Ltd.	277,857	13,252	-	291,109
ACI Solar Holdings NA (RPS)	227,121	959	-	228,080
City Sports Club Cebu, Inc.	458,805	-	(14,241)	444,564
Wave Computing	-	110,512	-	110,512
Rohatyn Group (SOF & GOF)	178,183	-	(98,947)	79,236
AF Payments, Inc.	-	50,000	-	50,000
Tech Ventures	36,988	-	(1,236)	35,752
Glory High	29,453	125	-	29,578
Red River Holdings	83,286	-	(83,286)	-
Others	57,477	277,057	(157,463)	177,071
	1,870,321	878,257	(355,173)	2,393,405
Quoted debt investments:				
CII Convertible Bonds	115,621	-	(115,621)	-
	115,621	-	(115,621)	-
TOTAL INVESTMENTS IN BONDS & OTHER SECURITIES	**4,565,079**	**1,856,666**	**(1,955,378)**	**4,466,367**

Schedule N – Indebtedness of Unconsolidated Subsidiaries and Related Parties
As of December 31, 2017

Name of Related Parties	Balance at Beginning of Period	Balance at End of Period
The Group has ₱3.1B in receivables or indebtedness of unconsolidated subsidiaries and related parties. Please refer to Note 30 of the 2017 Consolidated Audited Financial Statements for detailed account analysis and discussion.		

III. 2017 Consolidated Financial Statements of Associate and Joint Venture

Bank of the Philippine Islands

Financial Statements
As at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017

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Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholders of
Bank of the Philippine Islands
BPI Building, Ayala Avenue
Makati City

Report on the Audits of the Financial Statements

Our Opinion

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

What we have audited

The financial statements comprise:

- the consolidated and parent statements of condition as at December 31, 2017 and 2016;
- the consolidated and parent statements of income for each of the three years in the period ended December 31, 2017;
- the consolidated and parent statements of comprehensive income for each of the three years in the period ended December 31, 2017;
- the consolidated and parent statements of changes in capital funds for each of the three years in the period ended December 31, 2017;
- the consolidated and parent statements of cash flows for each of the three years in the period ended December 31, 2017; and
- the notes to the consolidated and parent financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independence

We are independent of the BPI Group and the Parent Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the consolidated and parent financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

Our Audit Approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and parent financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated and parent financial statements as a whole, taking into account the structure of the BPI Group and the Parent Bank, the accounting processes and controls, and the industry in which the BPI Group and the Parent Bank operate.

Key audit matters

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

The key audit matter identified in our audit pertains to impairment losses on loans and advances, which applies to both the BPI Group's and the Parent Bank's financial statements.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment losses on loans and advances	
Refer to Note 10 of the consolidated and parent financial statements. We focused on this account because of the complexity involved in the estimation process, and the significant judgments that management make in ascertaining the provision for loan impairment. The calculation of impairment losses is inherently judgmental for any bank. As of December 31, 2017, the total allowance for impairment for loans and advances amounted to PHP20,663 million for the BPI Group and PHP13,913 million for the Parent Bank while provision for loan losses recognized in profit or loss for the year then ended amounted to PHP4,317 million for the BPI Group and PHP3,880 million for the Parent Bank. In particular, judgment arises over the determination of objective evidence of impairment which may have a reliably measurable effect on the present value of estimated future cash flows. Further, there are various assumptions involved in calculating the required allowance for impairment losses such as the probability of default and loss given default which, to a large extent, are subject to management judgment. Impairment losses are calculated on a specific basis for individually significant loans and on a collective basis for portfolio of not individually significant loans with similar nature and characteristics.	Our audit procedures included evaluating and validating the design and operating effectiveness of controls over loan loss provisioning, including the process for credit risk rating and management's review of the estimates. Our substantive procedures to assess management's calculation of allowance for impairment included the following: Individual/ specific assessment We assessed the BPI Group's and Parent Bank's review process on the credit worthiness of borrowers. The appropriateness of provisioning methodology was independently considered for a sample of loans selected on the basis of risk. We formed our independent credit view on the levels of provision booked based on the counterparty information in the credit file, including consideration of any related collateral. Calculations using the discounted cash flow model for selected loan samples were re-performed.

Key Audit Matter	How our audit addressed the Key Audit Matter (cont.)
(cont'd.)	Collective assessment We tested the impairment model used and assessed the reasonableness of management assumptions, mainly the probability of default and loss given default, by reference to the historical loss experience of the BPI Group and the Parent Bank. We also performed independent credit review to determine whether impairment triggers exist for selected loan samples. We recomputed the allowance for impairment and compared the resulting balance to the allowance recorded by management. Based on the procedures we performed, we determined that the impairment models and assumptions were materially consistent with our independent expectations and analysis.

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

Our opinion on the consolidated and parent 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 and parent 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 and parent financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

In preparing the consolidated and parent financial statements, management is responsible for assessing the ability of each entity within the BPI Group and of the Parent Bank 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 entities within the BPI Group and the Parent Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and parent 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 Philippine Standards on Auditing 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 and parent financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and parent 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 BPI Group's and of the Parent Bank'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 ability of each entity within the BPI Group and the Parent Bank 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 and parent 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 entities within the BPI Group and the Parent Bank to cease to continue as a going concern.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and parent 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.

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Isla Lipana & Co.

Report on Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 32 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Isla Lipana & Co.

Zaldy D. Aguirre
Partner
CPA Cert No. 105660
P.T.R. No. 0024447, issued on January 10, 2018, Makati City
SEC A.N. (individual) as general auditors 1176-AR-1, Category A; effective until April 30, 2018
SEC A.N. (firm) as general auditors 0009-FR-4, Category A; effective until July 15, 2018
TIN 221-755-698
BIR A.N. 08-000745-77-2018, issued on January 29, 2018; effective until January 28, 2021
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
February 8, 2018

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
DECEMBER 31, 2017 and 2016
(In Millions of Pesos)

	Notes	Consolidated		Parent	
		2017	2016	**2017**	2016
RESOURCES					
CASH AND OTHER CASH ITEMS	4	**35,132**	35,692	**34,160**	34,855
DUE FROM BANGKO SENTRAL NG PILIPINAS	4	**255,948**	239,514	**227,122**	203,743
DUE FROM OTHER BANKS	4	**14,406**	23,037	**10,894**	20,558
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	4,5	**18,586**	15,236	**10,504**	9,049
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS					
- DERIVATIVE FINANCIAL ASSETS	6	**4,981**	2,993	**4,975**	2,993
- TRADING SECURITIES	7	**5,332**	14,603	**3,806**	10,314
AVAILABLE-FOR-SALE SECURITIES, net	8	**23,313**	24,301	**10,139**	19,603
HELD-TO-MATURITY SECURITIES	9	**277,472**	268,483	**255,382**	245,921
LOANS AND ADVANCES, net	10	**1,202,338**	1,040,720	**986,869**	821,545
ASSETS HELD FOR SALE, net		**3,578**	3,667	**609**	933
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	11	**15,056**	13,809	**9,905**	9,395
INVESTMENT PROPERTIES, net	12	**135**	669	**135**	669
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net	13	**6,386**	6,818	**9,043**	8,948
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS	2,4	**17,406**	16,326	**-**	-
DEFERRED INCOME TAX ASSETS, net	14	**8,091**	7,543	**5,180**	4,571
OTHER RESOURCES, net	15	**15,745**	12,285	**14,025**	7,738
Total resources		**1,903,905**	1,725,696	**1,582,748**	1,400,835

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION
DECEMBER 31, 2017 and 2016
(In Millions of Pesos)

		Consolidated		Parent	
	Notes	**2017**	2016	**2017**	2016
LIABILITIES AND CAPITAL FUNDS					
DEPOSIT LIABILITIES	16	**1,562,200**	1,431,300	**1,323,963**	1,184,478
DERIVATIVE FINANCIAL LIABILITIES	6	**4,788**	3,112	**4,788**	3,112
BILLS PAYABLE	17	**83,517**	61,973	**70,722**	52,257
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		**1,218**	670	**1,218**	670
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		**7,022**	7,579	**5,762**	5,893
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		**7,117**	6,853	**4,851**	4,707
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS	2	**14,513**	14,367	**-**	-
DEFERRED CREDITS AND OTHER LIABILITIES	18	**39,979**	32,158	**33,212**	26,836
Total liabilities		**1,720,354**	1,558,012	**1,444,516**	1,277,953
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI	19				
Share capital		**39,336**	39,308	**39,336**	39,308
Share premium		**29,771**	29,591	**29,771**	29,591
Reserves		**254**	2,711	**142**	2,695
Surplus		**116,415**	98,602	**73,679**	56,095
Accumulated other comprehensive loss		**(5,088)**	(5,078)	**(4,696)**	(4,807)
		180,688	165,134	**138,232**	122,882
NON-CONTROLLING INTERESTS		**2,863**	2,550	**-**	-
Total capital funds		**183,551**	167,684	**138,232**	122,882
Total liabilities and capital funds		**1,903,905**	1,725,696	**1,582,748**	1,400,835

(The notes on pages 1 to 111 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2017
(In Millions of Pesos, Except Per Share Amounts)

		Consolidated			Parent		
	Notes	**2017**	2016	2015	**2017**	2016	2015
INTEREST INCOME							
On loans and advances		**56,557**	48,843	42,156	**40,209**	32,515	27,270
On held-to-maturity securities		**8,787**	8,746	8,790	**8,056**	7,987	8,064
On deposits with BSP and other banks		**2,150**	2,059	2,083	**1,023**	930	1,485
On available-for-sale securities		**358**	469	757	**325**	443	688
On trading securities		**201**	180	241	**170**	155	197
Gross receipts tax		**(2,204)**	(1,985)	(1,728)	**(1,651)**	(1,435)	(1,247)
		65,849	58,312	52,299	**48,132**	40,595	36,457
INTEREST EXPENSE							
On deposits	16	**16,660**	15,301	13,326	**11,413**	9,616	8,383
On bills payable	17	**1,150**	634	332	**885**	406	115
		17,810	15,935	13,658	**12,298**	10,022	8,498
NET INTEREST INCOME		**48,039**	42,377	38,641	**35,834**	30,573	27,959
IMPAIRMENT LOSSES	8,10,15	**3,795**	4,800	3,976	**3,519**	2,930	2,298
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**44,244**	37,577	34,665	**32,315**	27,643	25,661
OTHER INCOME							
Trading gain on securities		**1,006**	5,400	1,311	**817**	5,398	1,254
Fees and commissions		**8,340**	7,998	7,530	**6,672**	6,094	5,899
Income from foreign exchange trading		**2,347**	1,951	1,545	**2,000**	1,601	1,190
Income attributable to insurance operations	2	**1,413**	1,360	1,109	**-**	-	-
Other operating income	20	**11,369**	8,955	10,650	**14,527**	11,730	8,051
Gross receipts tax		**(1,494)**	(1,490)	(1,427)	**(1,069)**	(1,210)	(1,169)
		22,981	24,174	20,718	**22,947**	23,613	15,225
OTHER EXPENSES							
Compensation and fringe benefits	22	**13,897**	13,463	12,463	**10,691**	10,713	9,949
Occupancy and equipment-related expenses	11,12,21	**11,344**	10,156	9,194	**9,062**	8,172	7,314
Other operating expenses	22	**13,292**	11,322	10,213	**9,626**	8,148	7,529
		38,533	34,941	31,870	**29,379**	27,033	24,792
INCOME BEFORE INCOME TAX		**28,692**	26,810	23,513	**25,883**	24,223	16,094
PROVISION FOR INCOME TAX	23						
Current		**6,418**	5,419	5,736	**4,248**	3,777	4,269
Deferred	14	**(462)**	(884)	(598)	**(462)**	(439)	(238)
		5,956	4,535	5,138	**3,786**	3,338	4,031
NET INCOME FOR THE YEAR		**22,736**	22,275	18,375	**22,097**	20,885	12,063
Attributable to:							
Equity holders of BPI		**22,416**	22,050	18,234	**22,097**	20,885	12,063
Non-controlling interests		**320**	225	141	**-**	-	-
		22,736	22,275	18,375	**22,097**	20,885	12,063
Earnings per share for net income attributable to the equity holders of BPI during the year:							
Basic and diluted	19	**5.69**	5.60	4.64	**5.61**	5.30	3.07

(The notes on pages 1 to 111 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF COMPREHENSIVE INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2017
(In Millions of Pesos)

		Consolidated			Parent		
	Note	**2017**	2016	2015	**2017**	2016	2015
NET INCOME FOR THE YEAR		**22,736**	22,275	18,375	**22,097**	20,885	12,063
OTHER COMPREHENSIVE INCOME (LOSS)	19						
Items that may be subsequently reclassified to profit or loss							
Net change in fair value reserve on available-for-sale securities, net of tax effect		**713**	543	(526)	**449**	502	(153)
Share in other comprehensive loss of associates		**(252)**	(74)	(451)	**-**	-	-
Fair value reserve on investments of insurance subsidiaries, net of tax effect		**196**	(131)	(334)	**-**	-	-
Currency translation differences		**126**	(113)	77	**-**	-	-
Items that will not be reclassified to profit or loss							
Actuarial losses on defined benefit plan, net of tax effect		**(272)**	(579)	(382)	**(338)**	(429)	(225)
Share in other comprehensive loss of associates		**(528)**	-	-	**-**	-	-
Total other comprehensive (loss) income, net of tax effect		**(17)**	(354)	(1,616)	**111**	73	(378)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**22,719**	21,921	16,759	**22,208**	20,958	11,685
Attributable to:							
Equity holders of BPI		**22,406**	21,736	16,693	**22,208**	20,958	11,685
Non-controlling interests		**313**	185	66	**-**	-	-
		22,719	21,921	16,759	**22,208**	20,958	11,685

(The notes on pages 1 to 111 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2017
(In Millions of Pesos)

	Consolidated							
	Attributable to equity holders of BPI (Note 19)							
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total	Non-controlling interests	Total equity
Balance, January 1, 2015	**39,272**	**29,341**	**2,098**	**76,575**	**(3,223)**	**144,063**	**2,616**	**146,679**
Comprehensive income								
Net income for the year	-	-	-	18,234	-	18,234	141	18,375
Other comprehensive loss for the year	-	-	-	-	(1,541)	(1,541)	(75)	(1,616)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**18,234**	**(1,541)**	**16,693**	**66**	**16,759**
Transactions with owners								
Proceeds from the stock rights offering	-	1	-	-	-	1	-	1
Executive stock plan amortization	13	97	33	-	-	143	-	143
Cash dividends	-	-	-	(10,617)	-	(10,617)	-	(10,617)
Other changes in non-controlling interests	-	-	-	-	-	-	(236)	(236)
Total transactions with owners	**13**	**98**	**33**	**(10,617)**	**-**	**(10,473)**	**(236)**	**(10,709)**
Other movements								
Transfer from surplus to reserves	-	-	432	(432)	-	-	-	-
Others	-	-	-	1	-	1	-	1
Total other movements	**-**	**-**	**432**	**(431)**	**-**	**1**	**-**	**1**
Balance, December 31, 2015	**39,285**	**29,439**	**2,563**	**83,761**	**(4,764)**	**150,284**	**2,446**	**152,730**
Comprehensive income								
Net income for the year	-	-	-	22,050	-	22,050	225	22,275
Other comprehensive loss for the year	-	-	-	-	(314)	(314)	(40)	(354)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**22,050**	**(314)**	**21,736**	**185**	**21,921**
Transactions with owners								
Executive stock plan amortization	23	152	45	-	-	220	-	220
Cash dividends	-	-	-	(7,087)	-	(7,087)	-	(7,087)
Change in ownership interest in a subsidiary	-	-	-	(19)	-	(19)	(10)	(29)
Other changes in non-controlling interests	-	-	-	-	-	-	(71)	(71)
Total transactions with owners	**23**	**152**	**45**	**(7,106)**	**-**	**(6,886)**	**(81)**	**(6,967)**
Other movement								
Transfer from surplus to reserves	-	-	103	(103)	-	-	-	-
Total other movement	**-**	**-**	**103**	**(103)**	**-**	**-**	-	-
Balance, December 31, 2016	**39,308**	**29,591**	**2,711**	**98,602**	**(5,078)**	**165,134**	**2,550**	**167,684**
Comprehensive income								
Net income for the year	-	-	-	22,416	-	22,416	320	22,736
Other comprehensive loss for the year	-	-	-	-	(10)	(10)	(7)	(17)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**22,416**	**(10)**	**22,406**	**313**	**22,719**
Transactions with owners								
Executive stock plan amortization	28	180	31	-	-	239	-	239
Cash dividends	-	-	-	(7,091)	-	(7,091)	-	(7,091)
Total transactions with owners	**28**	**180**	**31**	**(7,091)**	**-**	**(6,852)**	**-**	**(6,852)**
Other movements								
Transfer from surplus to reserves	-	-	90	(90)	-	-	-	-
Transfer from reserves to surplus	-	-	(2,578)	2,578	-	-	-	-
Total other movements	**-**	**-**	**(2,488)**	**2,488**	**-**	**-**	**-**	**-**
Balance, December 31, 2017	**39,336**	**29,771**	**254**	**116,415**	**(5,088)**	**180,688**	**2,863**	**183,551**

(The notes on pages 1 to 111 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2017
(In Millions of Pesos)

	Parent (Note 19)					
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2015	**39,272**	**29,341**	**2,095**	**41,388**	**(4,501)**	**107,595**
Comprehensive income						
Net income for the year	-	-	-	12,063	-	12,063
Other comprehensive loss for the year	-	-	-	-	(378)	(378)
Total comprehensive income (loss) for the year	**-**	**-**	**-**	**12,063**	**(378)**	**11,685**
Transactions with owners						
Issuance of shares	-	1	-	-	-	1
Executive stock plan amortization	13	97	28	-	-	138
Cash dividends	-	-	-	(10,617)	-	(10,617)
Total transactions with owners	13	98	28	(10,617)	-	(10,478)
Other movements						
Transfer from surplus to reserves	-	-	432	(432)	-	-
Others	-	-	-	(1)	(1)	(2)
Total other movements	**-**	**-**	**432**	**(433)**	**(1)**	**(2)**
Balance, December 31, 2015	**39,285**	**29,439**	**2,555**	**42,401**	**(4,880)**	**108,800**
Comprehensive income						
Net income for the year	-	-	-	20,885	-	20,885
Other comprehensive income for the year	-	-	-	-	73	73
Total comprehensive income for the year	**-**	**-**	**-**	**20,885**	**73**	**20,958**
Transactions with owners						
Executive stock plan amortization	23	152	37	-	-	212
Cash dividends	-	-	-	(7,087)	-	(7,087)
Total transactions with owners	**23**	**152**	**37**	**(7,087)**	**-**	**(6,875)**
Other movements						
Transfer from surplus to reserves	-	-	103	(103)	-	-
Others	-	-	-	(1)	-	(1)
Total other movements	**-**	**-**	**-**	**(104)**	**-**	**(1)**
Balance, December 31, 2016	**39,308**	**29,591**	**2,695**	**56,095**	**(4,807)**	**122,882**
Comprehensive income						
Net income for the year	-	-	-	22,097	-	22,097
Other comprehensive income for the year	-	-	-	-	111	111
Total comprehensive income for the year	**-**	**-**	**-**	**22,097**	**111**	**22,208**
Transactions with owners						
Executive stock plan amortization	28	180	25	-	-	233
Cash dividends	-	-	-	(7,091)	-	(7,091)
Other movement						
Transfer from reserves to surplus	-	-	(2,578)	2,578	-	-
Total transactions with owners	**28**	**180**	**(2,553)**	**(4,513)**	**-**	**(6,858)**
Balance, December 31, 2017	**39,336**	**29,771**	**142**	**73,679**	**(4,696)**	**138,232**

(The notes on pages 1 to 111 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2017
(In Millions of Pesos)

		Consolidated			Parent		
	Notes	**2017**	2016	2015	**2017**	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES							
Income before income tax		**28,692**	26,810	23,513	**25,883**	24,223	16,094
Adjustments for:							
Impairment losses	8,10,15	**3,795**	4,800	3,976	**3,519**	2,930	2,298
Depreciation and amortization	11,12	**4,255**	3,878	3,661	**2,783**	2,541	2,347
Share in net income of associates	13	**(772)**	(814)	(627)	**-**	-	-
Dividend and other income	20,31	**(68)**	(56)	(1,554)	**(9,492)**	(6,083)	(1,895)
Share-based compensation	19	**31**	45	33	**25**	37	28
Interest income		**(68,053)**	(60,297)	(54,027)	**(49,783)**	(42,030)	(37,704)
Interest expense		**17,810**	15,935	13,658	**12,298**	10,022	8,498
Interest received		**66,816**	59,447	53,556	**48,753**	41,369	37,411
Interest paid		**(17,495)**	(15,716)	(13,509)	**(11,901)**	(9,920)	(8,470)
(Increase) decrease in:							
Interbank loans receivable and securities purchased under agreements to resell		**595**	1,316	650	**(353)**	2,381	820
Trading securities		**9,272**	(6,507)	7,746	**6,498**	(4,861)	1,152
Loans and advances, net		**(164,957)**	(171,462)	(76,140)	**(168,485)**	(159,101)	(45,371)
Assets held for sale		**313**	1,007	941	**447**	1,119	1,022
Assets attributable to insurance operations		**(944)**	(54)	(374)	**-**	-	-
Other resources		**(3,940)**	(2,269)	1,996	**(6,745)**	(2,056)	1,744
Increase (decrease) in:							
Deposit liabilities		**130,900**	155,601	99,487	**139,485**	151,093	80,704
Due to Bangko Sentral ng Pilipinas and other banks		**548**	239	(256)	**548**	239	(257)
Manager's checks and demand drafts outstanding		**(557)**	(729)	(46)	**(131)**	(800)	29
Accrued taxes, interest and other expenses		**(51)**	947	(218)	**(252)**	579	(104)
Liabilities attributable to insurance operations		**146**	(281)	1,088	**-**	-	-
Derivative financial instruments		**(311)**	1,432	(177)	**(306)**	1,433	(179)
Deferred credits and other liabilities		**7,550**	(3,122)	(496)	**6,037**	(2,692)	(139)
Net cash from (used in) operations		**13,575**	10,150	62,881	**(1,172)**	10,423	58,028
Income taxes paid		**(6,505)**	(5,645)	(5,853)	**(4,395)**	(3,974)	(4,371)
Net cash from (used in) operating activities		**7,070**	4,505	57,028	**(5,567)**	6,449	53,657

(forward)

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2017
(In Millions of Pesos)

		Consolidated			Parent		
	Notes	**2017**	2016	2015	**2017**	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES							
(Increase) decrease in:							
Available-for-sale securities, net	8	**1,702**	18,435	8,027	**9,907**	17,519	4,623
Held-to-maturity securities	9	**(8,731)**	(23,874)	(34,995)	**(9,180)**	(21,078)	(31,722)
Bank premises, furniture, fixtures and equipment, net	11	**(4,191)**	(4,109)	(1,503)	**(2,018)**	(2,543)	(406)
Investment properties, net		**-**	(35)	-	**-**	-	-
Investment in subsidiaries and associates, net		**745**	28	(1,983)	**(95)**	(880)	(1,342)
Assets attributable to insurance operations		**58**	(136)	589	**-**	-	-
Dividends received	20	**68**	56	48	**9,492**	6,084	389
Net cash (used in) from investing activities		**(10,349)**	(9,635)	(29,817)	**8,106**	(898)	(28,458)
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash dividends paid		**(7,089)**	(7,082)	(7,078)	**(7,089)**	(7,082)	(7,078)
Collection on stock subscriptions		**207**	175	112	**207**	175	112
Increase (decrease) in bills payable		**21,544**	41,032	(12,052)	**18,466**	39,431	(13,462)
Net cash from (used in) financing activities		**14,662**	34,125	(19,018)	**11,584**	32,524	(20,428)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**11,383**	28,995	8,193	**14,123**	38,075	4,771
CASH AND CASH EQUIVALENTS							
January 1	4	**310,746**	281,751	273,558	**266,456**	228,381	223,610
December 31		**322,129**	310,746	281,751	**280,579**	266,456	228,381

(The notes on pages 1 to 111 are an integral part of these financial statements.)

BANK OF THE PHILIPPINE ISLANDS

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2017 and 2016 AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2017

Note 1 - General Information

Bank of the Philippine Islands ("BPI" or the "Parent Bank") is a domestic commercial bank with an expanded banking license and has its registered office address, which is also its principal place of business, at BPI Building, Ayala Avenue corner Paseo de Roxas, Makati City. BPI and its subsidiaries as detailed in Note 31.3 (collectively referred to as the "BPI Group") offer a whole breadth of financial services that include corporate banking, consumer banking, investment banking, asset management, corporate finance, securities distribution, and insurance services. At December 31, 2017, the BPI Group has 17,047 employees (2016 - 15,201 employees) and operates 839 branches and 3,105 ATMs (2016 - 834 branches and 3,061 ATMs) to support its delivery of services. The BPI Group also serves its customers through alternative electronic banking channels such as telephone, mobile phone and the internet. The Parent Bank was registered with the Securities and Exchange Commission (SEC) on January 4, 1943. This license was extended for another 50 years on January 4, 1993.

The Parent Bank is considered a public company under Rule 3.1 of Implementing Rules and Regulations of the Securities Regulation Code, which, among others, defines a public company as any corporation with a class of equity securities listed on an exchange, or with assets of at least P50 million and having 200 or more shareholders, each of which holds at least 100 shares of its equity securities. Likewise, BPI is a listed entity with its shares traded in the Philippine Stock Exchange (PSE) since October 12, 1971. As at December 31, 2017, the Parent Bank has 11,488 common shareholders (2016 - 11,596).

These financial statements have been approved and authorized for issuance by the Board of Directors of the Parent Bank on January 31, 2018. There are no material events that occurred subsequent to January 31, 2018 until February 8, 2018.

Note 2 - Assets and Liabilities Attributable to Insurance Operations

Details of assets and liabilities attributable to insurance operations at December 31 are as follows:

	2017	2016
	(In Millions of Pesos)	
Assets		
Cash and cash equivalents (Note 4)	**316**	122
Insurance balances receivable, net	**5,849**	4,929
Investment securities		
Available-for-sale	**5,970**	6,020
Held-to-maturity	**2,674**	2,681
Investment in associates	**167**	-
Accounts receivable and other assets, net	**2,286**	2,424
Land, building and equipment	**144**	150
	17,406	16,326
Liabilities		
Reserves and other balances	**13,416**	13,118
Accounts payable, accrued expenses and other payables	**1,097**	1,249
	14,513	14,367

Details of income attributable to insurance operations before income tax and minority interest for the years ended December 31 are as follows:

	2017	2016	2015
		(In Millions of Pesos)	
Premiums earned and related income	**3,624**	3,356	3,071
Investment and other income	**864**	959	801
	4,488	4,315	3,872
Benefits, claims and maturities	**2,006**	2,025	1,655
Decrease in actuarial reserve liabilities	**(524)**	(462)	(159)
Management and general expenses	**791**	656	575
Commissions	**789**	726	681
Other expenses	**13**	10	11
	3,075	2,955	2,763
Income before income tax and minority interest	**1,413**	1,360	1,109

Note 3 - Business Segments

Operating segments are reported in accordance with the internal reporting provided to the chief executive officer, who is responsible for allocating resources to the reportable segments and assessing their performance. All operating segments used by the BPI Group meet the definition of a reportable segment under Philippine Financial Reporting Standards (PFRS) 8, Operating Segments.

The BPI Group has determined the operating segments based on the nature of the services provided and the different clients/markets served representing a strategic business unit.

The BPI Group's main operating business segments follow:

- Consumer banking - this segment addresses the individual and retail markets. It covers deposit taking and servicing, consumer lending such as home mortgages, auto loans and credit card finance as well as the remittance business. It includes the entire transaction processing and service delivery infrastructure consisting of the BPI and BPI Family Savings Bank network of branches and ATMs as well as phone and internet-based banking platforms.

- Corporate banking - this segment addresses both high-end corporations as well as middle market clients. It covers deposit taking and servicing, the entire lending, leasing, trade and cash management services provided by the BPI Group to corporate and institutional customers.

- Investment banking - this segment includes the various business groups operating in the investment markets and dealing in activities other than lending and deposit taking. These services cover corporate finance, securities distribution, asset management, trust and fiduciary services as well as proprietary trading and investment activities.

The performance of the Parent Bank is assessed as a single unit using financial information presented in the separate or Parent only financial statements. Likewise, the chief executive officer assesses the performance of its insurance business as a separate segment from its banking and allied financial undertakings. Information on the assets, liabilities and results of operations of the insurance business is fully disclosed in Note 2.

The BPI Group and the Parent Bank mainly derive revenue (more than 90%) within the Philippines, accordingly, no geographical segment is presented.

Revenues of the BPI Group's segment operations are derived from interest (net interest income). The segment report forms part of management's assessment of the performance of the segment, among other performance indicators.

There were no changes in the reportable segments during the year. Transactions between the business segments are carried out at arm's length. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the BPI Group's cost of capital.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue-sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis. Inter-segment revenues however, are deemed insignificant for financial reporting purposes, thus, not reported in segment analysis below.

The BPI Group's management reporting is based on a measure of operating profit comprising net interest income, impairment charge, fees and commission income, other income and operating expenses.

Segment assets and liabilities comprise majority of operating assets and liabilities, measured in a manner consistent with that shown in the statement of condition, but exclude items such as taxation.

The segment assets, liabilities and results of operations of the reportable segments of the BPI Group as at and for the years ended December 31 are as follows:

	2017			
	Consumer banking	**Corporate banking**	**Investment banking**	**Total per management reporting**
		(In Millions of Pesos)		
Net interest income	28,083	10,195	13,384	**51,662**
Impairment charge	2,085	1,710	5	**3,800**
Net interest income after impairment charge	25,998	8,485	13,379	**47,862**
Fees and commission income	6,080	1,062	1,456	**8,598**
Other income	6,992	1,676	5,611	**14,279**
Gross receipts tax	(924)	(81)	(373)	**(1,378)**
Other income, net	12,148	2,657	6,694	**21,499**
Compensation and fringe benefits	9,311	1,335	1,020	**11,666**
Occupancy and equipment - related expenses	4,242	1,210	125	**5,577**
Other operating expenses	13,512	2,706	1,652	**17,870**
Total operating expenses	27,065	5,251	2,797	**35,113**
Operating profit	11,081	5,891	17,276	**34,248**
Share in net income of associates				**772**
Provision for income tax				**5,956**
Total assets	476,749	1,007,058	389,085	**1,872,892**
Total liabilities	1,063,069	550,367	85,946	**1,699,382**

	2016			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
	(In Millions of Pesos)			
Net interest income	29,225	9,724	6,374	45,323
Impairment charge	3,072	1,692	7	4,771
Net interest income after impairment charge	26,153	8,032	6,367	40,552
Fees and commission income	5,986	851	1,326	8,163
Other income	5,072	1,667	9,423	16,162
Gross receipts tax	(724)	(72)	(630)	(1,426)
Other income, net	10,334	2,446	10,119	22,899
Compensation and fringe benefits	9,133	1,279	1,035	11,447
Occupancy and equipment - related expenses	4,146	1,135	55	5,336
Other operating expenses	12,056	1,535	1,477	15,068
Total operating expenses	25,335	3,949	2,567	31,851
Operating profit	11,152	6,529	13,919	31,600
Share in net income of associates				814
Provision for income tax				4,535
Total assets	536,231	770,413	386,550	1,693,194
Total liabilities	1,459,741	14,587	61,326	1,535,654

	2015			
	Consumer banking	Corporate banking	Investment banking	Total per management reporting
	(In Millions of Pesos)			
Net interest income	22,487	5,982	12,091	40,560
Impairment charge	2,552	1,195	72	3,819
Net interest income after impairment charge	19,935	4,787	12,019	36,741
Fees and commission income	6,026	582	1,135	7,743
Other income	6,657	1,616	5,330	13,603
Gross receipts tax	(834)	(58)	(488)	(1,380)
Other income, net	11,849	2,140	5,977	19,966
Compensation and fringe benefits	8,733	1,116	905	10,754
Occupancy and equipment - related expenses	4,435	1,170	80	5,685
Other operating expenses	9,826	2,239	1,312	13,377
Total operating expenses	22,994	4,525	2,297	29,816
Operating profit	8,790	2,402	15,699	26,891
Share in net income of associates				627
Provision for income tax				5,138
Total assets	506,593	634,840	348,058	1,489,491
Total liabilities	1,304,298	14,163	23,578	1,342,039

Reconciliation of segment results to consolidated results of operations:

	2017		
	Total per management reporting	**Consolidation adjustments/ Others**	**Total per consolidated financial statements**
	(In Millions of Pesos)		
Net interest income	**51,662**	(3,623)	**48,039**
Impairment charge	**3,800**	(5)	**3,795**
Net interest income after impairment charge	**47,862**	(3,618)	**44,244**
Fees and commission income	**8,598**	(258)	**8,340**
Other income	**14,279**	1,856	**16,135**
Gross receipts tax	**(1,378)**	(116)	**(1,494)**
Other income, net	**21,499**	1,482	**22,981**
Compensation and fringe benefits	**11,666**	2,231	**13,897**
Occupancy and equipment - related expenses	**5,577**	5,767	**11,344**
Other operating expenses	**17,870**	(4,578)	**13,292**
Total operating expenses	**35,113**	3,420	**38,533**
Operating profit	**34,248**	(5,556)	**28,692**
Share in net income of associates (included in Other income)	**772**	-	**772**
Provision for income tax	**5,956**	-	**5,956**
Total assets	**1,872,892**	31,013	**1,903,905**
Total liabilities	**1,699,382**	20,972	**1,720,354**

	2016		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	45,323	(2,946)	42,377
Impairment charge	4,771	29	4,800
Net interest income after impairment charge	40,552	(2,975)	37,577
Fees and commission income	8,163	(165)	7,998
Other income	16,162	1,504	17,666
Gross receipts tax	(1,426)	(64)	(1,490)
Other income, net	22,899	1,275	24,174
Compensation and fringe benefits	11,447	2,016	13,463
Occupancy and equipment - related expenses	5,336	4,820	10,156
Other operating expenses	15,068	(3,746)	11,322
Total operating expenses	31,851	3,090	34,941
Operating profit	31,600	(4,790)	26,810
Share in net income of associates (included in Other income)	814	-	814
Provision for income tax	4,535	-	4,535
Total assets	1,693,194	32,502	1,725,696
Total liabilities	1,535,654	22,358	1,558,012

	2015		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Net interest income	40,560	(1,919)	38,641
Impairment charge	3,819	157	3,976
Net interest income after impairment charge	36,741	(2,076)	34,665
Fees and commission income	7,743	(213)	7,530
Other income	13,603	1,012	14,615
Gross receipts tax	(1,380)	(47)	(1,427)
Other income, net	19,966	752	20,718
Compensation and fringe benefits	10,754	1,709	12,463
Occupancy and equipment - related expenses	5,685	3,509	9,194
Other operating expenses	13,377	(3,164)	10,213
Total operating expenses	29,816	2,054	31,870
Operating profit	26,891	(3,378)	23,513
Share in net income of associates (included in Other income)	627	-	627
Provision for income tax	5,138	-	5,138
Total assets	1,489,491	26,865	1,516,356
Total liabilities	1,342,039	21,587	1,363,626

"Consolidation adjustments/Others" pertain to balances of insurance operations, support units and inter-segment elimination in accordance with the BPI Group's internal reporting.

Note 4 - Cash and Cash Equivalents

The account at December 31 consists of:

	Consolidated		**Parent**	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Cash and other cash items	**35,132**	35,692	**34,160**	34,855
Due from Bangko Sentral ng Pilipinas (BSP)	**255,948**	239,514	**227,122**	203,743
Due from other banks	**14,406**	23,037	**10,894**	20,558
Interbank loans receivable and securities purchased under agreements to resell (Note 5)	**16,327**	12,381	**8,403**	7,300
Cash and cash equivalents attributable to insurance operations (Note 2)	**316**	122	**-**	-
	322,129	310,746	**280,579**	266,456

Note 5 - Interbank Loans Receivable and Securities Purchased under Agreements to Resell (SPAR)

The account at December 31 consists of transactions with:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
BSP	**7,297**	4,576	**-**	-
Other banks	**11,268**	10,651	**10,494**	9,042
	18,565	15,227	**10,494**	9,042
Accrued interest receivable	**21**	9	**10**	7
	18,586	15,236	**10,504**	9,049

As at December 31, 2017, Interbank loans receivable and SPAR maturing within 90 days from the date of acquisition amounting to P16,327 million (2016 - P12,381 million) for BPI Group and P8,403 million (2016 - P7,300 million) for the Parent Bank are classified as cash equivalents in the statement of cash flows (Note 4).

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Current	**18,123**	14,721	**10,041**	8,688
Non-current	**463**	515	**463**	361
	18,586	15,236	**10,504**	9,049

Government bonds are pledged by the BSP as collateral under reverse repurchase agreements. The face value of securities pledged is equivalent to the total balance of outstanding placements as at reporting date. All collateral agreements mature within 12 months.

The range of average interest rates (%) of interbank loans receivable for the years ended December 31 follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
Peso-denominated	**2.96 - 3.07**	3.32 - 4.14	**3.04 - 3.35**	3.29 - 4.41
US dollar-denominated	**0.73 - 1.04**	0.13 - 1.76	**0.73 - 1.04**	0.13 - 1.76

Note 6 - Derivative Financial Instruments

Derivatives held by the BPI Group for non-hedging purposes mainly consist of the following:

- Foreign exchange forwards represent commitments to purchase or sell one currency against another at an agreed forward rate on a specified date in the future. Settlement can be made via full delivery of forward proceeds or via payment of the difference (non-deliverable forward) between the contracted forward rate and the prevailing market rate on maturity.

- Foreign exchange swaps refer to spot purchase or sale of one currency against another with an agreement to sell or purchase the same currency at an agreed forward rate in the future.

- Interest rate swaps refer to agreement to exchange fixed rate versus floating interest payments (or vice versa) on a reference notional amount over an agreed period of time.

- Cross currency swaps refer to spot exchange of notional amounts on two currencies at a given exchange rate and with an agreement to re-exchange the same notional amounts at a specified maturity date based on the original exchange rate. Parties on the transaction agree to pay a stated interest rate on the borrowed notional amount and receive a stated interest rate on the lent notional amount, payable or receivable periodically over the term of the transaction.

- Credit-linked notes (CLNs) are structured notes whose value is derived from the creditworthiness of an underlying reference entity. A CLN may be viewed as a bundled note that consists of a bond and a credit default swap, allowing the issuer to transfer the credit risk of a reference entity to the investor during the reference period.

The BPI Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the BPI Group assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the statement of condition. They do not necessarily represent the amounts of future cash flows involved or the current fair values of the instruments and therefore are not indicative of the BPI Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand and the extent at which the instruments can become favorable or unfavorable in fair values can fluctuate significantly from time to time.

The contract/notional amount and fair values of derivative instruments held for trading as at December 31 are set out below:

Consolidated

	Contract/ Notional Amount		Fair Values			
			Assets		Liabilities	
	2017	2016	**2017**	2016	**2017**	2016
			(In Millions of Pesos)			
Free-standing derivatives						
Foreign exchange derivatives						
Currency swaps	**153,784**	101,378	**2,312**	926	**2,117**	826
Currency forwards	**179,999**	103,040	**1,153**	963	**1,290**	1,037
Interest rate swaps	**206,493**	148,432	**1,478**	1,028	**1,377**	1,243
Credit default swaps	**499**	994	**-**	-	**4**	6
Embedded credit derivatives	**8,688**	8,651	**38**	76	**-**	-
	549,463	362,495	**4,981**	2,993	**4,788**	3,112

Parent

	Contract/ Notional Amount		Fair Values			
			Assets		Liabilities	
	2017	2016	**2017**	2016	**2017**	2016
			(In Millions of Pesos)			
Free-standing derivatives						
Foreign exchange derivatives						
Currency swaps	**153,784**	101,378	**2,312**	926	**2,117**	826
Currency forwards	**179,999**	103,040	**1,153**	963	**1,290**	1,037
Interest rate swaps	**206,493**	148,432	**1,478**	1,028	**1,377**	1,243
Credit default swaps	**499**	994	**-**	-	**4**	6
Embedded credit derivatives	**8,688**	8,651	**32**	76	**-**	-
	549,463	362,495	**4,975**	2,993	**4,788**	3,112

Note 7 - Trading Securities

The account at December 31 consists of:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Debt securities				
Government securities	**4,943**	9,162	**3,790**	5,372
Commercial papers of private companies	**29**	5,286	**-**	4,914
	4,972	14,448	**3,790**	10,286
Accrued interest receivable	**30**	31	**16**	28
	5,002	14,479	**3,806**	10,314
Equity securities - listed	**330**	124	**-**	-
	5,332	14,603	**3,806**	10,314

All trading securities are classified as current.

Note 8 - Available-for-Sale Securities

The account at December 31 consists of:

	Consolidated		Parent	
	2017	2016	**2017**	2016
Debt securities	(In Millions of Pesos)			
Government securities	**14,406**	2,205	**5,420**	1,965
Commercial papers of private companies	**4,742**	19,688	**4,193**	17,259
	19,148	21,893	**9,613**	19,224
Accrued interest receivable	**70**	69	**56**	63
	19,218	21,962	**9,669**	19,287
Equity securities				
Listed	**3,755**	2,144	**447**	399
Unlisted	**661**	516	**232**	126
	4,416	2,660	**679**	525
	23,634	24,622	**10,348**	19,812
Allowance for impairment	**(321)**	(321)	**(209)**	(209)
	23,313	24,301	**10,139**	19,603

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Current	**13,288**	13,507	**1,991**	12,836
Non-current	**10,346**	11,115	**8,357**	6,976
	23,634	24,622	**10,348**	19,812

The reconciliation of the allowance for impairment at December 31 is summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**321**	330	**209**	218
Reversal of impairment losses	**-**	(9)	**-**	(9)
At December 31	**321**	321	**209**	209

The range of average interest rates (%) of available-for-sale debt securities for the years ended December 31 follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
Peso-denominated	**0.53 - 0.85**	0.98 - 1.42	**1.15 - 2.28**	2.14 - 2.60
Foreign currency-denominated	**2.10 - 2.26**	1.03 - 1.53	**2.10 - 2.31**	1.00 - 1.52

The movement in available-for-sale securities is summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**24,301**	42,287	**19,603**	36,685
Additions	**40,703**	51,831	**19,774**	50,237
Disposals and maturities	**(42,362)**	(70,231)	**(29,678)**	(67,401)
Amortization of premium, net	**(22)**	(154)	**(19)**	(81)
Fair value adjustments	**309**	517	**135**	124
Exchange differences	**383**	135	**331**	93
Net change in allowance for impairment	**-**	9	**-**	9
Net change in accrued interest receivable	**1**	(93)	**(7)**	(63)
At December 31	**23,313**	24,301	**10,139**	19,603

On various dates, the BPI Group reclassified certain available-for-sale securities to held-to-maturity category (Note 9). The reclassifications were triggered by management's change in intention over the securities in light of volatile market prices due to rising interest rates. Fair value losses recognized in other comprehensive income at the dates of reclassifications are amortized over the remaining lives of the instruments using the effective interest rate method. The relevant balances relating to the reclassified available-for-sale securities are summarized as follows:

Date of reclassification	Amount reclassified	Fair value loss at reclassification date	Unamortized fair value loss	
			2017	2016
		(In Millions of Pesos)		
November 11, 2015	P6.9 billion	505	**468**	486
January 9, 2014	P63.5 billion	4,534	**3,064**	3,471
November 12, 2008	P9.2 billion	1,757	**13**	28

The net change in fair value reserve that would have been recognized in other comprehensive income if the available-for-sale securities had not been reclassified amounts to P759 million net fair value loss for the year ended December 31, 2017 (2016 - net fair value loss of P2,801 million). There are no other gains or losses recognized in that statement of income apart from the amortization of fair value loss on securities.

Note 9 - Held-to-Maturity Securities

The account at December 31 consists of:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Government securities	**206,098**	196,210	**186,816**	176,528
Commercial papers of private companies	**67,584**	68,741	**65,138**	66,247
	273,682	264,951	**251,954**	242,775
Accrued interest receivable	**3,790**	3,532	**3,428**	3,146
	277,472	268,483	**255,382**	245,921

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Current	**13,182**	30,722	**11,849**	29,235
Non-current	**264,290**	237,761	**243,533**	216,686
	277,472	268,483	**255,382**	245,921

The range of average interest rates (%) of held-to-maturity securities for the years ended December 31 follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
Peso-denominated	**3.46 - 3.65**	3.68 - 3.88	**3.42 - 3.61**	3.65 - 3.85
Foreign currency-denominated	**2.78 - 2.93**	3.10 - 3.61	**2.80 - 2.96**	3.15 - 3.73

The movements in held-to-maturity securities are summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**268,483**	244,809	**245,921**	225,077
Additions	**53,491**	116,942	**49,659**	113,151
Maturities/disposals	**(42,021)**	(90,396)	**(38,056)**	(89,564)
Amortization of premium, net	**(2,789)**	(3,012)	**(2,518)**	(2,894)
Exchange differences	**50**	341	**94**	386
Net change in accrued interest receivable	**258**	(201)	**282**	(235)
At December 31	**277,472**	268,483	**255,382**	245,921

In June 2016, the BPI Group sold certain held-to-maturity securities aggregating P65.4 billion. The sale was triggered by the need to strengthen the capital position of the BPI Group in view of more stringent capital requirements by the BSP.

Note 10 - Loans and Advances

Major classifications of this account at December 31 are as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
Corporate entities	(In Millions of Pesos)			
Large corporate customers	**900,912**	760,558	**878,934**	743,926
Small and medium enterprise	**85,324**	83,516	**56,358**	44,672
Retail customers				
Credit cards	**49,142**	39,995	**47,829**	39,137
Real estate mortgages	**115,772**	116,079	**22**	83
Auto loans	**53,343**	53,485	**-**	-
Others	**17,324**	4,545	**16,723**	4,407
	1,221,817	1,058,178	**999,866**	832,225
Accrued interest receivable	**5,458**	4,475	**4,070**	3,321
Unearned discount/income	**(4,274)**	(3,257)	**(3,154)**	(2,273)
	1,223,001	1,059,396	**1,000,782**	833,273
Allowance for impairment	**(20,663)**	(18,676)	**(13,913)**	(11,728)
	1,202,338	1,040,720	**986,869**	821,545

The Parent balances above include amounts due from related parties (Note 27). The Consolidated balances above also include amounts due from related parties (Note 27) except for accounts considered as intercompany transactions that are eliminated accordingly.

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Current	**521,688**	454,072	**489,240**	426,403
Non-current	**701,313**	605,324	**511,542**	406,870
	1,223,001	1,059,396	**1,000,782**	833,273

The current loan and advances balances are those which are expected to be realized within 12 months after reporting date while the non-current balances pertain to those expected to be collected beyond 12 months after reporting date.

The amount of loans and advances above includes finance lease receivables as follows:

	Consolidated	
	2017	2016
	(In Millions of Pesos)	
Total future minimum lease collections	**9,102**	7,982
Unearned finance income	**(1,003)**	(910)
Present value of future minimum lease collections	**8,099**	7,072
Allowance for impairment	**(251)**	(213)
	7,848	6,859

Details of future minimum lease collections follow:

	Consolidated	
	2017	2016
	(In Millions of Pesos)	
Not later than one year	**3,371**	2,944
Later than one year but not later than five years	**5,323**	5,015
More than five years	**408**	23
	9,102	7,982
Unearned finance income	**(1,003)**	(910)
	8,099	7,072

The BPI Group, through BPI Century Tokyo Lease and Finance Corporation, mainly leases out vehicle and equipment under various finance lease agreements which typically run for a non-cancellable period of two to five years. The contracts generally include an option to purchase the leased asset after the lease period at a price that generally lies between 5% to 20% of the fair value of the asset at the inception of the lease. In the event that the residual value of the leased asset exceeds the guaranteed deposit liability at the end of the lease term, the BPI Group receives additional payment from the lessee prior to the transfer of the leased asset. On the other hand, the BPI Group sets up a liability to the lessee for any excess of the guaranteed deposit liability over residual value of the leased asset.

The Parent Bank has no finance lease receivables as at December 31, 2017 and 2016.

There is no contingent rent recognized as income during the years ended December 31, 2017 and 2016.

Details of the loans and advances portfolio of the BPI Group at December 31 are as follows:

1) As to industry/economic sector (in %)

	Consolidated		Parent	
	2017	2016	**2017**	2016
Real estate, renting and other related activities	**22.59**	23.06	**15.46**	15.25
Manufacturing	**16.23**	15.93	**19.41**	19.48
Wholesale and retail trade	**11.50**	11.53	**12.96**	12.61
Consumer	**8.78**	9.21	**5.30**	5.08
Financial institutions	**7.56**	9.48	**9.11**	11.85
Agriculture and forestry	**3.31**	4.03	**3.98**	5.04
Others	**30.03**	26.76	**33.78**	30.69
	100.00	100.00	**100.00**	100.00

2) As to collateral

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	**195,432**	241,363	**79,768**	103,191
Chattel mortgage	**64,420**	61,484	**168**	178
Others	**313,441**	334,039	**305,296**	324,056
	573,293	636,886	**385,232**	427,425
Unsecured loans	**644,250**	418,035	**611,480**	402,527
	1,217,543	1,054,921	**996,712**	829,952

Other collaterals include hold-out deposits, mortgage trust indentures, government and corporate securities and bonds, quedan/warehouse receipts, standby letters of credit, trust receipts, and deposit substitutes.

Loans and advances aggregating P280 million (2016 - P312 million) and P280 million (2016 - P280 million) are used as security for bills payable (Note 17) of the BPI Group and the Parent Bank, respectively.

The range of average interest rates (%) of loans and advances for the years ended December 31 follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
Commercial loans				
Peso-denominated loans	**3.97 - 4.19**	4.11 - 4.16	3.76 - 4.02	3.88 - 3.94
Foreign currency-denominated loans	**2.94 - 3.36**	2.66 - 2.84	2.94 - 3.36	2.66 - 2.84
Real estate mortgages	**6.60 - 7.09**	6.75 - 6.97	6.67 - 8.00	5.72 - 8.00
Auto loans	**9.27 - 9.41**	9.51 - 9.68	-	-

Non-performing accounts (over 30 days past due) of the BPI Group and the Parent Bank, net of specific allowance for credit losses, following BSP Circular 772 are as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Non-performing accounts (NPL 30)	**16,255**	15,792	**8,038**	7,654
Specific allowance for credit losses	**10,479**	10,070	**5,395**	5,033
Net NPL 30	**5,776**	5,722	**2,643**	2,621

Reconciliation of allowance for impairment by class at December 31 follows:

Consolidated

	2017						
	Corporate entities		Retail customers				
	Large corporate customers	Small and medium enterprises	Credit cards	Real estate mortgages	Auto loans	Others	**Total**
			(In Millions of Pesos)				
At January 1	7,281	3,687	2,583	1,838	2,844	443	**18,676**
Provision (reversal) for impairment losses	1,820	(55)	1,912	102	350	188	**4,317**
Write-off/disposal	(68)	-	(1,275)	-	(168)	(146)	**(1,657)**
Unwind of discount	(83)	(29)	-	-	-	-	**(112)**
Transfers	(21)	(119)	-	(54)	(252)	(115)	**(561)**
At December 31	**8,929**	**3,484**	**3,220**	**1,886**	**2,774**	**370**	**20,663**

	2016						
	Corporate entities		Retail customers				
	Large corporate customers	Small and medium enterprises	Credit cards	Real estate mortgages	Auto loans	Others	Total
			(In Millions of Pesos)				
At January 1	6,406	3,039	2,751	1,791	2,010	365	16,362
Provision for impairment losses	1,066	940	1,448	143	1,185	173	4,955
Write-off/disposal	(168)	(168)	(1,618)	(28)	(177)	(94)	(2,253)
Unwind of discount	(134)	(56)	-	-	-	-	(190)
Transfers	111	(68)	2	(68)	(174)	(1)	(198)
At December 31	7,281	3,687	2,583	1,838	2,844	443	18,676

Parent

	2017						
	Corporate entities		Retail customers				
	Large corporate customers	Small and medium enterprises	Credit cards	Real estate mortgages	Auto loans	Others	**Total**
				(In Millions of Pesos)			
At January 1	6,433	2,457	2,523	13	-	302	**11,728**
Provision for impairment losses	1,809	87	1,837	(1)	-	148	**3,880**
Write-off/disposal	(64)	-	(1,253)	-	-	(143)	**(1,460)**
Unwind of discount	(83)	(29)	-	-	-		**(112)**
Transfers	7	(128)	-	-	-	(2)	**(123)**
At December 31	**8,102**	**2,387**	**3,107**	**12**	**-**	**305**	**13,913**

	2016						
	Corporate entities		Retail customers				
	Large corporate customers	Small and medium enterprises	Credit cards	Real estate mortgages	Auto loans	Others	Total
				(In Millions of Pesos)			
At January 1	5,406	2,228	2,711	24	-	255	10,624
Provision for impairment losses	1,267	417	1,391	17	-	142	3,234
Write-off/disposal	(159)	(85)	(1,581)	(18)	-	(94)	(1,937)
Unwind of discount	(134)	(56)	-	-	-	-	(190)
Transfers	53	(47)	2	(10)	-	(1)	(3)
At December 31	6,433	2,457	2,523	13	-	302	11,728

Transfers pertain to reclassification of allowance for impairment between accounts.

Note 11 - Bank Premises, Furniture, Fixtures and Equipment

The account at December 31 consists of:

Consolidated

	2017				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2017	3,075	6,910	14,357	4,852	**29,194**
Additions	-	1,354	1,770	2,387	**5,511**
Disposals	(65)	(189)	(848)	(1,734)	**(2,836)**
Amortization	-	(284)	-	-	**(284)**
Transfers (Note 12)	13	1,798	(2)	-	**1,809**
December 31, 2017	**3,023**	**9,589**	**15,277**	**5,505**	**33,394**
Accumulated depreciation					
January 1, 2017	-	3,110	10,687	1,588	**15,385**
Depreciation	-	309	1,600	1,125	**3,034**
Disposals	-	(111)	(537)	(971)	**(1,619)**
Transfers (Note 12)	-	1,540	(2)	-	**1,538**
December 31, 2017	**-**	**4,848**	**11,748**	**1,742**	**18,338**
Net book value, December 31, 2017	**3,023**	**4,741**	**3,529**	**3,763**	**15,056**

	2016				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2016	3,070	6,564	13,961	4,721	28,316
Additions	3	572	2,540	2,099	5,214
Disposals	(8)	(6)	(2,144)	(1,968)	(4,126)
Amortization	-	(185)	-	-	(185)
Transfers	10	(35)	-	-	(25)
December 31, 2016	3,075	6,910	14,357	4,852	29,194
Accumulated depreciation					
January 1, 2016	-	2,784	10,994	1,712	15,490
Depreciation	-	327	1,552	1,063	2,942
Disposals/transfers	-	(1)	(1,859)	(1,187)	(3,047)
December 31, 2016	-	3,110	10,687	1,588	15,385
Net book value, December 31, 2016	3,075	3,800	3,670	3,264	13,809

Parent

	2017			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2017	2,660	6,047	13,156	**21,863**
Additions	-	1,023	1,452	**2,475**
Disposals	-	(78)	(757)	**(835)**
Amortization	-	(233)	-	**(233)**
Transfers (Note 12)	-	1,823	-	**1,823**
December 31, 2017	**2,660**	**8,582**	**13,851**	**25,093**
Accumulated depreciation				
January 1, 2017	-	2,722	9,746	**12,468**
Depreciation	-	270	1,437	**1,707**
Disposals	-	(41)	(487)	**(528)**
Transfers (Note 12)	-	1,541	-	**1,541**
December 31, 2017	**-**	**4,492**	**10,696**	**15,188**
Net book value, December 31, 2017	**2,660**	**4,090**	**3,155**	**9,905**

	2016			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2016	2,657	5,758	12,866	21,281
Additions	-	458	2,307	2,765
Disposals	(7)	(5)	(2,017)	(2,029)
Amortization	-	(129)	-	(129)
Transfers	10	(35)	-	(25)
December 31, 2016	2,660	6,047	13,156	21,863
Accumulated depreciation				
January 1, 2016	-	2,440	10,126	12,566
Depreciation	-	285	1,413	1,698
Disposals/transfers	-	(3)	(1,793)	(1,796)
December 31, 2016	-	2,722	9,746	12,468
Net book value, December 31, 2016	2,660	3,325	3,410	9,395

Depreciation is included in Occupancy and equipment-related expenses in the statement of income.

Note 12 - Investment Properties

The account at December 31 consists of:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Land	**97**	97	**97**	97
Buildings	**90**	2,067	**90**	2,067
	187	2,164	**187**	2,164
Accumulated depreciation	**(50)**	(1,493)	**(50)**	(1,493)
Allowance for impairment	**(2)**	(2)	**(2)**	(2)
	135	669	**135**	669

The movement in investment properties is summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**669**	733	**669**	733
Transfers	**(434)**	35	**(434)**	35
Depreciation	**(100)**	(99)	**(100)**	(99)
At December 31	**135**	669	**135**	669

In 2017, the BPI Group reclassified one of its investment properties to bank premises with a carrying amount of P434 million as the Group started to use the property as branch office for its operations. There is no change in the carrying amount of the property transferred. This is a non-cash item for cash flow purposes.

Investment properties have aggregate fair value of P1,281 million as at December 31, 2017 (2016 - P3,090 million). The fair value of investment property is determined on the basis of appraisal made by an internal or an external appraiser duly certified by the Facility Services Group. Valuation method employed by the appraisers mainly includes the market data approach.

Depreciation is included in Occupancy and equipment-related expenses in the statement of income.

All investment properties generate rental income. Rental income from investment properties recognized in the statement of income, as part of Other operating income, amounts to P16 million for the year ended December 31, 2017 (2016 - P243 million; 2015 - P262 million). Direct operating expenses (including repairs and maintenance) arising from these investment properties amount to P12 million for the year ended December 31, 2017 (2016 - P190 million; 2015 - P165 million).

Note 13 - Investments in Subsidiaries and Associates

This account at December 31 consists of investments in shares of stock:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Carrying value (net of impairment)				
Investments at equity method	**6,386**	6,818	**-**	-
Investments at cost method	**-**	-	**9,043**	8,948
	6,386	6,818	**9,043**	8,948

Investments in associates carried at equity method in the consolidated statement of condition follow:

Name of entity	Place of business/ country of incorporation	Percentage of ownership interest (%) 2017	2016	Acquisition cost 2017	2016	Measurement method
			(In Millions of Pesos)			
BPI-Philamlife Assurance Corporation	Philippines	**47.67**	47.67	**371**	371	Equity
AF Payments, Inc.	Philippines	**20.00**	20.00	**690**	590	Equity
National Reinsurance Corporation*	Philippines	**13.69**	13.69	**204**	204	Equity
Beacon Property Ventures, Inc.	Philippines	**20.00**	20.00	**72**	80	Equity
CityTrust Realty Corporation	Philippines	**40.00**	40.00	**2**	2	Equity
Global Payments-Asia Pacific Philippines Incorporated	Philippines	**49.00**	49.00	**1,342**	1,342	Equity
				2,681	2,589	

**BPI Group has significant influence due to its representation on the governing body of National Reinsurance Corporation*

For BPI-Philamlife Assurance Corporation, BPI acts as distribution channel for the former's insurance products. In 2014, the distribution agreement with Philamlife has been extended for another twenty years or until November 27, 2039 unless earlier terminated.

Details and movements of investments in associates carried at equity method in the consolidated financial statements follow:

	2017	2016
	(In Millions of Pesos)	
Acquisition cost		
At January 1	**2,589**	2,479
Additions	**100**	130
Return of capital	**(8)**	(20)
At December 31	**2,681**	2,589
Accumulated equity in net income		
At January 1	**2,989**	2,651
Share in net income for the year	**772**	814
Dividends received	**(522)**	(476)
At December 31	**3,239**	2,989
Accumulated share in other comprehensive income		
At January 1	**1,240**	1,323
Share in other comprehensive loss for the year	**(774)**	(83)
At December 31	**466**	1,240
	6,386	6,818

As the associates are not considered to be individually material to impact the financial statements of the BPI Group, the unaudited financial information of associates as at and for the years ended December 31 have been aggregated as follows:

	2017	2016
	(In Millions of Pesos)	
Total assets	**125,471**	109,662
Total liabilities	**107,209**	90,386
Total revenues	**33,538**	23,231
Total net income	**1,486**	1,338

The details of equity investments at cost method in the separate financial statements of the Parent Bank follow:

	Acquisition cost		Allowance for impairment		Carrying value	
	2017	2016	**2017**	2016	**2017**	2016
			(In Millions of Pesos)			
Subsidiaries						
BPI Europe Plc.	**1,910**	1,910	**-**	-	**1,910**	1,910
BPI Direct BanKO, Inc., A Savings Bank (formerly BPI Direct Savings Bank, Inc.)	**1,009**	1,009	**-**	-	**1,009**	1,009
Ayala Plans, Inc.	**863**	863	**-**	-	**863**	863
BPI Capital Corporation	**623**	623	**-**	-	**623**	623
BPI Asset Management and Trust Corporation	**600**	600	**-**	-	**600**	600
BPI Payments Holdings Inc. (formerly BPI Card Finance Corp.)	**443**	340	**-**	-	**443**	340
BPI Century Tokyo Lease and Finance Corporation	**329**	329	**-**	-	**329**	329
FGU Insurance Corporation	**303**	303	**-**	-	**303**	303
BPI Forex Corp.	**195**	195	**-**	-	**195**	195
BPI Express Remittance Corp. USA	**191**	191	**-**	-	**191**	191
BPI Family Savings Bank, Inc.	**150**	150	**-**	-	**150**	150
First Far-East Development Corporation	**91**	91	**-**	-	**91**	91
Green Enterprises S.R.L. in Liquidation	**54**	54	**-**	-	**54**	54
FEB Stock Brokers, Inc.	**25**	25	**-**	-	**25**	25
BPI Computer Systems Corp.	**23**	23	**-**	-	**23**	23
BPI Express Remittance Spain S.A	**26**	26	**-**	-	**26**	26
Others	**321**	321	**(104)**	(104)	**217**	217
Associates	**1,991**	1,999	**-**	-	**1,991**	1,999
	9,147	9,052	**(104)**	(104)	**9,043**	8,948

On March 29, 2017 and August 30, 2016, the Parent Bank made an additional capital infusion to BPI Payments Holdings Inc. (formerly BPI Card Finance Corp.) amounting to P103 million and P290 million, respectively.

Effective September 20, 2016, the Parent Bank has assumed full ownership of BPI Globe BanKO, Inc., from prior 40% ownership, after acquiring the combined 60% stake held by two other shareholders for a consideration of P29 million. Refer to Note 31.3 for details.

On October 6, 2016, BPI Asset Management and Trust Corporation, with an initial paid-in capital of P600 million, was incorporated with the SEC as a wholly-owned subsidiary of the Parent Bank. BPI Asset Management and Trust Corporation has officially commenced operations on February 1, 2017. The primary business purpose of BPI Asset Management and Trust Corporation is to carry and engage in the business of trust, other fiduciary activities and investment management activities.

There is no individual subsidiary with non-controlling interest considered material to the Parent Bank.

Note 14 - Deferred Income Taxes

The significant components of deferred income tax assets and liabilities at December 31 are as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Deferred income tax assets				
Allowance for impairment	**7,286**	6,843	**4,736**	4,173
Pension liability	**738**	796	**683**	597
Bonus accruals	**328**	301	**254**	245
Net operating loss carry over (NOLCO)	**129**	63	**-**	-
Fair value loss on securities	**-**	48	**-**	48
Minimum corporate income tax (MCIT)	**-**	1	**-**	-
Others	**160**	35	**34**	32
Total deferred income tax assets	**8,641**	8,087	**5,707**	5,095
Deferred income tax liabilities				
Revaluation gain on properties	**(507)**	(519)	**(507)**	(519)
Fair value gain on securities	**(17)**	-	**-**	-
Others	**(26)**	(25)	**(20)**	(5)
Total deferred income tax liabilities	**(550)**	(544)	**(527)**	(524)
Deferred income tax assets, net	**8,091**	7,543	**5,180**	4,571

The movements in the deferred income tax account are summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**7,543**	6,433	**4,571**	3,936
Amounts credited to statement of income	**462**	884	**462**	439
Amounts credited to other comprehensive income	**86**	226	**147**	196
At December 31	**8,091**	7,543	**5,180**	4,571

The deferred tax credit charge in the statement of income comprises the following temporary differences:

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
	(In Millions of Pesos)					
Allowance for impairment	**(443)**	(377)	(670)	**(563)**	(57)	(322)
Bonus accruals	**(27)**	(301)	-	**(9)**	(245)	-
Fair value (loss) gain on securities	**-**	(142)	81	**118**	(142)	81
Pension	**174**	(52)	40	**(65)**	36	31
NOLCO	**(66)**	-	-	**-**	-	-
Others	**(100)**	(12)	(49)	**57**	(31)	(28)
	(462)	(884)	(598)	**(462)**	(439)	(238)

The outstanding NOLCO at December 31 consists of:

Year of Incurrence	Year of Expiration	Consolidated 2017	Consolidated 2016	Parent 2017	Parent 2016
		(In Millions of Pesos)			
2017	2020	**69**	-	-	-
2016	2019	**202**	182	-	-
2015	2018	**197**	188	-	-
2014	2017	**361**	361	-	-
2013	2016	**-**	20		
		829	751	-	-
Used portion/ expired during the year		**(361)**	(20)	-	-
NOLCO not recognized		**(37)**	(521)	-	-
		431	210	-	-
Tax rate		**30%**	30%	**30%**	30%
Deferred income tax asset on NOLCO		**129**	63	-	-

The details of MCIT at December 31 are as follows:

Year of Incurrence	Year of Expiration	**Consolidated** 2017	**Consolidated** 2016	**Parent** 2017	**Parent** 2016
		(In Millions of Pesos)			
2014	2017	**-**	1	**-**	-

Note 15 - Other Resources

The account at December 31 consists of the following:

	Consolidated 2017	**Consolidated** 2016	**Parent** 2017	**Parent** 2016
	(In Millions of Pesos)			
Accounts receivable	**2,781**	2,898	**5,233**	1,974
Intangible assets	**2,454**	2,336	**2,413**	2,277
Residual value of equipment for lease	**2,242**	2,090	**-**	-
Prepaid expenses	**1,530**	1,752	**1,166**	1,268
Accrued trust and other fees	**1,158**	1,124	**726**	953
Sundry debits	**945**	574	**939**	565
Rental deposits	**563**	510	**484**	430
Creditable withholding tax	**416**	380	**92**	82
Miscellaneous assets	**4,504**	1,811	**3,673**	1,179
	16,593	13,475	**14,726**	8,728
Allowance for impairment	**(848)**	(1,190)	**(701)**	(990)
	15,745	12,285	**14,025**	7,738

Intangible assets mainly pertain to contractual customer relationships and computer software.

Sundry debits pertain to float items arising from timing differences in recording transactions which are expected to clear in one to two days.

Miscellaneous assets include returned checks, prepaid taxes and other office supplies.

The reconciliation of the allowance for impairment at December 31 is summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**1,190**	1,456	**990**	1,237
Reversal of impairment losses	**(295)**	(39)	**(240)**	(23)
Write-off	**(47)**	(227)	**(49)**	(224)
At December 31	**848**	1,190	**701**	990

The allowance for impairment as at December 31, 2017 and 2016 mainly pertains to accounts receivable.

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Current	**11,524**	8,555	**11,996**	5,980
Non-current	**5,069**	4,920	**2,730**	2,748
	16,593	13,475	**14,726**	8,728

Note 16 - Deposit Liabilities

The account at December 31 consists of:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Demand	**252,238**	231,525	**241,100**	219,869
Savings	**860,612**	820,181	**751,351**	711,270
Time	**449,350**	379,594	**331,512**	253,339
	1,562,200	1,431,300	**1,323,963**	1,184,478

The Parent balances above include amounts due from related parties (Note 27). The Consolidated balances above also include amounts due from related parties (Note 27) except for accounts considered as intercompany transactions.

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Current	**818,811**	806,779	**726,560**	572,877
Non-current	**743,389**	624,521	**597,403**	611,601
	1,562,200	1,431,300	**1,323,963**	1,184,478

On October 18, 2017, the BSP approved the request of the Parent Bank to issue long-term negotiable certificates of deposit (LTNCD) of up to P30 billion. The Parent Bank issued the first tranche amounting to P12.2 billion on November 24, 2017 with a tenor of 5.5 years maturing on May 24, 2023 and an interest rate of 3.75% per annum payable quarterly. The amount of LTNCD is included under time deposits.

Related interest expense on deposit liabilities is broken down as follows:

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
	(In Millions of Pesos)					
Demand	**616**	557	513	**557**	514	463
Savings	**6,723**	6,774	5,886	**5,489**	5,497	4,674
Time	**9,321**	7,970	6,927	**5,367**	3,605	3,246
	16,660	15,301	13,326	**11,413**	9,616	8,383

Under current and existing BSP regulations as at December 31, 2017 and 2016, the BPI Group should comply with a simplified minimum reserve requirement on statutory/legal and liquidity reserves. Further, BSP requires all reserves be kept at the central bank. The BPI Group is in full compliance with the simplified reserve requirement.

The required statutory/legal and liquidity reserves as reported to BSP at December 31 follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Required reserves (included in Due from BSP)	**233,509**	210,335	**215,088**	191,507

Note 17 - Bills Payable

The account at December 31 consists of:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Local banks	**37,064**	9,150	**25,810**	61
Foreign banks	**46,453**	52,823	**44,912**	52,196
	83,517	61,973	**70,722**	52,257

The range of average interest rates (%) of bills payable for the years ended December 31 follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
Private firms and local banks - Peso-denominated	**3.22 - 4.10**	3.22 - 4.40	**4.26 - 4.66**	4.37 - 4.48
Foreign banks - Foreign currency-denominated	**1.69 - 1.82**	1.08 - 1.30	**1.69 - 1.82**	1.08 - 1.30

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
	(In Millions of Pesos)					
Interest expense	**1,150**	634	332	**885**	406	115

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Current	**63,671**	34,268	**50,877**	25,057
Non-current	**19,846**	27,705	**19,845**	27,200
	83,517	61,973	**70,722**	52,257

Bills payable include funds borrowed from Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP) and BSP which were relent to customers of the BPI Group in accordance with the financing programs of LBP, DBP and BSP and credit balances of settlement bank accounts. The average payment term of these bills payable is 0.95 years for 2017 and 2016. Loans and advances of the BPI Group arising from these financing programs serve as security for the related bills payable (Note 10).

The movement in bills payable is summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**61,973**	20,941	**52,257**	12,826
Additions	**365,417**	279,812	**331,286**	257,376
Disposals	**(344,043)**	(239,884)	**(313,005)**	(218,953)
Amortization of discount	**71**	13	**71**	13
Exchange differences	**99**	1,091	**113**	995
At December 31	**83,517**	61,973	**70,722**	52,257

Note 18 - Deferred Credits and Other Liabilities

The account at December 31 consists of the following:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Bills purchased - contra	**12,505**	11,319	**12,499**	11,312
Accounts payable	**5,534**	4,875	**3,339**	3,325
Dividends payable	**3,546**	3,543	**3,545**	3,543
Outstanding acceptances	**2,992**	1,452	**2,992**	1,452
Deposits on lease contracts	**2,136**	1,970	**-**	-
Withholding tax payable	**599**	555	**459**	434
Due to the Treasurer of the Philippines	**636**	430	**562**	383
Other deferred credits	**418**	276	**83**	80
Miscellaneous liabilities	**11,613**	7,738	**9,733**	6,307
	39,979	32,158	**33,212**	26,836

Bills purchased - contra represents liabilities arising from the outright purchases of checks before actual clearing as a means of immediate financing offered by the BPI Group.

Miscellaneous liabilities include pension liability, insurance and other employee-related payables.

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Current	**36,192**	29,126	**31,375**	25,675
Non-current	**3,787**	3,032	**1,837**	1,161
	39,979	32,158	**33,212**	26,836

Note 19 - Capital Funds

Details of authorized share capital of the Parent Bank follow:

	2017	2016	2015
	(In Millions of Pesos, Except Par Value Per Share)		
Authorized capital (at P10 par value per share)			
Common shares	**49,000**	49,000	49,000
Preferred A shares	**600**	600	600
	49,600	49,600	49,600

Details of outstanding common shares follow:

	2017	2016	2015
	(In Number of Shares)		
Issued common shares			
At January 1	**3,937,043,603**	3,932,220,179	3,932,214,184
Issuance of shares during the year	**2,369,058**	4,823,424	5,995
At December 31	**3,939,412,661**	3,937,043,603	3,932,220,179
Subscribed common shares	**5,785,721**	6,213,433	3,685,784

Share premium as at December 31, 2017 amounts to P29,771 million (2016 - P29,591 million).

As at December 31, 2017, 2016 and 2015, the Parent Bank has 11,488, 11,596 and 11,754 common shareholders, respectively. There are no preferred shares issued and outstanding at December 31, 2017, 2016 and 2015.

Details of and movements in Accumulated other comprehensive loss for the years ended December 31 follow:

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
	(In Millions of Pesos)					
Fair value reserve on available-for-sale securities						
At January 1	**(3,838)**	(4,381)	(3,855)	**(3,724)**	(4,226)	(4,072)
Unrealized fair value loss before tax	**264**	(507)	(542)	**23**	(133)	(217)
Amount recycled to profit or loss	**447**	1,072	(26)	**424**	623	22
Deferred income tax effect	**2**	(22)	42	**2**	12	41
At December 31	**(3,125)**	(3,838)	(4,381)	**(3,275)**	(3,724)	(4,226)
Share in other comprehensive income (loss) of insurance subsidiaries						
At January 1	**(158)**	(67)	188	**-**	-	-
Share in other comprehensive income (loss) for the year, before tax	**175**	(108)	(265)	**-**	-	-
Deferred income tax effect	**28**	17	10	**-**	-	-
At December 31	**45**	(158)	(67)	**-**	-	-
Share in other comprehensive income of associates						
At January 1	**1,259**	1,333	1,784	**-**	-	-
Share in other comprehensive loss for the year	**(780)**	(74)	(451)	**-**	-	-
At December 31	**479**	1,259	1,333	**-**	-	-
Translation adjustment on foreign operations						
At January 1	**(804)**	(691)	(768)	**-**	-	-
Translation differences	**126**	(113)	77	**-**	-	-
At December 31	**(678)**	(804)	(691)	**-**	-	-
Actuarial losses on defined benefit plan, net						
At January 1	**(1,537)**	(958)	(572)	**(1,083)**	(654)	(429)
Actuarial losses for the year	**(387)**	(827)	(546)	**(358)**	(613)	(322)
Deferred income tax effect	**115**	248	160	**20**	184	97
At December 31	**(1,809)**	(1,537)	(958)	**(1,421)**	(1,083)	(654)
	(5,088)	(5,078)	(4,764)	**(4,696)**	(4,807)	(4,880)

The Board of Directors of the Parent Bank approved to grant the Executive Stock Option Plan (ESOP) and Executive Stock Purchase Plan (ESPP) to qualified beneficiaries/participants of up to the following number of shares:

Date	ESOP shares granted	ESPP shares granted
December 13, 2017	3,560,000	7,500,000
December 14, 2016	3,560,000	4,500,000
December 18, 2015	3,575,000	8,000,000

The ESOP has a three-year vesting period with 1/3 of the option being vested at the end of each year from grant date while the ESPP has a five-year payment period.

The exercise price for ESOP is equal to the volume weighted average of BPI share price for the most recent previous 30-trading days from grant date. The weighted average fair value of options granted determined using the Black-Scholes valuation model was P17.41, P13.83 and P11.64 for the years ended December 31, 2017, 2016 and 2015, respectively.

Movements in the number of employee share options are as follows:

	2017	2016	2015
At January 1	**9,100,000**	9,225,000	6,350,000
Granted	**3,485,000**	-	3,575,000
Exercised	**(746,667)**	(16,667)	(91,667)
Cancelled	**(500,000)**	(108,333)	(608,333)
At December 31	**11,338,333**	9,100,000	9,225,000
Exercisable	**6,745,000**	3,033,333	2,650,000

The subscription price for ESPP is equivalent to 15% below the volume weighted average of BPI share price for the most recent previous 30-trading days from grant date. The subscription dates for ESPP were on February 15, 2017, January 25, 2016 and November 12, 2014.

The impact of ESOP is not considered material to the financial statements; thus, the disclosures were only limited to the information mentioned above.

Details of and movements in Reserves for the years ended December 31 follow:

	Consolidated			**Parent**		
	2017	2016	2015	**2017**	2016	2015
	(In Millions of Pesos)					
Surplus reserves						
At January 1	**2,711**	2,563	2,098	**2,695**	2,555	2,095
Transfer from surplus to reserves	**90**	-	-	**-**	-	-
Transfer from reserves to surplus	**(2,578)**	103	432	**(2,578)**	103	432
Executive stock plan amortization	**31**	45	33	**25**	37	28
At December 31	**254**	2,711	2,563	**142**	2,695	2,555

Surplus reserves consist of:

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
	(In Millions of Pesos)					
Reserve for trust business	**90**	2,577	2,474	**-**	2,577	2,474
Reserve for self-insurance	**34**	34	34	**34**	34	34
Executive stock option plan amortization	**130**	100	55	**108**	84	47
	254	2,711	2,563	**142**	2,695	2,555

In compliance with existing BSP regulations, 10% of the Parent Bank's income from trust business is appropriated to surplus reserve. This yearly appropriation is required until the surplus reserve for trust business reaches 20% of the Parent Bank's regulatory net worth. Starting 2017, the surplus reserve is being carried by BPI Asset Management and Trust Corporation as a result of the spin-off.

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of personnel and third parties.

Cash dividends declared by the Board of Directors of the Parent Bank during the years 2015 to 2017 follow:

		Amount of dividends	
Date declared	Date approved by the BSP	Per share	Total (In Millions of Pesos)
May 20, 2015	July 20, 2015	0.90	3,539
December 16, 2015	Not applicable, see below.	0.90	3,539
June 15, 2016	Not applicable, see below.	0.90	3,543
December 14, 2016	Not applicable, see below.	0.90	3,543
June 15, 2017	Not applicable, see below.	0.90	3,545
December 15, 2017	Not applicable, see below.	0.90	3,546

Prior to October 2015, cash dividends declared are payable to common shareholders of record as of 15th working day from receipt by the Parent Bank of the approval by the BSP and distributable on the 15th working day from the said record date.

In October 2015, BSP Circular No. 888, Amendments to Regulations on Dividend Declaration and Interest Payments on Tier 1 Capital Instruments, was issued which amends the section on recording of dividends. The liability for dividends declared shall be taken up in the bank's books upon its declaration. Prior to the release of BSP Circular No. 888, the liability for recording dividends declared is taken up in the books upon receipt of BSP approval thereof or if no such approval is received, after thirty (30) banking/business days from the date the required report on dividend declaration was received by the appropriate department of the Supervision and Examination Sector of the BSP, whichever comes earlier.

The calculation of earnings per share (EPS) is shown below:

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
	(In Millions, Except Earnings Per Share Amounts)					
a) Net income attributable to equity holders of the Parent Bank	**22,416**	22,050	18,234	**22,097**	20,885	12,063
b) Weighted average number of common shares outstanding during the year	**3,939**	3,937	3,932	**3,939**	3,937	3,932
c) Basic EPS (a/b)	**5.69**	5.60	4.64	**5.61**	5.30	3.07

The basic and diluted EPS are the same for the years presented as the stock options outstanding is not significant to impact the weighted average number of common shares.

Note 20 - Other Operating Income

Details of other operating income follow:

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
	(In Millions of Pesos)					
Trust and asset management fees	**3,706**	3,605	3,607	**204**	2,369	2,912
Credit card income	**3,175**	1,530	1,537	**3,112**	1,519	1,529
Rental income	**1,691**	1,687	1,729	**236**	353	382
Gain on sale of assets	**1,252**	712	2,530	**330**	322	1,950
Dividend income	**68**	56	48	**9,492**	6,083	389
Others	**1,477**	1,365	1,199	**1,153**	1,084	889
	11,369	8,955	10,650	**14,527**	11,730	8,051

Trust and asset management fees arise from the BPI Group's asset management and trust services and are based on agreed terms with various managed funds and investments.

Credit card income pertains to membership fees arising from issuance of credit cards and various service charges earned from the cardholders.

Rental income is earned by the BPI Group by leasing out its investment properties (Note 12) and other assets which consist mainly of fleet of vehicles under operating lease arrangements. The lease agreements are cancellable lease periods ranging from two to five years.

Gain on sale of assets arises mainly from the sale of assets pertaining to merchant acquiring business, disposals of properties (including equity investments), foreclosed collaterals and non-performing assets.

Dividend income recognized by the Parent Bank substantially pertains to dividend distribution of subsidiaries. In 2017, BPI Family Savings Bank, Inc., BPI Capital Corporation and BPI Investment Management, Inc. declared dividends payable to the Parent Bank amounting to P4,500 million, P2,500 million and P1,900 million, respectively.

Other income includes recoveries on charged-off assets and revenues from service arrangements with customers and related parties.

Note 21 - Leases

The BPI Group and the Parent Bank (as lessee) have various lease agreements which mainly pertain to branch premises that are renewable under certain terms and conditions. The rentals (included in Occupancy and equipment-related expenses) under these lease contracts are as follows:

	Consolidated	Parent
	(In Millions of Pesos)	
2017	**1,495**	**1,211**
2016	1,337	1,097
2015	1,259	1,041

The future minimum lease payments under non-cancellable operating leases of the BPI Group are as follows:

	2017	2016
	(In Millions of Pesos)	
No later than 1 year	**90**	65
Later than 1 year but no later than 5 years	**186**	101
More than 5 years	**69**	10
	345	176

Note 22 - Operating Expenses

Details of compensation and fringe benefits expenses follow:

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
			(In Millions of Pesos)			
Salaries and wages	**11,642**	11,332	10,158	**8,891**	8,998	8,062
Retirement expense (Note 25)	**720**	755	1,039	**574**	602	854
Other employee benefit expenses	**1,535**	1,376	1,266	**1,226**	1,113	1,033
	13,897	13,463	12,463	**10,691**	10,713	9,949

Details of other operating expenses follow:

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
			(In Millions of Pesos)			
Insurance	**3,940**	3,426	2,837	**2,448**	2,160	1,921
Advertising	**1,215**	1,144	1,303	**1,002**	955	1,152
Travel and communication	**902**	812	770	**748**	687	650
Taxes and licenses	**714**	620	585	**491**	369	375
Litigation expenses	**598**	512	397	**348**	279	211
Supervision and examination fees	**542**	606	541	**401**	526	474
Management and other professional fees	**501**	495	442	**419**	424	343
Office supplies	**328**	324	301	**267**	271	253
Amortization expense	**296**	312	323	**289**	308	320
Shared expenses	**-**	-	-	**16**	12	15
Others	**4,256**	3,071	2,714	**3,197**	2,157	1,815
	13,292	11,322	10,213	**9,626**	8,148	7,529

Other expenses mainly include fees and incentives paid to agents, outsourcing fees, freight charges and other business expense such as those incurred in staff meetings, donations, periodicals and magazines.

Note 23 - Income Taxes

A reconciliation between the provision for income tax at the statutory tax rate and the effective income tax for the years ended December 31 follows:

	Consolidated					
	2017		2016		2015	
	Amount	**Rate (%)**	Amount	Rate (%)	Amount	Rate (%)
			(In Millions of Pesos)			
Statutory income tax	**8,608**	**30.00**	8,043	30.00	7,054	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	**(696)**	**(2.42)**	(764)	(2.85)	(886)	(3.77)
Tax-exempt income	**(4,350)**	**(15.16)**	(3,942)	(14.70)	(1,515)	(6.44)
Others, net	**2,394**	**8.34**	1,198	4.47	485	2.06
Effective income tax	**5,956**	**20.76**	4,535	16.92	5,138	21.85

	Parent					
	2017		2016		2015	
	Amount	**Rate (%)**	Amount	Rate (%)	Amount	Rate (%)
			(In Millions of Pesos)			
Statutory income tax	**7,765**	**30.00**	7,267	30.00	4,828	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	**(606)**	**(2.34)**	(669)	(2.76)	(792)	(4.92)
Tax-exempt income	**(2,907)**	**(11.23)**	(2,577)	(10.64)	(340)	(2.11)
Others, net	**(466)**	**(1.80)**	(683)	(2.82)	335	2.08
Effective income tax	**3,786**	**14.63**	3,338	13.78	4,031	25.05

Note 24 - Basic Quantitative Indicators of Financial Performance

The key financial performance indicators follow (in %):

	Consolidated		Parent	
	2017	2016	**2017**	2016
Return on average equity	**12.75**	13.77	**16.81**	17.72
Return on average assets	**1.27**	1.39	**1.54**	1.67
Net interest margin	**2.91**	2.85	**2.65**	2.58

Note 25 - Retirement Plans

BPI and its subsidiaries, and a non-life insurance subsidiary have separate trusteed, non-contributory retirement benefit plans covering all qualified officers and employees. Effective January 1, 2016, the BPI Group implemented a defined contribution plan, in addition to its existing defined benefit plan, which is accounted for as a defined benefit plan with minimum guarantee. The description of the plans follows:

Defined benefit retirement plan

BPI

BPI has a unified plan which includes its subsidiaries other than insurance companies. Under this plan, the normal retirement age is 60 years. Normal retirement benefit consists of a lump sum benefit equivalent to 200% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered at least 10 years of service, or to 150% of his basic monthly salary, if he has rendered less than 10 years of service. For voluntary retirement, the benefit is equivalent to 112.50% of the employee's basic monthly salary for a minimum of 10 years of service with the rate factor progressing to a maximum of 200% of basic monthly salary for service years of 25 or more. Death or disability benefit, on the other hand, shall be determined on the same basis as in voluntary retirement.

The net defined benefit cost and contributions to be paid by the entities within the BPI Group are determined by an independent actuary.

Non-life insurance subsidiary

BPI/MS has a separate trusteed defined benefit plan. Under the plan, the normal retirement age is 60 years. Normal retirement benefit consists of a lump sum benefit equivalent to 175% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered as least 10 years of service, or to 150% of his basic monthly salary, if he has rendered less than 10 years of service.

Death or disability benefit for all employees of the non-life insurance subsidiary shall be determined on the same basis as in normal or voluntary retirement as the case may be.

Defined contribution retirement plan

For the defined contribution retirement plan, the defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of Republic Act ("RA") No. 7641. All non-unionized employees hired on or after the effective date are automatically under the new defined contribution plan. Employees hired prior to the effective date shall have the option to elect to become members of the new defined contribution plan.

Plan assets for both the defined benefit and defined contribution plans are held in trusts, governed by local regulations and practice in the Philippines.

Following are the amounts recognized based on recent actuarial valuations:

Defined benefit retirement plan

(a) Pension liability as at December 31 recognized in the statement of condition

	Consolidated	
	2017	2016
	(In Millions of Pesos)	
Present value of defined benefit obligation	**12,718**	11,952
Fair value of plan assets	**(10,710)**	(10,084)
Pension liability recognized in the statement of condition	**2,008**	1,868

	Parent	
	2017	2016
	(In Millions of Pesos)	
Present value of defined benefit obligation	**10,508**	9,905
Fair value of plan assets	**(9,003)**	(8,543)
Pension liability recognized in the statement of condition	**1,505**	1,362

Pension liability is shown as part of "Miscellaneous liabilities" within Deferred credits and other liabilities (Note 18).

The movement in plan assets is summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**10,084**	10,953	**8,543**	9,106
Transfer to defined contribution plan	**-**	(659)	**(130)**	(535)
Interest income	**525**	521	**445**	440
Contributions	**685**	704	**542**	577
Benefit payments	**(1,051)**	(1,026)	**(840)**	(699)
Remeasurement - return on plan assets	**467**	(409)	**443**	(346)
At December 31	**10,710**	10,084	**9,003**	8,543

The carrying values of the plan assets as at December 31, 2017 and 2016 represents the fair value.

The plan assets are comprised of the following:

	Consolidated				Parent			
	2017		2016		**2017**		2016	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
	(In Millions of Pesos Except for Rates)							
Debt securities	**3,786**	**35**	4,416	44	**3,183**	**35**	3,741	44
Equity securities	**4,763**	**45**	4,461	44	**4,003**	**45**	3,779	44
Others	**2,161**	**20**	1,207	12	**1,817**	**20**	1,023	12
	10,710	**100**	10,084	100	**9,003**	**100**	8,543	100

Pension plan assets of the unified retirement plan include investment in BPI's common shares with carrying amount of P222 million (2016 - P160 million) and fair value of P510 million at December 31, 2017 (2016 - P373 million). Realized and unrealized gains coming from BPI's common shares amount to P10 million and P288 million in 2017, respectively (2016 - P5 million and P213 million). The actual return on plan assets of the BPI Group was P992 million in 2017 (2016 - P112 million). An officer of the Parent Bank exercises the voting rights over the plan's investment in BPI's common shares.

The movement in the present value of defined benefit obligation is summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**11,952**	11,991	**9,905**	9,849
Transfers to defined contribution plan	**-**	(659)	**(130)**	(535)
Current service cost	**619**	649	**507**	535
Interest cost	**607**	597	**501**	493
Past service cost - plan amendment	**(5)**	(197)	**(5)**	(162)
Benefit payments	**(1,051)**	(1,026)	**(840)**	(699)
Settlement loss	**9**	163	**9**	123
Remeasurement - change in assumptions and experience adjustment	**587**	434	**561**	301
At December 31	**12,718**	11,952	**10,508**	9,905

The BPI Group has no other transactions with the plan other than the contributions presented above for the years ended December 31, 2017 and 2016.

(b) Expense recognized in the statement of income

	Consolidated			Parent		
	2017	2016	2015	**2017**	2016	2015
	(In Millions of Pesos)					
Current service cost	**619**	649	1,016	**507**	535	837
Net interest cost	**82**	76	23	**56**	53	17
Settlement loss	**9**	163	-	**9**	123	-
Past service cost	**(5)**	(197)	-	**(5)**	(162)	-
	705	691	1,039	**567**	549	854

The principal assumptions used for the actuarial valuations of the unified plan are as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
Discount rate	**5.87%**	5.35%	**5.84%**	5.32%
Future salary increases	**5.00%**	5.00%	**5.00%**	5.00%

Assumptions regarding future mortality and disability experience are based on published statistics generally used for local actuarial valuation purposes.

The defined benefit plan typically exposes the BPI Group to a number of risks such as investment risk, interest rate risk and salary risk. The most significant of which relate to investment and interest rate risk. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. A decrease in government bond yields will increase the defined benefit obligation although this will also be partially offset by an increase in the value of the plan's fixed income holdings. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the BPI Group. However, the BPI Group believes that due to the long-term nature of the pension liability and the strength of the BPI Group itself, the mix of debt and equity securities holdings of the plan is an appropriate element of the BPI Group's long term strategy to manage the plan efficiently.

The BPI Group ensures that the investment positions are managed within an asset-liability matching framework that has been developed to achieve long-term investments that are in line with the obligations under the plan. The BPI Group's main objective is to match assets to the defined benefit obligation by investing primarily in long-term debt securities with maturities that match the benefit payments as they fall due. The asset-liability matching is being monitored on a regular basis and potential change in investment mix is being discussed with the trustor, as necessary to better ensure the appropriate asset-liability matching.

The BPI Group contributes to the plan depending on the suggested funding contribution as calculated by an independent actuary. The expected contributions for the year ending December 31, 2018 for the BPI Group and the Parent Bank amount to P659 million and P539 million, respectively. The weighted average duration of the defined benefit obligation under the BPI unified retirement plan as at December 31, 2017 is 8 years (2016 - 12 years).

The projected maturity analysis of retirement benefit payments as at December 31 are as follows:

Consolidated

(In Millions of Pesos)	**2017**	2016
Up to one year	**383**	1,025
More than 1 year to 5 years	**4,905**	3,446
More than 5 years to 10 years	**6,398**	5,533
More than 10 years to 15 years	**8,844**	10,785
More than 15 years to 20 years	**7,507**	11,886
Over 20 years	**16,150**	53,585

Parent

(In Millions of Pesos)	**2017**	2016
Up to one year	**317**	721
More than 1 year to 5 years	**3,863**	2,668
More than 5 years to 10 years	**5,531**	4,913
More than 10 years to 15 years	**7,333**	9,085
More than 15 years to 20 years	**6,189**	10,184
Over 20 years	**12,326**	40,951

The sensitivity of the defined benefit obligation as at December 31 to changes in the weighted principal assumptions follows:

Consolidated

2017

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5%	Decrease by 3.90%	Increase by 4.18%
Salary growth rate	1.0%	Increase by 7.66%	Decrease by 6.81%

2016

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 1.00%	Increase by 1.05%
Salary growth rate	1.0%	Increase by 1.77%	Decrease by 1.63%

Parent

2017

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5%	Decrease by 3.92%	Increase by 4.21%
Salary growth rate	1.0%	Increase by 7.71%	Decrease by 6.86%

2016

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 0.99%	Increase by 1.04%
Salary growth rate	1.0%	Increase by 1.74%	Decrease by 1.61%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement liability recognized within the statement of condition.

Defined contribution retirement plan subject to the requirements of RA No. 7641 at December 31

	Consolidated		**Parent**	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Fair value of plan assets	**916**	660	**707**	536
Present value of defined benefit obligation	**(239)**	(235)	**(172)**	(192)
	677	425	**535**	344
Effect of asset ceiling	**677**	425	**535**	344
	-	-	**-**	-

The movements in the present value of the defined benefit obligation follow:

	Consolidated		**Parent**	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**235**	-	**192**	-
Interest cost	**12**	-	**10**	-
Current service cost	**43**	64	**29**	53
Benefit payments	**3**	-	**-**	-
Transfer to the Plan	**-**	659	**(36)**	535
Remeasurement - change in assumptions and experience adjustment	**(54)**	(488)	**(23)**	(396)
At December 31	**239**	235	**172**	192

The movements in the fair value of plan assets follow:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
At January 1	**660**	-	**536**	-
Contribution paid by employer	**152**	24	**116**	20
Interest income	**40**	-	**32**	-
Transfer to the plan	**-**	659	**(36)**	535
Remeasurement - return on plan assets	**64**	(23)	**59**	(19)
At December 31	**916**	660	**707**	536

Total retirement expense for the year ended December 31, 2017 under the defined contribution plan for the BPI Group and Parent Bank is P39 million and P26 million (2016 - P64 million and P53 million).

The major categories of plan assets as a percentage of the fair value of total plan assets as at December 31, 2017 follow:

	Consolidated				Parent			
	2017		2016		**2017**		2016	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	**%**
	(In Millions of Pesos Except for Rates)							
Equity securities	**707**	**77**	502	76	**545**	**77**	408	76
Debt securities	**155**	**17**	75	11	**120**	**17**	61	11
Others	**54**	**6**	83	13	**42**	**6**	67	13
	916	**100**	660	100	**707**	**100**	536	100

The asset allocation of the Plan is set and reviewed from time to time by the Plan trustees taking into account the membership profile, the liquidity requirements of the Plan and risk appetite of the Plan sponsor.

Contributions are determined based on the plan provisions. The expected contribution to the defined contribution plan for the year ending December 31, 2018 for the BPI Group and the Parent Bank amounts to P153 million and P91 million, respectively (2017 - P113 million and P90 million).

The weighted average duration of the defined contribution retirement plan for the BPI Group and Parent Bank is 20 years (2016 - 25 years).

Note 26 - Trust Assets

At December 31, 2017, the net asset value of trust and fund assets administered by the BPI Group amounts to P591 billion (2016 - P564 billion).

Government securities deposited by the BPI Group with the BSP in compliance with the requirements of the General Banking Act relative to the trust functions follow:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Government securities (included in Held-to-maturity securities)	**306**	5,881	-	5,881

As a result of the spin-off and following the commencement of its operations in 2017, the security deposit with the BSP is now being carried by BPI Asset Management and Trust Corporation equivalent to 0.05% of the total book value of the assets under management.

Note 27 - Related Party Transactions

In the normal course of business, the Parent Bank transacts with related parties consisting of its subsidiaries and associates. Likewise, the BPI Group has transactions with Ayala Corporation (AC) and its subsidiaries (Ayala Group), where all transactions are dealt with on an arm's length basis. AC is a substantial stockholder of BPI as at reporting date.

These transactions such as loans and advances, deposit arrangements, trading of government securities and commercial papers, sale of assets, lease of bank premises, investment advisory/management, service arrangements and advances for operating expenses are made in the normal banking activities and have terms and conditions that are generally comparable to those offered to non-related parties or to similar transactions in the market.

The Parent Bank has a Board-level Related Party Transaction Committee that vets and endorses all significant related party transactions, including those involving directors, officers, stockholders and their related interests (DOSRI), for which the latter shall require final Board approval. The Committee consists of three directors, majority of whom are independent directors including the Chairman, and two non-voting members from management, namely, the Chief Audit Executive and the Chief Compliance Officer.

Significant related party transactions, which represent movements in the account balance, and outstanding balances as at and for the years ended December 31 are summarized below (transactions with subsidiaries have been eliminated in the consolidated financial statements):

Consolidated

	2017		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	**59**	**134**	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.37% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 4 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	**152**	**197**	
AC	**(1,842)**	**4,123**	
Subsidiaries of AC	**1,233**	**23,430**	
Key management personnel	**-**	**-**	
Other related parties	**(592)**	**302**	
	(990)	**28,186**	
Deposits from:			
Subsidiaries	**1,111**	**8,349**	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.23% to 0.25% Savings - 0.70% to 0.79% Time - 2.15% to 2.22%
Associates	**(469)**	**379**	
Ayala Group	**(7,665)**	**4,541**	
Key management personnel	**(959)**	**381**	
	(7,982)	**13,650**	

	2016		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	3	75	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.63% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	45	45	
AC	(8,143)	5,965	
Subsidiaries of AC	7,109	22,197	
Key management personnel	-	-	
Other related parties	(552)	894	
	(1,538)	29,176	
Deposits from:			
Subsidiaries	146	7,238	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.23% to 0.27% Savings - 0.81% Time - 2.13% to 2.26%
Associates	135	848	
Ayala Group	845	12,206	
Key management personnel	(545)	1,340	
	581	21,632	

	2015		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	41	72	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.05% to 7.60% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 11 years. Additional information on DOSRI loans are discussed below.
Associates	-	-	
AC	(142)	14,108	
Subsidiaries of AC	507	15,088	
Key management personnel	-	-	
Other related parties	583	1,446	
	989	30,714	
Deposits from:			
Subsidiaries	1,066	7,092	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.23% to 0.27% Savings - 0.81% to 0.82% Time - 2.00% to 2.11%
Associates	(276)	713	
Ayala Group	(20,030)	11,361	
Key management personnel	(836)	1,885	
	(20,076)	21,051	

Parent

	2017		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	**59**	**134**	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.37% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 4 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	**152**	**197**	
AC	**(1,842)**	**4,123**	
Subsidiaries of AC	**1,233**	**23,430**	
Key management personnel	**-**	**-**	
Other related parties	**(592)**	**302**	
	(990)	**28,186**	
Deposits from:			
Subsidiaries	**1,098**	**8,243**	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.21% to 0.24% Savings - 0.66% to 0.75% Time - 1.68% to 1.80%
Associates	**(482)**	**359**	
Ayala Group	**(7,452)**	**4,528**	
Key management personnel	**(772)**	**360**	
	(7,608)	**13,490**	

	2016		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	3	75	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.63% to 7.64% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 14 years. Additional information on DOSRI loans are discussed below.
Associates	45	45	
AC	(8,143)	5,965	
Subsidiaries of AC	7,109	22,197	
Key management personnel	-	-	
Other related parties	(552)	894	
	(1,538)	29,176	
Deposits from:			
Subsidiaries	141	7,145	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.22% to 0.25% Savings - 0.76% to 0.77% Time - 1.43% to 1.48%
Associates	130	841	
Ayala Group	1,231	11,980	
Key management personnel	(641)	1,132	
	861	21,098	

	2015		
	Transactions for the year	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	41	72	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.05% to 7.60% (including those pertaining to foreign currency-denominated loans) and with maturity periods ranging from 5 days to 11 years. Additional information on DOSRI loans are discussed below.
Associates	-	-	
AC	(142)	14,108	
Subsidiaries of AC	507	15,088	
Key management personnel	-	-	
Other related parties	583	1,446	
	989	30,714	
Deposits from:			
Subsidiaries	1,059	7,004	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.21% to 0.26% Savings - 0.75% to 0.76% Time - 1.35% to 1.48%
Associates	(264)	711	
Ayala Group	(19,696)	10,749	
Key management personnel	(695)	1,773	
	(19,596)	20,237	

The aggregate amounts included in the determination of income before income tax (prior to elimination) that resulted from transactions with each class of related parties are as follows:

Consolidated

	2017	2016	2015
		(In Millions of Pesos)	
Interest income			
Subsidiaries	**39**	43	4
AC	**151**	169	474
Subsidiaries of AC	**815**	621	493
Other related parties	**15**	31	34
	1,020	864	1,005
Other income			
Subsidiaries	**1,485**	946	923
Associates	**977**	885	900
AC	**11**	17	-
Subsidiaries of AC	**236**	49	12
	2,709	1,897	1,835
Interest expense			
Subsidiaries	**38**	41	12
Associates	**1**	8	2
Ayala Group	**21**	74	38
Key management personnel	**1**	15	17
	61	138	69
Other expenses			
Subsidiaries	**1,371**	836	813
Associates	**34**	36	-
AC	**110**	58	81
Subsidiaries of AC	**209**	211	74
	1,724	1,141	968
Retirement benefits			
Key management personnel	**44**	44	42
Salaries, allowances and other short-term benefits			
Key management personnel	**744**	749	602
Directors' remuneration	**87**	77	74

Parent

	2017	2016	2015
		(In Millions of Pesos)	
Interest income			
Subsidiaries	**3**	2	1
AC	**151**	169	474
Subsidiaries of AC	**815**	621	493
Other related parties	**15**	31	34
	984	823	1,002
Other income			
Subsidiaries	**1,433**	893	820
Associates	**977**	777	773
Subsidiaries of AC	**155**	-	1
	2,565	1,670	1,594
Interest expense			
Subsidiaries	**34**	39	12
Associates	**1**	8	2
Ayala Group	**20**	65	33
Key management personnel	**1**	14	12
	56	126	59
Other expenses			
Subsidiaries	**27**	21	80
AC	**110**	50	63
Subsidiaries of AC	**209**	209	74
	346	280	217
Retirement benefits			
Key management personnel	**37**	37	32
Salaries, allowances and other short-term benefits			
Key management personnel	**629**	604	504
Directors' remuneration	**73**	67	64

Other income mainly consists of rental income and revenue from service arrangements with related parties.

Other expenses mainly consist of rental expenses and management fees.

Based on the objective assessment done on related party balances, provisions have been recognized against receivables from related parties, as deemed applicable.

Details of DOSRI loans are as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Outstanding DOSRI loans	**4,376**	6,236	**4,335**	6,187

	In percentages (%)			
	Consolidated		Parent	
	2017	2016	**2017**	2016
% to total outstanding loans and advances	**0.36**	0.59	**0.44**	0.74
% to total outstanding DOSRI loans				
Unsecured DOSRI loans	**29.63**	29.60	**29.85**	29.80
Past due DOSRI loans	**0.03**	0.04	**0.03**	0.04
Non-performing DOSRI loans	**0.02**	0.02	**0.02**	0.02

At December 31, 2017 and 2016, the BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans.

Note 28 - Critical Accounting Estimates and Judgments

The BPI Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. It is reasonably possible that the outcomes within the next financial year could differ from assumptions made at reporting date and could result in the adjustment to the carrying amount of affected assets or liabilities.

A. Critical accounting estimates

(i) Impairment losses on loans and advances (Note 10)

The BPI Group reviews its loan portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in profit or loss, the BPI Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows of individually impaired accounts and the estimated impairment for collectively assessed accounts differs by +/- 5%, impairment provision for the year ended December 31, 2017 would be an estimated P466 million (2016 - P469 million) higher or lower.

(ii) Fair value of derivatives and other financial instruments (Notes 6, 29.4 and 29.5)

The fair values of financial instruments that are not quoted in active markets are determined by using generally accepted valuation techniques. Where valuation techniques (for example, discounted cash flow models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Inputs used in these models are from observable data and quoted market prices in respect of similar financial instruments.

All models are approved by the Board of Directors before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Changes in assumptions about these factors could affect reported fair value of financial instruments. The BPI Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of financial instruments that are not quoted in active markets.

(iii) *Pension liability on defined benefit plan (Note 25)*

The BPI Group estimates its pension benefit obligation and expense for defined benefit pension plans based on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 25 and include, among others, the discount rate and future salary increases. The BPI Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. The present value of the defined benefit obligations of the BPI Group at December 31, 2017 and 2016 are determined using the market yields on Philippine government bonds with terms consistent with the expected payments of employee benefits. Plan assets are invested in either equity securities, debt securities or other forms of investments. Equity markets may experience volatility, which could affect the value of pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. Actual results that differ from the BPI Group's assumptions are reflected as remeasurements in other comprehensive income. The BPI Group's assumptions are based on actual historical experience and external data regarding compensation and discount rate trends. The sensitivity analysis on key assumptions is disclosed in Note 25.

(iv) Valuation of assets held for sale

In determining the fair value of assets held for sale, the BPI Group analyzed the sales prices by applying appropriate units of comparison, adjusted by differences between the subject asset or property and related market data. Should there be a subsequent write-down of the asset to fair value less cost to sell, such write-down is recognized as impairment loss in the statement of income.

In 2017, the BPI Group has recognized reversal of impairment loss on its foreclosed assets amounting to P224 million as a result of improvement in fair market values of properties (2016 - reversal of impairment loss of P289 million).

The BPI Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of assets held for sale.

B. Critical accounting judgments

(i) Impairment of available-for-sale securities (Note 8)

The BPI Group follows the guidance of Philippine Accounting Standards (PAS) 39 to determine when an available-for-sale security is impaired. This determination requires significant judgment. In making this judgment, the BPI Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health and near-term business outlook of the issuer, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

(ii) Classification of held-to-maturity securities (Note 9)

The BPI Group follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the BPI Group evaluates its intention and ability to hold such investments to maturity. If the BPI Group fails to keep these investments to maturity other than for the specific circumstances - for example selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value and not at amortized cost.

(iii) Classification of assets held for sale

Management follows the principles in PFRS 5 in classifying certain foreclosed assets (consisting of real estate and auto or chattel) as assets held for sale when the carrying amount of the assets will be recovered principally through sale. Management is committed to a plan to sell these foreclosed assets and the assets are actively marketed for sale at a price that is reasonable in relation to their current fair value.

(iv) Realization of deferred income tax assets (Note 14)

Management reviews at each reporting date the carrying amounts of deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the deferred tax losses will be applied. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized.

Note 29 - Financial Risk and Capital Management

Risk management in the BPI Group covers all perceived areas of risk exposure, even as it continuously endeavors to identify and manage new and emerging risks. Capital management is understood to be a facet of risk management.

The primary objective of the BPI Group is the generation of recurring acceptable returns to shareholders' capital. To this end, the BPI Group's policies, business strategies and activities are directed towards the generation of cash flows that are in excess of its fiduciary and contractual obligations to its depositors, and to its various funders and stakeholders.

To generate acceptable returns to its shareholders' capital, the BPI Group understands that it has to bear risk, and that risk-taking is inherent in its business. Risk is understood by the BPI Group as the uncertainty in its future income - an uncertainty that emanates from the possibility of incurring losses that are due to unplanned and unexpected drops in revenues, increases in expenses, impairment of asset values, or increases in liabilities.

The possibility of incurring losses is, however, compensated by the possibility of earning more than expected income. Risk-taking is, therefore, not entirely negative to be avoided. Risk-taking actions present opportunities if risks are fully identified and accounted, deliberately taken, and are kept within prudent and rationalized limits.

Enterprise Risk Management Framework

BPI espouses a comprehensive risk management and capital management framework, which integrates the management of all its financial and non-financial risk exposures. The framework conforms not only to BPI's own rigorous standards, but also to BSP's directives in promoting an effective Internal Capital Adequacy Assessment Process (ICAAP) and other risk management processes. The framework also ensures that BPI has adequate liquidity and capital to mitigate risks. The framework focuses on three key components consisting of:

- Sound risk management governance;
- Effective processes, information systems, and controls; and
- Timely and reliable risk data.

The Board of Directors carries out its risk management function through the Risk Management Committee (RMC) of the Board. The RMC is tasked with nurturing a culture of risk management across the enterprise. The RMC sets the risk appetite; proposes and approves risk management policies, frameworks, and guidelines; and regularly reviews risk management structures, metrics, limits, and issues across the BPI Group, in order to meet and comply with regulatory and international standards on risk measurement and management.

At the management level, the Risk Management Office (RMO) is headed by the Chief Risk Officer (CRO). The CRO is ultimately responsible in leading the formulation of risk management policies and methodologies in alignment with the overall business strategy of BPI, ensuring that risks are prudently and rationally undertaken and within its risk appetite, as well as commensurate and disciplined to maximize returns on shareholders' capital. Risk management is carried out by a dedicated team of skilled risk managers and senior officers who have extensive prior operational experience. BPI's risk managers regularly monitor key risk indicators and report exposures against carefully established financial and business risk metrics and limits approved by the RMC. Finally, independent reviews are regularly conducted by the Internal Audit group, regulatory examiners, and external auditors to ensure that risk controls and mitigants are in place and functioning effectively as intended.

The most important risks that the BPI Group manages are credit risk, liquidity risk, market risk and operational and information technology (IT) risks.

29.1 Credit risk

The BPI Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the BPI Group by failing to discharge an obligation. Significant changes in the economy, or in the prospects of a particular industry segment that may represent a concentration in the BPI Group's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances, debt securities and other bills. There is also credit risk in off-balance sheet financial arrangements. The Credit Policy and Risk Management Division supports the Credit Committee in managing credit risk, and reports are regularly provided to the Board of Directors.

29.1.1 Credit risk management

(a) Loans and advances

In measuring credit risk of loans and advances at a counterparty level, the BPI Group considers three components: (i) the probability of default by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development; and (iii) the likely recovery ratio on the defaulted obligations. In the evaluation process, the BPI Group also considers the conditions of the industry/sector to which the counterparty is exposed, other existing exposures to the group where the counterparty may be related, as well as the client and the BPI Group's fallback position assuming the worst-case scenario. Outstanding and potential credit exposures are reviewed to likewise ensure that they conform to existing internal credit policies.

The BPI Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. The BPI Group has internal credit risk rating systems, designed for corporate, small and medium-sized enterprises (SMEs), and retail accounts, that measure the borrower's credit risk based on quantitative and qualitative factors. The ratings of individual exposures may subsequently migrate between classes as the assessment of their probabilities of default changes. For retail, the consumer credit scoring system is a formula-based model for evaluating each credit application against a set of characteristics that experience has shown to be relevant in predicting repayment. The BPI Group regularly validates the performance of the rating systems and their predictive power with regard to default events, and enhances them if necessary. The BPI Group's internal ratings are mapped to the following standard BSP classifications:

- *Unclassified* - these are loans that do not have a greater-than-normal risk and do not possess the characteristics of loans classified below. The counterparty has the ability to satisfy the obligation in full and therefore minimal loss, if any, is anticipated.

- *Loans especially mentioned* - these are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase the credit risk of the BPI Group.

- *Substandard* - these are loans which appear to involve a substantial degree of risk to the BPI Group because of unfavorable record or unsatisfactory characteristics. Further, these are loans with well-defined weaknesses which may include adverse trends or development of a financial, managerial, economic or political nature, or a significant deterioration in collateral.

- *Doubtful* - these are loans which have the weaknesses similar to those of the substandard classification with added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and substantial loss is probable.

- *Loss* - these are loans which are considered uncollectible and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

(b) Debt securities and other bills

For debt securities and other bills, external ratings such as Standard & Poor's, Moody's and Fitch's ratings or their equivalents are used by the BPI Group for managing credit risk exposures. Investments in these securities and bills are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements.

29.1.2 Risk limit control and mitigation policies

The BPI Group manages, limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and groups, to industries and sovereigns.

The BPI Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subjected to annual or more frequent review, when considered necessary. Limits on large exposures and credit concentration are approved by the Board of Directors through the Risk Management Committee.

The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored regularly.

Exposure to credit risk is also managed through regular analysis of the ability of existing and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Settlement risk arises in any situation where a payment in cash, securities, foreign exchange currencies, or equities is made in the expectation of a corresponding receipt in cash, securities, foreign exchange currencies, or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the BPI Group's market transactions on any single day. The introduction of the delivery versus payment facility in the local market has brought down settlement risk significantly.

The BPI Group employs a range of policies and practices to mitigate credit risk. Some of these specific control and mitigation measures are outlined below.

(a) Collateral

One of the most traditional and common practice in mitigating credit risk is requiring security particularly for loans and advances. The BPI Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over real estate properties and chattels; and
- Hold-out on financial instruments such as debt securities, deposits, and equities

In order to minimize credit loss, the BPI Group seeks additional collateral from the counterparty when impairment indicators are observed for the relevant individual loans and advances.

(b) Derivatives

The BPI Group maintains strict market limits on net open derivative positions (i.e., the difference between purchase and sale contracts). Credit risk is limited to the net current fair value of instruments, which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments (except where the BPI Group requires margin deposits from counterparties).

(c) Master netting arrangements

The BPI Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts (asset position) is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The BPI Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(d) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the BPI Group on behalf of a customer authorizing a third party to draw drafts on the BPI Group up to a stipulated amount under specific terms and conditions - are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, or letters of credit. With respect to credit risk on commitments to extend credit, the BPI Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The BPI Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

29.1.3 Impairment and provisioning policies

As described in Note 29.1.1, the BPI Group's credit-quality mapping on loans and advances is based on the standard BSP loan classifications. Impairment provisions are recognized for financial reporting purposes based on objective evidence of impairment (Note 31.9).

The table below shows the percentage of the BPI Group's loans and advances and the related allowance for impairment.

	Consolidated			
	2017		2016	
	Loans and advances (%)	**Allowance for impairment (%)**	Loans and advances (%)	Allowance for impairment (%)
Unclassified	**98.53**	**0.92**	98.31	0.90
Loans especially mentioned	**0.23**	**5.13**	0.24	5.01
Substandard	**0.42**	**23.70**	0.52	24.86
Doubtful	**0.50**	**69.17**	0.58	66.78
Loss	**0.32**	**100.00**	0.35	100.00
	100.00		100.00	

	Parent			
	2017		2016	
	Loans and advances (%)	**Allowance for impairment (%)**	Loans and advances (%)	Allowance for impairment (%)
Unclassified	**99.08**	**0.85**	98.92	0.80
Loans especially mentioned	**0.18**	**5.55**	0.18	5.31
Substandard	**0.25**	**28.91**	0.37	31.07
Doubtful	**0.17**	**82.63**	0.17	79.50
Loss	**0.32**	**100.00**	0.36	100.00
	100.00		100.00	

29.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to significant on-balance sheet financial assets are as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Due from BSP	**255,948**	239,514	**227,122**	203,743
Due from other banks	**14,406**	23,037	**10,894**	20,558
Interbank loans receivable and SPAR	**18,586**	15,236	**10,504**	9,049
Financial assets at fair value through profit or loss				
Derivative financial assets	**4,975**	2,993	**4,975**	2,993
Trading securities - debt securities	**5,002**	14,479	**3,806**	10,314
Available-for-sale - debt securities	**19,218**	21,962	**9,669**	19,287
Held-to-maturity securities	**277,472**	268,483	**255,382**	245,921
Loans and advances, net	**1,202,338**	1,040,720	**986,869**	821,545
Other financial assets				
Accounts receivable, net	**2,030**	1,625	**4,618**	892
Other accrued interest and fees receivable	**634**	637	**598**	584
Sales contracts receivable, net	**279**	460	**279**	460
Rental deposits	**563**	510	**484**	430
Others, net	**1,170**	1,023	**1,172**	1,030
	1,802,621	1,630,679	**1,516,372**	1,336,806

Credit risk exposures relating to off-balance sheet items are as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Undrawn loan commitments	**160,030**	94,915	**157,338**	90,933
Bills for collection	**33,154**	20,848	**33,154**	20,848
Unused letters of credit	**17,971**	12,951	**17,971**	12,951
Others	**1,189**	734	**1,189**	734
	212,344	129,448	**209,652**	125,466

The preceding table represents the maximum credit risk exposure at December 31, 2017 and 2016, without taking into account any collateral held or other credit enhancements. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of condition.

Management is confident in its ability to continue to control and sustain minimal exposure to credit risk of the BPI Group resulting from its loan and advances portfolio based on the following:

- 98% of the loans and advances portfolio is considered to be neither past due nor impaired (2016 - 98%);
- Mortgage loans are backed by collateral; and
- The BPI Group continues to implement stringent selection process of granting loans and advances.

29.1.5 Credit quality of loans and advances

Loans and advances are summarized as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
		(In Millions of Pesos)		
Neither past due nor impaired	**1,200,778**	1,036,136	**989,383**	820,722
Past due but not impaired	**4,241**	5,301	**2,119**	3,524
Impaired	**17,982**	17,959	**9,280**	9,027
	1,223,001	1,059,396	**1,000,782**	833,273
Allowance for impairment	**(20,663)**	(18,676)	**(13,913)**	(11,728)
	1,202,338	1,040,720	**986,869**	821,545

Impaired category as shown in the table above includes loan accounts which are individually (Note 29.1.5c) and collectively assessed for impairment.

The total consolidated gross impairment provision for loans and advances amounts to P4,317 million (2016 - P4,955 million), of which P2,002 million (2016 - P2,531 million) represents provision for individually impaired loans and the remaining amount of P2,315 million (2016 - P2,424 million) represents the portfolio provision. Further information of the impairment allowance for loans and advances is provided in Note 10.

When entering into new markets or new industries, the BPI Group focuses on corporate accounts and retail customers with good credit rating and customers providing sufficient collateral, where appropriate or necessary.

Collaterals held as security for Loans and advances are described in Note 10.

(a) Loans and advances neither past due nor impaired

Loans and advances that were neither past due nor impaired consist mainly of accounts with Unclassified rating and those loan accounts in a portfolio to which an impairment has been allocated on a collective basis. Details of these accounts follow:

	Consolidated		Parent	
	2017	2016	**2017**	2016
		(In Millions of Pesos)		
Corporate entities:				
Large corporate customers	**898,616**	757,037	**878,558**	741,368
Small and medium enterprises	**79,120**	78,289	**52,736**	42,433
Retail customers:				
Credit cards	**112,646**	33,638	**41,813**	32,914
Real estate mortgages	**50,937**	112,349	**11**	17
Auto loans	**42,885**	50,524	**-**	-
Others	**16,574**	4,299	**16,265**	3,990
	1,200,778	1,036,136	**989,383**	820,722

(b) Loans and advances past due but not impaired

The table below presents the gross amount of loans and advances that were past due but not impaired classified by type of borrowers. Collateralized past due loans are not considered impaired when the cash flows that may result from foreclosure of the related collateral are higher than the carrying amount of the loans.

Consolidated

	2017				2016			
	Large corporate customers	Small and medium enterprises	Retail customers	Total	Large corporate customers	Small and medium enterprises	Retail customers	Total
				(In Millions of Pesos)				
Past due up to 30 days	**503**	**142**	**507**	**1,152**	293	243	2,325	2,861
Past due 31 - 90 days	**144**	**204**	**1,446**	**1,794**	225	274	1,363	1,862
Past due 91 - 180 days	**715**	**198**	**7**	**920**	232	159	110	501
Over 180 days	**94**	**281**	-	**375**	60	14	3	77
	1,456	**825**	**1,960**	**4,241**	810	690	3,801	5,301
Fair value of collateral				**2,736**				1,925

Parent

	2017				2016			
	Large corporate customers	Small and medium enterprises	Retail customers	Total	Large corporate customers	Small and medium enterprises	Retail customers	Total
				(In Millions of Pesos)				
Past due up to 30 days	**362**	**30**	**63**	**455**	226	46	1,923	2,195
Past due 31 - 90 days	**91**	**58**	**1,006**	**1,155**	205	33	933	1,171
Past due 91 - 180 days	**326**	**65**	-	**391**	89	66	-	155
Over 180 days	**22**	**96**	-	**118**	-	3	-	3
	801	**249**	**1,069**	**2,119**	520	148	2,856	3,524
Fair value of collateral				**1,010**				527

(c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances (included in Impaired category) by class, along with the fair value of related collateral held by the BPI Group as security, are as follows:

	Consolidated		**Parent**	
	2017	2016	**2017**	2016
		(In Millions of Pesos)		
Corporate entities:				
Large corporate customers	**5,096**	4,594	**4,613**	4,385
Small and medium enterprises	**4,095**	4,690	**2,017**	2,405
Retail customers:				
Credit cards	**1,735**	1,527	**1,668**	1,498
Auto loans	**7**	2	**5**	-
Others	**298**	378	**263**	259
	11,231	11,191	**8,566**	8,547
Fair value of collateral	**6,444**	6,977	**6,252**	6,481

29.1.6 Credit quality of other financial assets

(a) Due from BSP

Due from BSP are considered fully performing. As at December 31, 2017, the account consists of clearing account and other deposit facilities amounting to P255,948 million (2016 - P239,514 million) for BPI Group and P227,122 (2016 - P203,743 million) for the Parent Bank.

(b) Due from other banks

Due from other banks are considered fully performing at December 31, 2017 and 2016. The table below presents the credit ratings of counterparty banks based on international and domestic credit assessment agencies.

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
AA- to AA+	**3,143**	201	**1,740**	201
A- to A+	**9,371**	16,235	**8,047**	16,196
Lower than A-	**963**	3,992	**961**	3,500
Unrated	**929**	2,609	**146**	661
	14,406	23,037	**10,894**	20,558

(c) Interbank loans receivable and securities purchased under agreements to resell

The table below presents the credit ratings of counterparty banks based on international and domestic credit assessment agencies.

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
A- to A+	**8,865**	8,207	**8,238**	7,210
Lower than A-	**150**	444	**-**	-
Unrated	**2,273**	2,009	**2,266**	1,839
	11,288	10,660	**10,504**	9,049

Securities purchased under agreements to resell includes reverse repurchase agreements amounting to P7,298 million and nil for the BPI Group and Parent Bank, respectively (2016 - P4,576 million and nil for the BPI Group and Parent Bank, respectively), which are made with a sovereign counterparty.

Interbank loans receivable are considered fully performing at December 31, 2017 and 2016.

(d) Derivative financial assets

The table below presents the ratings based on international and domestic credit assessment agencies of counterparties for derivative financial assets at December 31, 2017 and 2016 :

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
AA- to AA+	**842**	231	**842**	231
A- to A+	**3,357**	1,976	**3,357**	1,976
Lower than A-	**533**	701	**533**	701
Unrated	**243**	85	**243**	85
	4,975	2,993	**4,975**	2,993

(e) Debt securities, treasury bills and other government securities

The table below presents the ratings of debt securities, treasury bills and other government securities at December 31, 2017 and 2016 based on international and domestic credit assessment agencies:

	Consolidated				**Parent**			
	Trading securities	Available-for-sale	Held-to-maturity	**Total**	Trading securities	Available-for-sale	Held-to-maturity	**Total**
	(In Millions of Pesos)							
AAA	768	4,272	7,236	**12,276**	740	1,536	6,616	**8,892**
AA- to AA+	-	1,212	6,574	**7,786**	-	1,121	6,360	**7,481**
A- to A+	-	2,339	24,662	**27,001**	-	1,971	23,654	**25,625**
Lower than A-	4,234	11,345	237,016	**252,595**	3,066	5,041	217,760	**225,867**
Unrated	-	50	1,984	**2,034**	-	-	992	**992**
At December 31, 2017	**5,002**	**19,218**	**277,472**	**301,692**	**3,806**	**9,669**	**255,382**	**268,857**

	Consolidated				Parent			
	Trading securities	Available-for-sale	Held-to-maturity	Total	Trading securities	Available-for-sale	Held-to-maturity	Total
	(In Millions of Pesos)							
AAA	4,074	2,270	4,371	10,715	-	2,018	4,045	6,063
AA- to AA+	2,002	7,778	10,105	19,885	2,002	7,684	9,889	19,575
A- to A+	2,692	8,784	29,543	41,019	2,692	8,530	28,352	39,574
Lower than A-	5,711	1,230	223,330	230,271	5,620	1,055	202,557	209,232
Unrated	-	1,900	1,134	3,034	-	-	1,078	1,078
At December 31, 2016	14,479	21,962	268,483	304,924	10,314	19,287	245,921	275,522

(f) Other financial assets

The BPI Group's other financial assets (shown under Other resources) at December 31, 2017 and 2016 consist mainly of accounts receivable, accrued interest and fees receivable, sales contracts receivable, rental deposits and other financial assets from various unrated counterparties with good credit standing.

29.1.7 Repossessed or foreclosed collaterals

The BPI Group acquires assets by taking possession of collaterals held as security for loans and advances. As at December 31, 2017, the BPI Group's foreclosed collaterals have carrying amount of P3,578 million (2016 - P3,667 million). The related foreclosed collaterals have aggregate fair value of P9,864 million (2016 - P9,753 million). Foreclosed collaterals include real estate (land, building, and improvements), auto and chattel.

Repossessed properties are sold as soon as practicable and are classified as "Assets held for sale" in the statement of condition.

29.1.8 Concentrations of risks of financial assets with credit risk exposure

The BPI Group's main credit exposure at their carrying amounts, as categorized by industry sectors follow:

Consolidated

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
			(In Millions of Pesos)				
Due from BSP	255,948	-	-	-	-	-	**255,948**
Due from other banks	14,406	-	-	-	-	-	**14,406**
Interbank loans receivable and SPAR	18,586	-	-	-	-	-	**18,586**
Financial assets at fair value through profit or loss							
Derivative financial assets	4,786	10	155	-	24	-	**4,975**
Trading securities - debt securities	-	-	1	28	4,973	-	**5,002**
Available-for-sale - debt securities	4,672	-	90	103	14,353	-	**19,218**
Held-to-maturity securities	52,583	704	3,911	1,657	218,617	-	**277,472**
Loans and advances, net	92,472	107,355	198,550	276,262	548,362	(20,663)	**1,202,338**
Other financial assets							
Accounts receivable, net	-	-	-	-	2,472	(442)	**2,030**
Other accrued interest and fees receivable	-	-	-	-	634	-	**634**
Sales contracts receivable, net	-	-	-	-	310	(31)	**279**
Rental deposits	-	-	-	-	563	-	**563**
Others, net	-	-	-	-	1,254	(84)	**1,170**
At December 31, 2017	**443,453**	**108,069**	**202,707**	**278,050**	**791,562**	**(21,220)**	**1,802,621**

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
				(In Millions of Pesos)			
Due from BSP	239,514	-	-	-	-	-	239,514
Due from other banks	23,037	-	-	-	-	-	23,037
Interbank loans receivable and SPAR	15,236	-	-	-	-	-	15,236
Financial assets at fair value through profit or loss							
Derivative financial assets	2,960	-	17	2	14		2,993
Trading securities - debt securities	4,937	-	1	367	9,174	-	14,479
Available-for-sale - debt securities	19,456	-	190	104	2,212	-	21,962
Held-to-maturity securities	54,610	68	3,226	502	210,077	-	268,483
Loans and advances, net	100,395	97,618	168,760	244,152	448,471	(18,676)	1,040,720
Other financial assets							
Accounts receivable, net	-	-	-	-	2,433	(808)	1,625
Other accrued interest and fees receivable	-	-	-	-	637	-	637
Sales contracts receivable, net	-	-	-	-	465	(5)	460
Rental deposits	-	-	-	-	510	-	510
Others, net	-	-	-	-	1,106	(83)	1,023
At December 31, 2016	460,145	97,686	172,194	245,127	675,099	(19,572)	1,630,679

Parent

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
				(In Millions of Pesos)			
Due from BSP	227,122	-	-	-	-	-	**227,122**
Due from other banks	10,894	-	-	-	-	-	**10,894**
Interbank loans receivable and SPAR	10,504	-	-	-	-	-	**10,504**
Financial assets at fair value through profit or loss							
Derivative financial assets	4,786	10	155	-	24	-	**4,975**
Trading securities - debt securities	-	-	-	-	3,806	-	**3,806**
Available-for-sale - debt securities	4,157	-	50	-	5,462	-	**9,669**
Held-to-maturity securities	50,717	-	3,838	1,657	199,170	-	**255,382**
Loans and advances, net	91,123	52,184	194,294	154,682	508,499	(13,913)	**986,869**
Other financial assets							
Accounts receivable, net	-	-	-	-	4,923	(305)	**4,618**
Other accrued interest and fees receivable	-	-	-	-	598	-	**598**
Sales contracts receivable, net	-	-	-	-	310	(31)	**279**
Rental deposits	-	-	-	-	484	-	**484**
Others, net	-	-	-	-	1,248	(76)	**1,172**
At December 31, 2017	**399,303**	**52,194**	**198,337**	**156,339**	**724,524**	**(14,325)**	**1,516,372**

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
				(In Millions of Pesos)			
Due from BSP	203,743	-	-	-	-	-	203,743
Due from other banks	20,558	-	-	-	-	-	20,558
Interbank loans receivable and SPAR	9,049	-	-	-	-	-	9,049
Financial assets at fair value through profit or loss							
Derivative financial assets	2,960	-	17	2	14	-	2,993
Trading securities - debt securities	4,937	-	-	-	5,377	-	10,314
Available-for-sale - debt securities	17,167	-	149	-	1,971	-	19,287
Held-to-maturity securities	52,232	-	3,226	502	189,961	-	245,921
Loans and advances, net	98,727	42,350	162,291	127,117	402,788	(11,728)	821,545
Other financial assets							
Accounts receivable, net	-	-	-	-	1,509	(617)	892
Other accrued interest and fees receivable	-	-	-	-	584	-	584
Sales contracts receivable, net	-	-	-	-	465	(5)	460
Rental deposits	-	-	-	-	430	-	430
Others, net	-	-	-	-	1,106	(76)	1,030
At December 31, 2016	409,373	42,350	165,683	127,621	604,205	(12,426)	1,336,806

Trading, available-for-sale and held-to-maturity securities under "Others" category include local and US treasury bills. Likewise, Loans and advances under the same category pertain to loans granted to individual and retail borrowers belonging to various industry sectors.

29.2 Market risk

The BPI Group is exposed to market risk - the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is managed by the RMO guided by policies and procedures approved by the RMC and confirmed by the Executive Committee/Board of Directors.

Market risk management

Market risk management is incumbent on the Board of Directors through the RMC. Market risk management in BPI covers managing exposures to trading risk, foreign exchange risk, counterparty credit risk, interest rate risk of the banking book and liquidity risk. At the management level, the Bank's market risk exposures are managed by the RMO, headed by the Bank's CRO who reports directly to the RMC. In addition, Internal Audit is responsible for the independent review of risk assessment measures and procedures and the control environment.

The BPI Group reviews and controls market risk exposures of both its trading and non-trading portfolios. Trading portfolios include those positions arising from the BPI Group's market-making transactions. Non-trading portfolios primarily arise from the interest rate management of the BPI Group's retail and commercial banking assets and liabilities.

The BPI Group has exposures in interest rate swaps, currency swaps and structured notes as part of its trading and position taking activities. Derivatives are also used to hedge open exposures to mitigate price risk inherent in the bank's portfolios.

Value-at-Risk (VaR) measurement is an integral part of the BPI Group's market risk control system. This metric estimates, at 99% confidence level, the maximum loss that a trading portfolio may incur over a trading day. This metric indicates as well that there is 1% statistical probability that the trading portfolios' actual loss would be greater than the computed VaR. In order to ensure model soundness, the VaR is periodically subject to model validation and back testing. VaR is supplemented by other risk metrics and measurements that would provide preliminary signals to Treasury and to the management to assess the vulnerability of Bank's positions. To control the risk, the RMC sets risk limits for trading portfolios which are consistent with the Bank's goals, objectives, risk appetite, and strategies.

Stress tests indicate the potential losses that could arise in extreme conditions that would have detrimental effect to the Bank's positions. The Bank periodically performs stress testing (price risk and liquidity risk) to assess the Bank's condition on assumed stress scenarios. Contingency plans are frequently reviewed to ensure the Bank's preparedness in the event of real stress. Results of stress tests are reviewed by Senior Management and by the RMC.

The average daily VaR for the trading portfolios are as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Local fixed-income	**48**	66	**38**	60
Foreign fixed-income	**47**	61	**37**	40
Foreign exchange	**51**	51	**11**	17
Derivatives	**67**	71	**67**	71
Equity securities	**14**	30	**-**	-
Mutual fund	**3**	3	**-**	-
	230	282	**153**	188

29.2.1 Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in foreign exchange rates. It arises on financial instruments that are denominated in a foreign currency other than the functional currency which they are measured.

The BPI Group takes on exposure to the effects of fluctuations in the prevailing exchange rates on its foreign currency financial position and cash flows. The table below summarizes the BPI Group's exposure to more material foreign currency exchange rate risk at December 31, 2017 and 2016. Included in the table are the BPI Group's financial instruments at carrying amounts, categorized by currency.

Consolidated

	USD	JPY	EUR	GBP	Less - allowance	Total
			(In Millions of Pesos)			
As at December 31, 2017						
Financial Assets						
Cash and other cash items	2,328	141	137	26	-	**2,632**
Due from other banks	9,620	1,489	849	158	-	**12,116**
Interbank loans receivable and SPAR	10,047	-	-	175	-	**10,222**
Financial assets at fair value through profit or loss					-	
Derivative financial assets	1,426	257	50	76	-	**1,809**
Trading securities - debt securities	1,261	-	-	-	-	**1,261**
Available-for-sale securities - debt securities	7,933	-	827	-	-	**8,760**
Held-to-maturity securities	109,117	-	-	1,702	-	**110,819**
Loans and advances, net	136,100	25	3,045	2,393	(1,032)	**140,531**
Others financial assets						
Accounts receivable, net	100	-	-	10	(16)	**94**
Other accrued interest and fees receivable	404	-	33	78	-	**515**
Total financial assets	**278,336**	**1,912**	**4,941**	**4,618**	**(1,048)**	**288,759**
Financial Liabilities						
Deposit liabilities	238,610	1,850	4,030	1,012	-	**245,502**
Derivative financial liabilities	1,429	164	34	87	-	**1,714**
Bills payable	46,820	-	585	-	-	**47,405**
Due to BSP and other banks	578	-	-	-	-	**578**
Manager's checks and demand drafts outstanding	469	-	3	2	-	**474**
Other financial liabilities						
Accounts payable	201	-	1	-	-	**202**
Total financial liabilities	**288,107**	**2,014**	**4,653**	**1,101**	**-**	**295,875**
Net on-balance sheet financial position (in Philippine Peso)	**(9,771)**	**(102)**	**288**	**3,517**	**(1,048)**	**(7,116)**

	USD	JPY	EUR	GBP	Less - allowance	Total
			(In Millions of Pesos)			
As at December 31, 2016						
Financial Assets						
Cash and other cash items	2,566	103	157	29	-	2,855
Due from other banks	15,482	1,744	3,393	240	-	20,859
Interbank loans receivable and SPAR	9,182	-	-	524	-	9,706
Financial assets at fair value through profit or loss						
Derivative financial assets	2,002	-	70	101	-	2,173
Trading securities - debt securities	8,945	-	-	-	-	8,945
Available-for-sale securities - debt securities	18,960	-	-	-	-	18,960
Held-to-maturity securities	90,110	-	-	741	-	90,851
Loans and advances, net	121,204	61	138	2,161	(622)	122,942
Others financial assets						
Accounts receivable, net	81	-	-	4	(16)	69
Other accrued interest and fees receivable	334	-	14	66	-	414
Total financial assets	268,866	1,908	3,772	3,866	(638)	277,774
Financial Liabilities						
Deposit liabilities	210,223	1,618	3,494	1,450	-	216,785
Derivative financial liabilities	1,944	-	50	116	-	2,110
Bills payable	54,301	-	26	-	-	54,327
Due to BSP and other banks	268	-	-	-	-	268
Manager's checks and demand drafts outstanding	133	-	13	3	-	149
Other financial liabilities						
Accounts payable	92	-	2	-	-	94
Total financial liabilities	266,961	1,618	3,585	1,569	-	273,733
Net on-balance sheet financial position (in Philippine Peso)	1,905	290	187	2,297	(638)	4,041

Parent

	USD	JPY	EUR	GBP	Less - allowance	Total
			(In Millions of Pesos)			
As at December 31, 2017						
Financial Assets						
Cash and other cash items	2,128	140	136	23	-	**2,427**
Due from other banks	7,238	1,488	842	127	-	**9,695**
Interbank loans receivable and SPAR	8,240	-	-	-	-	**8,240**
Financial assets at fair value through profit or loss						
Derivative financial assets	1,426	257	50	76	-	**1,809**
Trading securities - debt securities	1,261	-	-	-	-	**1,261**
Available-for-sale securities - debt securities	5,250	-	827	-	-	**6,077**
Held-to-maturity securities	99,360	-	-	412	-	**99,772**
Loans and advances, net	134,977	25	2,460	2,380	(1,024)	**138,818**
Other financial assets						
Accounts receivable, net	100	-	-	-	(16)	**84**
Other accrued interest and fees receivable	391	-	32	63	-	**486**
Total financial assets	**260,371**	**1,910**	**4,347**	**3,081**	**(1,040)**	**268,669**
Financial Liabilities						
Deposit liabilities	225,244	1,850	4,030	757	-	**231,881**
Derivative financial liabilities	1,429	164	34	87	-	**1,714**
Bills payable	43,562	-	-	-	-	**43,562**
Due to BSP and other banks	578	-	-	-	-	**578**
Manager's checks and demand drafts outstanding	461	-	3	2	-	**466**
Other financial liabilities						
Accounts payable	198	-	1	-	-	**199**
Total financial liabilities	**271,472**	**2,014**	**4,068**	**846**	-	**278,400**
Net on-balance sheet financial position (in Philippine Peso)	**(11,101)**	**(104)**	**279**	**2,235**	**(1,040)**	**(9,731)**

	USD	JPY	EUR	GBP	Less - allowance	Total
			(In Millions of Pesos)			
As at December 31, 2016						
Financial Assets						
Cash and other cash items	2,390	103	157	27	-	2,677
Due from other banks	13,836	1,744	3,387	152	-	19,119
Interbank loans receivable and SPAR	7,210	-	-	-	-	7,210
Financial assets at fair value through profit or loss						
Derivative financial assets	2,002	-	70	101	-	2,173
Trading securities - debt securities	5,246	-	-	-	-	5,246
Available-for-sale securities - debt securities	18,840	-	-	-	-	18,840
Held-to-maturity securities	80,318	-	-	-	-	80,318
Loans and advances, net	121,179	61	115	2,142	(617)	122,880
Other financial assets						
Accounts receivable, net	77	-	-	-	(16)	61
Other accrued interest and fees receivable	326	-	14	49	-	389
Total financial assets	251,424	1,908	3,743	2,471	(633)	258,913
Financial Liabilities						
Deposit liabilities	195,466	1,618	3,494	1,183	-	201,761
Derivative financial liabilities	1,944	-	50	115	-	2,109
Bills payable	52,196	-	-	-	-	52,196
Due to BSP and other banks	268	-	-	-	-	268
Manager's checks and demand drafts outstanding	133	-	13	3	-	149
Other financial liabilities						
Accounts payable	90	-	2	-	-	92
Total financial liabilities	250,097	1,618	3,559	1,301	-	256,575
Net on-balance sheet financial position (in Philippine Peso)	1,327	290	184	1,170	(633)	2,338

Presented below is a sensitivity analysis demonstrating the impact on the BPI Group's and the Parent Bank's pre-tax income of reasonably possible change in the exchange rate between US Dollar and Philippine Peso. The fluctuation rate is based on the historical movement of US Dollar year on year.

		Effect on pre-tax income (In Millions of Pesos)	
Year	Change in currency	Consolidated	Parent
2017	**+/- 1.17%**	**+/- 114**	**+/- 130**
2016	+/- 2.33%	+/- 30	+/- 17

29.2.2 Interest rate risk

Interest rate risk is the risk that the BPI Group will experience deterioration in its financial position brought about by movements in the absolute level of interest rates. Interest rate risk in the banking book arises from the BPI Group's core banking activities. The main source of this type of interest rate risk is re-pricing risk, which reflects the fact that the BPI Group's assets and liabilities have different maturities and are re-priced at different interest rates. The Bank employs two methods to measure the potential impact of interest rate risk in Group's financial positions - (i) one that focuses on the economic value of the banking book, and (ii) one that focuses on net interest earnings. The RMC sets limits on the two interest rate risk metrics which are monitored monthly by the Market Risk Division of the RMO.

First, the BPI Group employs the Balance Sheet Value-at-Risk (BSVaR) metric to measure the impact of interest rate movements on the economic value of banking book. The BSVaR is founded on re-pricing gaps, or the difference between the amounts of rate-sensitive assets and the amounts of rate-sensitive liabilities. The BSVaR, therefore, estimates the "riskiness of the balance sheet" and compares the degree of risk taking activity in the banking books from one period to the next. The BSVaR assumes a static balance sheet, i.e., there will be no new transactions moving forward and no portfolio rebalancing will be undertaken in response to future changes in market rates. In consideration of the static framework and the fact that incomes from the banking book is accrued rather than generated from marking-to-market, the probable loss that is estimated by the BSVaR is not realized in accounting income.

The Bank sets limits for BPI Group and each legal entity based on estimated equity duration, assumed movement of market rates (in basis points) and estimated equity value. As at December 31, the average BSVaR, computed on a monthly basis, for the banking or non-trading book are as follows:

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
BSVaR	**10,586**	3,142	**9,310**	2,695

The second re-pricing risk metric used by the Bank is Earnings-at-Risk (EaR). This metric measures the potential deterioration in the Bank's net interest income due to changes in interest rates. The Bank's earnings are affected when movements in borrowing and lending rates are not perfectly synchronized, which create a gap due to such mismatch. Based on the banking book positions as at particular valuation dates, the Group projects interest receivables out of its assets, and interest payables on its liabilities, in the next 12 months. Net interest income - the difference between interest receipts and payments - is projected in this exercise. BPI, on a group level, is positively gapped hence increase in rates becomes beneficial to the Bank. As of December 31, 2017, the net interest income impact of movement in interest rates amounts to P406 million (2016 - P293 million).

The table below summarizes the BPI Group's exposure to interest rate risk, categorized by the earlier of contractual repricing or maturity dates.

Consolidated

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
	(In Millions of Pesos)				
As at December 31, 2017					
Financial Assets					
Cash and other cash items	-	-	-	35,132	**35,132**
Due from BSP	-	-	-	255,948	**255,948**
Due from other banks	-	-	-	14,406	**14,406**
Interbank loans receivable and SPAR	-	-	-	18,586	**18,586**
Financial assets at fair value through profit or loss					
Derivative financial assets	73	327	1,110	3,465	**4,975**
Trading securities - debt securities	-	-	-	5,002	**5,002**
Available-for-sale - debt securities	1,991	245	-	16,982	**19,218**
Held-to-maturity securities	-	1	-	277,471	**277,472**
Loans and advances, net	744,317	79,649	267,120	111,252	**1,202,338**
Other financial assets					
Accounts receivable, net	-	-	-	2,030	**2,030**
Other accrued interest and fees receivable	-	-	-	634	**634**
Sales contracts receivable, net	-	-	-	279	**279**
Rental deposits	-	-	-	563	**563**
Others, net	-	-	-	1,170	**1,170**
Total financial assets	**746,381**	**80,222**	**268,230**	**742,920**	**1,837,753**
Financial Liabilities					
Deposit liabilities	818,811	556,700	186,689	-	**1,562,200**
Derivative financial liabilities	46	263	1,072	3,407	**4,788**
Bills payable	-	19,846	-	63,671	**83,517**
Due to BSP and other banks	-	-	-	1,218	**1,218**
Manager's checks and demand drafts outstanding	-	-	-	7,022	**7,022**
Other financial liabilities					
Accounts payable	-	-	-	5,534	**5,534**
Dividends payable	-	-	-	3,545	**3,545**
Outstanding acceptances	-	-	-	2,992	**2,992**
Deposits on lease contracts	-	-	-	2,136	**2,136**
Others	-	-	-	1,254	**1,254**
Total financial liabilities	**818,857**	**576,809**	**187,761**	**90,779**	**1,674,206**
Total interest gap	**(72,476)**	**(496,587)**	**80,469**	**652,141**	**163,547**

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2016					
Financial Assets					
Cash and other cash items	-	-	-	35,692	35,692
Due from BSP	-	-	-	239,514	239,514
Due from other banks	-	-	-	23,037	23,037
Interbank loans receivable and SPAR	-	-	-	15,236	15,236
Financial assets at fair value through profit or loss					
Derivative financial assets	1,574	627	792	-	2,993
Trading securities - debt securities	-	-	-	14,479	14,479
Available-for-sale - debt securities	12,476	1,996	245	7,245	21,962
Held-to-maturity securities	1	-	1	268,481	268,483
Loans and advances, net	743,278	66,798	167,822	62,822	1,040,720
Other financial assets					
Accounts receivable, net	-	-	-	1,625	1,625
Other accrued interest and fees receivable	-	-	-	637	637
Sales contracts receivable, net	-	-	-	460	460
Rental deposits	-	-	-	510	510
Others, net	-	-	-	1,023	1,023
Total financial assets	757,329	69,421	168,860	670,761	1,666,371
Financial Liabilities					
Deposit liabilities	806,779	580,998	43,523	-	1,431,300
Derivative financial liabilities	1,985	319	808	-	3,112
Bills payable	-	19,693	-	42,280	61,973
Due to BSP and other banks	-	-	-	670	670
Manager's checks and demand drafts outstanding	-	-	-	7,579	7,579
Other financial liabilities					
Accounts payable	-	-	-	4,875	4,875
Outstanding acceptances	-	-	-	1,452	1,452
Deposits on lease contracts	-	-	-	1,970	1,970
Dividends payable	-	-	-	3,543	3,543
Others	-	-	-	1,786	1,786
Total financial liabilities	808,764	601,010	44,331	64,155	1,518,260
Total interest gap	(51,435)	(531,589)	124,529	606,606	148,111

Parent

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2017					
Financial Assets					
Cash and other cash items	-	-	-	34,160	**34,160**
Due from BSP	-	-	-	227,122	**227,122**
Due from other banks	-	-	-	10,894	**10,894**
Interbank loans receivable and SPAR	-	-	-	10,504	**10,504**
Financial assets at fair value through profit or loss					
Derivative financial assets	73	327	1,110	3,465	**4,975**
Trading securities - debt securities	-	-	-	3,806	**3,806**
Available-for-sale - debt securities	1,991	245	-	7,433	**9,669**
Held-to-maturity securities	-	1	-	255,381	**255,382**
Loans and advances, net	679,036	37,490	216,993	53,350	**986,869**
Other financial assets					
Accounts receivable, net	-	-	-	4,618	**4,618**
Other accrued interest and fees receivable	-	-	-	598	**598**
Sales contracts receivable, net	-	-	-	279	**279**
Rental deposits	-	-	-	484	**484**
Others, net	-	-	-	1,172	**1,172**
Total financial assets	**681,100**	**38,063**	**218,103**	**613,266**	**1,550,532**
Financial Liabilities					
Deposit liabilities	726,560	494,304	103,099	-	**1,323,963**
Derivative financial liabilities	46	263	1,072	3,407	**4,788**
Bills payable	-	19,846	-	50,876	**70,722**
Due to BSP and other banks	-	-	-	1,218	**1,218**
Manager's checks and demand drafts outstanding	-	-	-	5,762	**5,762**
Other financial liabilities					
Accounts payable	-	-	-	3,339	**3,339**
Dividends payable	-	-	-	3,545	**3,545**
Outstanding acceptances	-	-	-	2,992	**2,992**
Others	-	-	-	1,242	**1,242**
Total financial liabilities	**726,606**	**514,413**	**104,171**	**72,381**	**1,417,571**
Total interest gap	**(45,506)**	**(476,350)**	**113,932**	**540,885**	**132,961**

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2016					
Financial Assets					
Cash and other cash items	-	-	-	34,855	34,855
Due from BSP	-	-	-	203,743	203,743
Due from other banks	-	-	-	20,558	20,558
Interbank loans receivable and SPAR	-	-	-	9,049	9,049
Financial assets at fair value through profit or loss					
Derivative financial assets	1,574	627	792	-	2,993
Trading securities - debt securities	-	-	-	10,314	10,314
Available-for-sale - debt securities	12,476	1,996	245	4,570	19,287
Held-to-maturity securities	1	-	1	245,919	245,921
Loans and advances, net	672,099	26,674	111,374	11,398	821,545
Other financial assets					
Accounts receivable, net	-	-	-	892	892
Other accrued interest and fees receivable	-	-	-	584	584
Sales contracts receivable, net	-	-	-	460	460
Rental deposits	-	-	-	430	430
Others, net	-	-	-	1,030	1,030
Total financial assets	686,150	29,297	112,412	543,802	1,371,661
Financial Liabilities					
Deposit liabilities	572,877	515,446	96,155	-	1,184,478
Derivative financial liabilities	1,985	319	808	-	3,112
Bills payable	-	19,693	-	32,564	52,257
Due to BSP and other banks	-	-	-	670	670
Manager's checks and demand drafts outstanding	-	-	-	5,893	5,893
Other financial liabilities					
Accounts payable	-	-	-	3,325	3,325
Outstanding acceptances	-	-	-	1,452	1,452
Dividends payable	-	-	-	3,543	3,543
Others	-	-	-	1,245	1,245
Total financial liabilities	574,862	535,458	96,963	48,692	1,255,975
Total interest gap	111,288	(506,161)	15,449	495,110	115,686

29.3 Liquidity risk

Liquidity risk is the risk that the BPI Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

The Bank's liquidity profile is observed and monitored through its metric, the Minimum Cumulative Liquidity Gap (MCLG). The MCLG is the smallest net cumulative cash inflow (if positive) or the largest net cumulative cash outflow (if negative) over the next three (3) months. The MCLG indicates the biggest funding requirement in the short term and the degree of liquidity risk present in the current cash flow profile of the Bank. A red flag is immediately raised and reported to management and the RMC when the MCLG level projected over the next 3 months is about to breach the RMC-prescribed MCLG limit.

29.3.1 Liquidity risk management process

The BPI Group's liquidity management process, as carried out within the BPI Group and monitored by the RMC includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or as borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring liquidity gaps against internal and regulatory requirements (Note 16);
- Managing the concentration and profile of debt maturities; and
- Performing periodic liquidity stress testing on the BPI Group's liquidity position by assuming a faster rate of withdrawals in its deposit base.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities (Notes 29.3.3 and 29.3.4) and the expected collection date of the financial assets.

The BPI Group also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit.

29.3.2 Funding approach

Sources of liquidity are regularly reviewed by the BPI Group to maintain a wide diversification by currency, geography, counterparty, product and term.

29.3.3 Non-derivative cash flows

The table below presents the maturity profile of non-derivative financial instruments based on undiscounted cash flows, including interest, which the BPI Group uses to manage the inherent liquidity risk. The maturity analysis is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date the financial asset will be realized or the financial liability will be settled.

Consolidated

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
	(In Millions of Pesos)			
As at December 31, 2017				
Financial Assets				
Cash and other cash items	35,132	-	-	**35,132**
Due from BSP	255,965	-	-	**255,965**
Due from other banks	14,406	-	-	**14,406**
Interbank loans receivable and SPAR	19,457	217	306	**19,980**
Financial assets at fair value through profit or loss				
Trading securities - debt securities	1,959	601	3,140	**5,700**
Available-for-sale securities - debt securities	10,489	2,931	7,734	**21,154**
Held-to-maturity securities	29,157	58,551	260,276	**347,984**
Loans and advances, net	661,461	179,426	532,172	**1,373,059**
Other financial assets				
Accounts receivable, net	2,030	-	-	**2,030**
Other accrued interest and fees receivable	634	-	-	**634**
Sales contracts receivable, net	279	-	-	**279**
Rental deposits	563	-	-	**563**
Others, net	1,170	-	-	**1,170**
Total financial assets	**1,032,702**	**241,726**	**803,628**	**2,078,056**
Financial Liabilities				
Deposit liabilities	714,564	733,100	142,546	**1,590,210**
Bills payable	64,511	20,207	-	**84,718**
Due to BSP and other banks	1,218	-	-	**1,218**
Manager's checks and demand drafts outstanding	7,022	-	-	**7,022**
Other financial liabilities				
Accounts payable	5,534	-	-	**5,534**
Outstanding acceptances	2,992	-	-	**2,992**
Deposits on lease contracts	2,136	-	-	**2,136**
Dividends payable	3,545	-	-	**3,545**
Others	1,254	-	-	**1,254**
Total financial liabilities	**802,776**	**753,307**	**142,546**	**1,698,629**
Total maturity gap	**229,926**	**(511,581)**	**661,082**	**379,427**

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2016				
Financial Assets				
Cash and other cash items	35,692	-	-	35,692
Due from BSP	239,539	-	-	239,539
Due from other banks	23,037	-	-	23,037
Interbank loans receivable and SPAR	14,833	238	371	15,442
Financial assets at fair value through profit or loss				
Trading securities - debt securities	13,615	532	864	15,011
Available-for-sale securities - debt securities	15,393	4,094	3,339	22,826
Held-to-maturity securities	45,425	61,683	230,340	337,448
Loans and advances, net	501,878	106,506	475,347	1,083,731
Other financial assets				
Accounts receivable, net	1,625	-	-	1,625
Other accrued interest and fees receivable	637	-	-	637
Sales contracts receivable, net	460	-	-	460
Rental deposits	510	-	-	510
Others, net	1,023	-	-	1,023
Total financial assets	893,667	173,053	710,261	1,776,981
Financial Liabilities				
Deposit liabilities	480,124	234,072	734,648	1,448,844
Bills payable	35,306	28,372	-	63,678
Due to BSP and other banks	670	-	-	670
Manager's checks and demand drafts outstanding	7,579	-	-	7,579
Other financial liabilities				
Accounts payable	4,875	-	-	4,875
Outstanding acceptances	1,452	-	-	1,452
Deposits on lease contracts	1,970	-	-	1,970
Dividends payable	3,543	-	-	3,543
Others	1,786	-	-	1,786
Total financial liabilities	537,305	262,444	734,648	1,534,397
Total maturity gap	356,362	(89,391)	(24,387)	242,584

Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2017				
Financial Assets				
Cash and other cash items	34,160	-	-	**34,160**
Due from BSP	227,122	-	-	**227,122**
Due from other banks	10,894	-	-	**10,894**
Interbank loans receivable and SPAR	10,140	217	306	**10,663**
Financial assets at fair value through profit or loss				
Trading securities - debt securities	1,697	197	2,449	**4,343**
Available-for-sale securities - debt securities	2,344	2,400	6,538	**11,282**
Held-to-maturity securities	26,387	52,523	242,121	**321,031**
Loans and advances, net	604,818	129,349	415,758	**1,149,925**
Other financial assets, net				
Accounts receivable, net	4,618	-	-	**4,618**
Other accrued interest and fees receivable	598	-	-	**598**
Sales contracts receivable, net	279	-	-	**279**
Rental deposits	484	-	-	**484**
Others, net	1,172	-	-	**1,172**
Total financial assets	**924,713**	**184,686**	**667,172**	**1,776,571**
Financial Liabilities				
Deposit liabilities	607,581	626,359	105,246	**1,339,186**
Bills payable	51,553	20,207	-	**71,760**
Due to BSP and other banks	1,218	-	-	**1,218**
Manager's checks and demand drafts outstanding	5,762	-	-	**5,762**
Other financial liabilities				
Accounts payable	3,339	-	-	**3,339**
Outstanding acceptances	2,992	-	-	**2,992**
Dividends payable	3,545	-	-	**3,545**
Others	1,242	-	-	**1,242**
Total financial liabilities	**677,232**	**646,566**	**105,246**	**1,429,044**
Total maturity gap	**247,481**	**(461,880)**	**561,926**	**347,527**

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
	(In Millions of Pesos)			
As at December 31, 2016				
Financial Assets				
Cash and other cash items	34,855	-	-	34,855
Due from BSP	203,747	-	-	203,747
Due from other banks	20,558	-	-	20,558
Interbank loans receivable and SPAR	8,785	223	181	9,189
Financial assets at fair value through profit or loss				
Trading securities - debt securities	9,870	46	858	10,774
Available-for-sale securities - debt securities	13,141	3,735	3,241	20,117
Held-to-maturity securities	42,447	57,001	209,576	309,024
Loans and advances, net	444,691	70,089	342,750	857,530
Other financial assets, net				
Accounts receivable, net	892	-	-	892
Other accrued interest and fees receivable	584	-	-	584
Sales contracts receivable, net	460	-	-	460
Rental deposits	430	-	-	430
Others, net	1,030	-	-	1,030
Total financial assets	781,490	131,094	556,606	1,469,190
Financial Liabilities				
Deposit liabilities	377,784	196,485	624,237	1,198,506
Bills payable	25,615	28,131	-	53,746
Due to BSP and other banks	670	-	-	670
Manager's checks and demand drafts outstanding	5,893	-	-	5,893
Other financial liabilities				
Accounts payable	3,325	-	-	3,325
Outstanding acceptances	1,452	-	-	1,452
Dividends payable	3,543	-	-	3,543
Others	1,245	-	-	1,245
Total financial liabilities	419,527	224,616	624,237	1,268,380
Total maturity gap	361,963	(93,522)	(67,631)	200,810

29.3.4 Derivative cash flows

(a) Derivatives settled on a net basis

The BPI Group's derivatives that are settled on a net basis consist of interest rate swaps, non-deliverable forwards and non-deliverable swaps. The table below presents the contractual undiscounted cash flows of interest rate swaps based on the remaining period from December 31 to the contractual maturity dates that are subject to offsetting, enforceable master netting arrangements and similar agreements.

Consolidated and Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2017		(In Millions of Pesos)		
Interest rate swap contracts - held for trading				
- Inflow	73	319	1,114	1,506
- Outflow	(46)	(245)	(1,090)	(1,381)
- Net inflow	**27**	**74**	**24**	**125**
Non-deliverable forwards and swaps - held for trading				
- Inflow	30,387	-	-	30,387
- Outflow	(30,661)	-	-	(30,661)
- Net outflow	**(274)**	**-**	**-**	**(274)**

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2016		(In Millions of Pesos)		
Interest rate swap contracts - held for trading				
- Inflow	254	372	797	1,423
- Outflow	(210)	(303)	(808)	(1,321)
- Net inflow (outflow)	44	69	(11)	102
Non-deliverable forwards and swaps - held for trading				
- Inflow	988	-	-	988
- Outflow	(990)	-	-	(990)
- Net outflow	(2)	-	-	(2)

(b) Derivatives settled on a gross basis

The BPI Group's derivatives that are settled on a gross basis include foreign exchange derivatives mainly currency forwards and currency swaps. The table below presents the contractual undiscounted cash flows of foreign exchange derivatives based on the remaining period from reporting date to the contractual maturity dates.

Consolidated and Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
Foreign exchange derivatives - held for trading				
2017				
- Inflow	178,511	99	-	178,610
- Outflow	(178,183)	(100)	-	(178,283)
- **Net inflow (outflow)**	**328**	**(1)**	**-**	**327**
2016				
- Inflow	120,012	4,130	-	124,142
- Outflow	(120,469)	(3,892)	-	(124,361)
- Net (outflow) inflow	(457)	238	-	(219)

29.4 Fair value of financial assets and liabilities

The table below summarizes the carrying amount and fair value of those significant financial assets and liabilities not presented on the statement of condition at fair value at December 31.

Consolidated

	Carrying amount		Fair value	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Financial assets				
Cash and other cash items	**35,132**	35,692	**35,132**	35,692
Due from BSP	**255,948**	239,514	**255,948**	239,514
Due from other banks	**14,406**	23,037	**14,406**	23,037
Interbank loans receivable and SPAR	**18,586**	15,236	**18,586**	15,236
Held-to-maturity securities	**277,472**	268,483	**268,301**	261,742
Loans and advances, net	**1,202,338**	1,040,720	**1,250,321**	1,225,785
Other financial assets				
Accounts receivable, net	**2,030**	1,625	**2,030**	1,625
Other accrued interest and fees receivable	**634**	637	**634**	637
Sales contracts receivable, net	**279**	460	**279**	460
Rental deposits	**563**	510	**563**	510
Others, net	**1,170**	1,023	**1,170**	1,023
Financial liabilities				
Deposit liabilities	**1,562,200**	1,431,300	**1,533,475**	1,422,203
Bills payable	**83,517**	61,973	**83,154**	61,489
Due to BSP and other banks	**1,218**	670	**1,218**	670
Manager's checks and demand drafts outstanding	**7,022**	7,579	**7,022**	7,579
Other financial liabilities				
Accounts payable	**5,534**	4,875	**5,534**	4,875
Outstanding acceptances	**2,992**	1,452	**2,992**	1,452
Deposits on lease contracts	**2,136**	1,970	**2,136**	1,970
Dividends payable	**3,545**	3,543	**3,545**	3,543
Others	**1,254**	1,786	**1,254**	1,786

Parent

	Carrying amount		Fair value	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Financial assets				
Cash and other cash items	**34,160**	34,855	**34,160**	34,855
Due from BSP	**227,122**	203,743	**227,122**	203,743
Due from other banks	**10,894**	20,558	**10,894**	20,558
Interbank loans receivable and SPAR	**10,504**	9,049	**10,504**	9,049
Held-to-maturity securities	**255,382**	245,921	**246,219**	238,906
Loans and advances, net	**986,869**	821,545	**1,008,730**	981,180
Other financial assets				
Accounts receivable, net	**4,618**	892	**4,618**	892
Other accrued interest and fees receivable	**598**	584	**598**	584
Sales contracts receivable, net	**279**	460	**279**	460
Rental deposits	**484**	430	**484**	430
Others, net	**1,172**	1,030	**1,172**	1,030
Financial liabilities				
Deposit liabilities	**1,323,963**	1,184,478	**1,296,092**	1,173,276
Bills payable	**70,722**	52,257	**70,284**	51,772
Due to BSP and other banks	**1,218**	670	**1,218**	670
Manager's checks and demand drafts outstanding	**5,762**	5,893	**5,762**	5,893
Other financial liabilities				
Accounts payable	**3,339**	3,325	**3,339**	3,325
Outstanding acceptances	**2,992**	1,452	**2,992**	1,452
Dividends payable	**3,545**	3,543	**3,545**	3,543
Others	**1,242**	1,245	**1,242**	1,245

(i) Cash and other cash items, due from BSP and other banks and interbank loans receivable and SPAR

The fair value of floating rate placements and overnight deposits approximates their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. All of these financial assets have a maturity of one year, thus their fair values approximate their carrying amounts.

(ii) Investment securities

Fair value of held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(iii) Loans and advances

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted with the use of assumptions regarding appropriate credit spread for the loan, derived from other market instruments.

(iv) Financial liabilities

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using market interest rates for new debts with similar remaining maturity.

(v) Other financial assets / liabilities

Carrying amounts of other financial assets / liabilities which have no definite repayment dates are assumed to be their fair values.

29.5 Fair value hierarchy

The following table presents the fair value hierarchy of the BPI Group's assets and liabilities at December 31:

Consolidated

	Fair value		
2017	Level 1	Level 2	**Total**
Recurring measurements		(In Millions of Pesos)	
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	4,981	**4,981**
Trading securities			
- Debt securities	4,973	29	**5,002**
- Equity securities	330	-	**330**
Available-for-sale financial assets			
- Debt securities	16,981	2,237	**19,218**
- Equity securities	3,755	661	**4,416**
	26,039	7,908	**33,947**
Financial liabilities			
Derivative financial liabilities	-	4,788	**4,788**
Non-recurring measurements			
Assets held for sale, net	-	1,617	**1,617**

2017	Level 1	Level 2	**Total**
	Fair value		
Fair values disclosed		(In Millions of Pesos)	
Financial assets			
Cash and other cash items	-	35,132	**35,132**
Due from BSP	-	255,948	**255,948**
Due from other banks	-	14,406	**14,406**
Interbank loans receivable and SPAR	-	18,586	**18,586**
Held-to-maturity securities	264,379	3,922	**268,301**
Loans and advances, net	-	1,250,321	**1,250,321**
Other financial assets			
Accounts receivable, net	-	2,030	**2,030**
Other accrued interest and fees receivable	-	634	**634**
Sales contracts receivable, net	-	279	**279**
Rental deposits	-	563	**563**
Others, net	-	1,170	**1,170**
Financial liabilities			
Deposit liabilities	-	1,533,475	**1,533,475**
Bills payable	-	83,154	**83,154**
Due to BSP and other banks	-	1,218	**1,218**
Manager's checks and demand drafts outstanding	-	7,022	**7,022**
Other financial liabilities			
Accounts payable	-	5,534	**5,534**
Outstanding acceptances	-	2,992	**2,992**
Deposits on lease contracts	-	2,136	**2,136**
Dividends payable	-	3,545	**3,545**
Others	-	1,254	**1,254**
Non-financial assets			
Investment properties	-	1,281	**1,281**

2016	Level 1	Level 2	Total
	Fair value		
Recurring measurements		(In Millions of Pesos)	
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	2,993	2,993
Trading securities			
- Debt securities	9,411	5,068	14,479
- Equity securities	124	-	124
Available-for-sale financial assets			
- Debt securities	8,282	13,680	21,962
- Equity securities	1,991	266	2,257
	19,808	22,007	41,815
Financial liabilities			
Derivative financial liabilities	-	3,112	3,112
Non-recurring measurements			
Assets held for sale, net	-	2,267	2,267

	Fair value		
2016	Level 1	Level 2	Total
Fair values disclosed	(In Millions of Pesos)		
Financial assets			
Cash and other cash items	-	35,692	35,692
Due from BSP	-	239,514	239,514
Due from other banks	-	23,037	23,037
Interbank loans receivable and SPAR	-	15,236	15,236
Held-to-maturity securities	258,266	3,476	261,742
Loans and advances, net	-	1,225,785	1,225,785
Other financial assets			
Accounts receivable, net	-	1,625	1,625
Other accrued interest and fees receivable	-	637	637
Sales contracts receivable, net	-	460	460
Rental deposits	-	510	510
Others, net	-	1,023	1,023
Financial liabilities			
Deposit liabilities	-	1,422,203	1,422,203
Bills payable	-	61,489	61,489
Due to BSP and other banks	-	670	670
Manager's checks and demand drafts outstanding	-	7,579	7,579
Other financial liabilities			
Accounts payable	-	4,875	4,875
Outstanding acceptances	-	1,452	1,452
Deposits on lease contracts	-	1,970	1,970
Dividends payable	-	3,543	3,543
Others	-	1,786	1,786
Non-financial assets			
Investment properties	-	3,090	3,090

Parent

	Fair value		
2017	Level 1	Level 2	**Total**
Recurring measurements	(In Millions of Pesos)		
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	4,975	**4,975**
Trading securities - debt securities	3,806	-	**3,806**
Available-for-sale financial assets			
- Debt securities	7,433	2,236	**9,669**
- Equity securities	447	232	**679**
	11,686	**7,443**	**19,129**
Financial liabilities			
Derivative financial liabilities	-	4,788	**4,788**
Non-recurring measurements			
Assets held for sale, net	-	656	**656**

2017	Fair value Level 1	Level 2	**Total**
Fair values disclosed		(In Millions of Pesos)	
Financial assets			
Cash and other cash items	-	34,160	**34,160**
Due from BSP	-	227,122	**227,122**
Due from other banks	-	10,894	**10,894**
Interbank loans receivable and SPAR	-	10,504	**10,504**
Held-to-maturity securities	242,297	3,922	**246,219**
Loans and advances, net	-	1,008,730	**1,008,730**
Other financial assets			
Accounts receivable, net	-	4,618	**4,618**
Other accrued interest and fees receivable	-	598	**598**
Sales contracts receivable, net	-	279	**279**
Rental deposits	-	484	**484**
Others, net	-	1,172	**1,172**
Financial liabilities			
Deposit liabilities	-	1,296,092	**1,296,092**
Bills payable	-	70,284	**70,284**
Due to BSP and other banks	-	1,218	**1,218**
Manager's checks and demand drafts outstanding	-	5,762	**5,762**
Other financial liabilities			
Accounts payable	-	3,339	**3,339**
Outstanding acceptances	-	2,992	**2,992**
Dividends payable	-	3,545	**3,545**
Others	-	1,242	**1,242**
Non-financial assets			
Investment properties	-	1,281	**1,281**

2016	Fair value Level 1	Level 2	Total
Recurring measurements		(In Millions of Pesos)	
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	2,993	2,993
Trading securities - debt securities	5,621	4,693	10,314
Available-for-sale financial assets			
- Debt securities	6,068	13,219	19,287
- Equity securities	248	-	248
	11,937	20,905	32,842
Financial liabilities			
Derivative financial liabilities	-	3,112	3,112
Non-recurring measurements			
Assets held for sale, net	-	1,036	1,036

2016	Fair value Level 1	Level 2	Total
Fair values disclosed		(In Millions of Pesos)	
Financial assets			
Cash and other cash items	-	34,855	34,855
Due from BSP	-	203,743	203,743
Due from other banks	-	20,558	20,558
Interbank loans receivable and SPAR	-	9,049	9,049
Held-to-maturity securities	235,430	3,476	238,906
Loans and advances, net	-	981,180	981,180
Other financial assets			
Accounts receivable, net	-	892	892
Other accrued interest and fees receivable	-	584	584
Sales contracts receivable, net	-	460	460
Rental deposits	-	430	430
Others, net	-	1,030	1,030
Financial liabilities			
Deposit liabilities	-	1,173,276	1,173,276
Bills payable	-	51,772	51,772
Due to BSP and other banks	-	670	670
Manager's checks and demand drafts outstanding	-	5,893	5,893
Other financial liabilities			
Accounts payable	-	3,325	3,325
Outstanding acceptances	-	1,452	1,452
Dividends payable	-	3,543	3,543
Others	-	1,245	1,245
Non-financial assets			
Investment properties	-	3,090	3,090

The BPI Group has no financial instruments, other assets or liabilities with non-recurring fair value measurements or with fair values disclosed that fall under the Level 3 category as at December 31, 2017 and 2016. There were no transfers between Level 1 and Level 2 during the years ended December 31, 2017 and 2016.

29.6 Insurance risk management

The non-life insurance entities decide on the retention, or the absolute amount that they are ready to assume insurance risk from one event. The retention amount is a function of capital, experience, actuarial study and risk appetite or aversion.

In excess of the retention, these entities arrange reinsurances either thru treaties or facultative placements. They also accredit reinsurers based on certain criteria and set limits as to what can be reinsured. The reinsurance treaties and the accreditation of reinsurers require Board of Directors' approval.

29.7 Capital management

Cognizant of its exposure to risks, the BPI Group understands that it must maintain sufficient capital to absorb unexpected losses, to stay in business for the long haul, and to satisfy regulatory requirements. The BPI Group further understands that its performance, as well as the performance of its various units, should be measured in terms of returns generated vis-à-vis allocated capital and the amount of risk borne in the conduct of business.

The BPI Group manages its capital following the framework of Basel Committee on Banking Supervision Accord II (Basel II) and its implementation in the Philippines by the BSP. The BSP through its Circular 538 requires each bank and its financial affiliated subsidiaries to keep its Capital Adequacy Ratio (CAR) - the ratio of qualified capital to risk-weighted exposures - to be no less than 10%. In quantifying its CAR, BPI currently uses the Standardized Approach (for credit risk and market risk) and the Basic Indicator Approach (for operational risk). Capital adequacy reports are filed with the BSP every quarter.

Qualifying capital and risk-weighted assets are computed based on BSP regulations. The qualifying capital of the Parent Bank consists of core tier 1 capital and tier 2 capital. Tier 1 capital comprises paid-up capital stock, paid-in surplus, surplus including net income for the year, surplus reserves and minority interest less deductions such as deferred income tax, unsecured credit accommodations to DOSRI, goodwill and net unrealized fair value losses on available-for-sale securities. Tier 2 capital includes general loan loss provisions for BSP reporting purposes.

The Basel II framework following BSP Circular 538 took into effect on July 1, 2007 and was relevant until 2013.

Effective January 1, 2014, the BSP, through its Circular 781, requires each bank and its financial affiliated subsidiaries to adopt new capital requirements in accordance with the provisions of Basel III. The new guidelines are meant to strengthen the composition of the Bank's capital by increasing the level of core capital and regulatory capital. The Circular sets out minimum Common Equity Tier 1 (CET1) ratio and Tier 1 Capital ratios of 6.0% and 7.5%, respectively. A capital conservation buffer of 2.5%, comprised of CET1 capital, was likewise imposed. The minimum required capital adequacy ratio remains at 10% which includes the capital conservation buffer.

In addition, existing capital requirements as at December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III.

The table below summarizes the CAR of the Bank (combined regular and FCDU books) under the Basel III framework for the years ended December 31, 2017 and 2016.

	Consolidated		Parent	
	2017	2016	**2017**	2016
	(In Millions of Pesos)			
Tier 1 capital	**177,172**	160,901	**176,842**	160,549
Tier 2 capital	**11,682**	10,299	**10,180**	8,722
Gross qualifying capital	**188,854**	171,200	**187,022**	169,271
Less: Regulatory adjustments/required deductions	**22,371**	22,210	**59,246**	58,155
Total qualifying capital	**166,483**	148,990	**127,776**	111,116
Risk weighted assets	**1,306,907**	1,145,846	**1,122,119**	956,478
CAR (%)	**12.74**	13.00	**11.39**	11.62
CET1 (%)	**11.84**	12.10	**10.48**	10.71

The BPI Group has fully complied with the CAR requirement of the BSP.

Likewise, the BPI Group manages the capital of its non-life insurance subsidiaries, pre-need subsidiary and securities dealer subsidiaries in accordance with the capital requirements of the relevant regulatory agency, such as Insurance Commission, Philippine SEC and PSE. These subsidiaries have fully complied with the relevant capital requirements.

As part of the reforms of the PSE to expand capital market and improve transparency among listed firms, PSE requires listed entities to maintain a minimum of ten percent (10%) of their issued and outstanding shares, exclusive of any treasury shares, held by the public. The Parent Bank has fully complied with this requirement.

On January 17, 2018, the Board of Directors approved the capital raising of up to P50 billion through a stock rights offering of common shares to eligible shareholders to support its growth and strategic initiatives in the coming years. The BPI Group expects to launch the rights offer after receiving the required regulatory approvals.

Note 30 - Commitments and Contingencies

At present, there are lawsuits, claims and tax assessments pending against the BPI Group. In the opinion of management, after reviewing all actions and proceedings and court decisions with legal counsels, the aggregate liability or loss, if any, arising therefrom will not have a material effect on the BPI Group's financial position or financial performance.

BPI and some of its subsidiaries are defendants in legal actions arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the financial statements.

In the normal course of business, the BPI Group makes various commitments (Note 29.1.4) that are not presented in the financial statements. The BPI Group does not anticipate any material losses from these commitments.

Note 31 - Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

31.1 Basis of preparation

The financial statements of the BPI Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

As allowed by the SEC, the pre-need subsidiary of the Parent Bank continues to follow the provisions of the Pre-Need Uniform Chart of Accounts (PNUCA) prescribed by the SEC and adopted by the Insurance Commission.

The financial statements comprise the statement of condition, statement of income and statement of comprehensive income shown as two statements, statement of changes in capital funds, statement of cash flows and the notes.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of trading securities, available-for-sale financial assets and all derivative contracts.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the BPI Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the financial statements therefore fairly present the financial position and results of the BPI Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 28.

31.2 Changes in accounting policy and disclosures

(a) Amendments adopted by the BPI Group

The following amendments have been adopted by the BPI Group effective January 1, 2017:

- Amendments to PAS 12, Recognition of Deferred Tax Assets for Unrealized Losses
- Amendments to PAS 7, Disclosure Initiative
- Amendment to PFRS 12 - Clarification on the scope of the standard

The adoption of the above amendments did not have a material impact on the financial statements of the BPI Group.

(b) New standards, interpretations and amendments not yet adopted

The following new accounting standards and interpretations are not mandatory for December 31, 2017 reporting period and have not been early adopted by the BPI Group:

<u>PFRS 9, Financial instruments (effective for annual periods beginning on or after January 1, 2018)</u>

PFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The BPI Group will apply the new rules retrospectively from January 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

The BPI Group has embarked on PFRS 9 Implementation Project (the "PFRS 9 Project") to enable the BPI Group to transition to PFRS 9. The PFRS 9 project is a collaborative undertaking primarily driven by the Parent Bank and participated in by various committees and working groups across the BPI Group.

Classification and measurement of financial assets

Investments in debt instruments

Under PFRS 9, a financial asset should be subsequently measured at amortized cost if both of the following conditions are met:

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

A financial asset should be subsequently measured at fair value through other comprehensive income (FVOCI) if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both holding financial assets in order to collect contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

If the financial asset is measured at FVOCI, all movements in the fair value should be taken through OCI, except for the recognition of impairment gains or losses, interest revenue in line with the effective interest method and foreign exchange gains and losses, which are recognized in profit or loss.

If the financial asset does not pass the business model assessment and SPPI criteria, or the fair value option is applied, it is measured at fair value through profit or loss (FVTPL). This is the residual measurement category.

Investments in equity instruments

Under PFRS 9, investments in equity instruments are always measured at fair value. Equity instruments that are held for trading are required to be classified at FVTPL, with dividend income recognized in profit or loss.

For all other equities within the scope of PFRS 9, the standard allows entities to make an irrevocable election on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in OCI rather than profit or loss (except for equities that give an investor significant influence over an investee according to PAS 28, which can only be accounted for under PFRS 9 if they are measured at FVTPL). Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of an investment, in which case they are recognized in OCI. There is no recycling of amounts from OCI to profit or loss – for example, on sale of an equity investment – nor are there any impairment requirements. The entity however, can transfer the cumulative gain or loss within equity.

The initial results of the impact assessment done by the PFRS 9 Project team of the BPI Group on the classification and measurement of financial assets follow:

- Majority of the investments in debt instruments that are currently classified as available-for-sale (AFS) will satisfy the conditions for classification as at FVOCI, hence, there will be no change on the accounting for these investments.
- The BPI Group expects that held-to-maturity (HTM) securities will largely remain at amortized cost. Likewise, the BPI Group has initially assessed that previously classified as AFS will satisfy the conditions for classification as at amortized cost. Hence, management will go back to the assets' initial recognition and measure them as if it had always been measured at amortized cost under PFRS 9.
- Existing trading equity and debt securities will likely remain at FVTPL.
- Most of the AFS equity securities will likely be measured still at FVOCI following the irrevocable election available under PFRS 9.
- Financial assets classified as loans and receivables under PAS 39 will remain at amortized cost under PFRS 9.

Classification and measurement of financial liabilities

PFRS 9 will have no impact on the BPI Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the BPI Group does not have any such liabilities. The de-recognition rules have been transferred from PAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under PAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, loan commitments and certain financial guarantee contracts.

Based on the initial assessments performed to date, the BPI Group expects that the ECL model will have a significant impact on the impairment provisioning for loans and advances.

Hedge accounting

The new hedge accounting rules under PFRS 9 will align the accounting for hedging instruments more closely with the entity's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

The new hedge accounting rules will not have a significant impact on the BPI Group as there are no formal hedge accounting relationships as of December 31, 2017.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the BPI Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

PFRS 15, Revenue from contracts with customers (effective for annual periods beginning on or after January 1, 2018)

PFRS 15 will replace PAS 18, 'Revenue' which covers contracts for goods and services and PAS 11, 'Construction contracts' which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognized: (1) identify contracts with customers, (2) identify the separate performance obligation, (3) determine the transaction price of the contract, (4) allocate the transaction price to each of the separate performance obligations, and (5) recognize the revenue as each performance obligation is satisfied.

The adoption of PFRS 15 will not have a material impact on the financial statements of the BPI Group.

PFRS 16, Leases (effective for annual periods beginning on or after January 1, 2019)

PFRS 16 will replace the current guidance in *PAS 17, Leases.* PFRS 16 which will become effective on January 1, 2019 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. PFRS 16 removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An optional exemption exists for short-term and low-value leases.

The adoption of PFRS 16 will likely affect the accounting of certain assets currently held by the BPI Group under operating lease arrangements.

Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after January 1, 2019)

It has been clarified previously that PAS 12, not PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The adoption of the above interpretation will not have a material impact on the financial statements of the BPI Group

Likewise, the following amendments are not mandatory for December 31, 2017 reporting period and have not been early adopted by the BPI Group:

- Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to PFRS 9, Prepayment Features with Negative Compensation
- Amendments to PFRS 15 - Clarifications to PFRS 15
- Amendments to PFRS 4 - Applying PFRS 9, Financial Instruments, with PFRS 4, Insurance Contracts
- Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions

The adoption of the above amendments are not expected to have a material impact on the financial statements of the BPI Group.

31.3 Consolidation

The subsidiaries financial statements are prepared for the same reporting year as the consolidated financial statements. These includes the financial statements of the Parent Bank and the subsidiaries enumerated below:

Subsidiaries	Country of incorporation	Principal activities	% of ownership 2017	2016
BPI Family Savings Bank, Inc.	Philippines	Banking	**100**	100
BPI Capital Corporation	Philippines	Investment house	**100**	100
BPI Direct BanKO, Inc., A Savings Bank (formerly BPI Direct Savings Bank, Inc.)	Philippines	Banking	**100**	100
BPI Asset Management and Trust Corporation	Philippines	Trust	**100**	100
BPI International Finance Limited	Hong Kong	Financing	**100**	100
BPI Europe Plc.	England and Wales	Banking (deposit)	**100**	100
BPI Securities Corp.	Philippines	Securities dealer	**100**	100
BPI Payments Holdings Inc. (formerly BPI Card Finance Corp.)	Philippines	Financing	**100**	100
Filinvest Algo Financial Corp.	Philippines	Financing	**100**	100
BPI Investment Management, Inc.	Philippines	Investment management	**100**	100
Santiago Land Dev. Corp.	Philippines	Land holding	**100**	100
BPI Operations Management Corp.	Philippines	Operations management	**100**	100
BPI Computer Systems Corp.	Philippines	Business systems service	**100**	100
BPI Forex Corp.	Philippines	Foreign exchange	**100**	100
BPI Express Remittance Corp. USA	USA	Remittance	**100**	100
BPI Remittance Centre HK (Ltd)	Hong Kong	Remittance	**100**	100
Green Enterprises S. R. L. in Liquidation	Italy	Remittance	**100**	100
First Far - East Development Corporation	Philippines	Real estate	**100**	100
FEB Stock Brokers, Inc.	Philippines	Securities dealer	**100**	100
BPI Express Remittance Spain S.A	Spain	Remittance	**100**	100
FEB Speed International	Philippines	Remittance	**100**	100
AF Holdings & Management Corp.	Philippines	Financial management consultancy	**100**	100
Ayala Plans, Inc.	Philippines	Pre-need	**98.67**	98.67
FGU Insurance Corporation	Philippines	Non-life insurance	**94.62**	94.62
BPI Century Tokyo Lease and Finance Corporation	Philippines	Leasing	**51**	51
BPI Century Tokyo Rental Corporation	Philippines	Rental	**51**	51
CityTrust Securities Corporation	Philippines	Securities dealer	**51**	51
BPI/MS Insurance Corporation	Philippines	Non-life insurance	**50.85**	50.85

On March 29, 2017 and August 30, 2016, the Parent Bank made an additional capital infusion to BPI Payments Holdings Inc. amounting to P103 million and P290 million, respectively.

On September 20, 2016, the Bank acquired an additional 60% of the issued shares of BPI Globe BanKO, Inc. for P29 million. Prior to the purchase, the carrying amount of the existing non-controlling interest was P10 million. The BPI Group recognized a decrease in non-controlling interests of P10 million and a decrease in equity attributable to owners of the Parent Bank of P19 million. The effect on the equity attributable to the owners of the Bank for the year ended December 31, 2016 is summarized as follows:

	(In Millions of Pesos)
Consideration paid to non-controlling interests	(29)
Carrying amount of non-controlling interests acquired	10
Difference in consideration paid recognized in equity	(19)

On October 6, 2016, BPI Asset Management and Trust Corporation, with an initial paid-in capital of P600 million, was incorporated with the SEC as a wholly-owned subsidiary of the Parent Bank. The primary business purpose of BPI Asset Management and Trust Corporation is to carry and engage in the business of trust, other fiduciary activities and investment management activities.

On December 29, 2016, the merger of BPI Direct Savings Bank, Inc. and BPI Globe BanKO, Inc. was approved by the SEC with BPI Direct Savings Bank, Inc. as the surviving entity. The surviving company's corporate name was changed to BPI Direct BanKO, Inc., A Savings Bank as a result of the merger transaction.

(a) Subsidiaries

Subsidiaries are all entities over which the BPI Group has control. The BPI Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The BPI Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the BPI Group's voting rights relative to the size and dispersion of holdings of other shareholders give the BPI Group the power to govern the financial and operating policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the BPI Group. They are de-consolidated from the date that control ceases.

The BPI Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the BPI Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the BPI Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the BPI Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is not accounted for within equity.

The excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the BPI Group's share of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the BPI Group, except for the pre-need subsidiary which follows the provisions of the PNUCA as allowed by the SEC.

When the BPI Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the BPI Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(b) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Interests in the equity of subsidiaries not attributable to the Parent Bank are reported in consolidated equity as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the statement of income as net income (loss) attributable to non-controlling interests.

(c) Associates

Associates are all entities over which the BPI Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates in the consolidated financial statements are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The BPI Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

If the ownership interest in an associate is reduced but significant influence is retained, a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The BPI Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in reserves is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the BPI Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the BPI Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The BPI Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the BPI Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit (loss) of an associate' in profit or loss.

Unrealized gains on transactions between the BPI Group and its associates are eliminated to the extent of the BPI Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the BPI Group.

31.4 Investments in subsidiaries and associates

Investments in subsidiaries and associates in the Parent Bank's separate financial statements are accounted for using the cost method in accordance with PAS 27. Under this method, income from investment is recognized in profit or loss only to the extent that the investor receives distributions from accumulated profits of the investee arising after the acquisition date. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as reduction of the cost of the investment.

The Parent Bank recognizes a dividend from a subsidiary or associate in profit or loss in its separate financial statements when its right to receive the dividend is established.

The Parent Bank determines at each reporting date whether there is any indicator of impairment that the investment in the subsidiary or associate is impaired. If this is the case, the Parent Bank calculates the amount of impairment as the difference between the recoverable amount and carrying value and the difference is recognized in profit or loss.

Investments in subsidiaries and associates are derecognized upon disposal or when no future economic benefits are expected to be derived from the subsidiaries and associates at which time the cost and the related accumulated impairment loss are removed in the statement of condition. Any gains and losses on disposal is determined by comparing the proceeds with the carrying amount of the investment and recognized in profit or loss.

31.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief executive officer who allocates resources to, and assesses the performance of the operating segments of the BPI Group.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated upon consolidation. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with PFRS 8, the BPI Group has the following main banking business segments: consumer banking, corporate banking and investment banking. Its insurance business is assessed separately from these banking business segments (Note 3).

31.6 Cash and cash equivalents

Cash and cash equivalents consist of Cash and other cash items, Due from BSP, Due from other banks, and Interbank loans receivable and securities purchased under agreements to resell with maturities of less than three months from the date of acquisition and that are subject to insignificant risk of changes in value.

31.7 Repurchase and reverse repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks and customers and included in the statement of condition under "Interbank loans receivable and securities purchased under agreements to resell". Securities lent to counterparties are also retained in the financial statements.

31.8 Financial assets

31.8.1 Classification

The BPI Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity securities and available-for-sale securities. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial assets held for trading (other than derivatives) are shown as "Trading securities" in the statement of condition.

Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy. Information about these financial assets is provided internally on a fair value basis to the BPI Group's key management personnel. The BPI Group has no financial assets that are specifically designated at fair value through profit or loss.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments: (i) that are not quoted in an active market, (ii) with no intention of being traded, and (iii) that are not designated as available-for-sale. Significant accounts falling under this category include loans and advances, cash and other cash items, due from BSP and other banks, interbank loans receivable and securities purchased under agreements to resell and accounts receivable included under other resources.

(c) Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the BPI Group's management has the positive intention and ability to hold to maturity.

(d) Available-for-sale securities

Available-for-sale securities are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

31.8.2 Recognition and measurement

(a) Initial recognition and measurement

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity securities and available-for-sale securities are recognized on trade date, the date on which the BPI Group commits to purchase or sell the asset. Loans and receivables are recognized upon origination when cash is advanced to the borrowers or when the right to receive payment is established. Financial assets not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value; and transaction costs are recognized in profit or loss.

(b) Subsequent measurement

Available-for-sale securities and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity securities are subsequently carried at amortized cost. Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of condition. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the statement of income (as "Trading gain/loss on securities") in the year in which they arise. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired at which time the cumulative fair value adjustments previously recognized in other comprehensive income should be recognized in profit or loss. However, interest is calculated on these securities using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognized in profit or loss. Dividends on equity instruments are recognized in profit or loss when the BPI Group's right to receive payment is established.

31.8.3 Reclassification

The BPI Group may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the BPI Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the BPI Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Reclassification and sale of held-to-maturity securities other than an insignificant amount, would taint the entire portfolio and result in reclassification to available-for-sale category, except on sales and reclassifications that:

- are so close to maturity that changes in market interests rates would not significantly affect fair value;
- occur after the entity has collected substantially all of the asset's original principal; or
- are attributable to an isolated, non-recurring event that could not have been reasonably expected.

31.8.4 Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the BPI Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

31.9 Impairment of financial assets

(a) Assets carried at amortized cost

The BPI 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 impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the BPI Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The BPI Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the BPI 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 them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of impairment 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 (recoverable amount). The calculation of recoverable amount of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in profit or loss.

For purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the BPI Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). 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.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the BPI Group and historical loss experience for assets with credit risk characteristics similar to those in the BPI 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 currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of loss has been determined.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Subsequent recoveries of amounts previously written-off are credited to impairment loss in the statement of income.

(b) Assets classified as available-for-sale

The BPI Group assesses at each reporting date whether there is an objective evidence that a security classified as available-for-sale is impaired. For debt securities, the BPI Group uses the criteria mentioned in (a) above. For an equity security classified as available-for-sale, a significant or prolonged decline in the fair value below cost is considered in determining whether the securities are impaired. Generally, the BPI Group treats 'significant' as 20% or more and 'prolonged' as greater than six months. The cumulative loss (difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognized in profit or loss) is removed from other comprehensive income and recognized in profit or loss when the asset is determined to be impaired. If in a subsequent period, the fair value of a debt instrument previously impaired increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. Reversal of impairment losses recognized previously on equity instruments is made directly to other comprehensive income.

(c) Renegotiated loans

Loans that are either subject to individual or collective impairment assessment and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

31.10 Financial liabilities

31.10.1 Classification

The BPI Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortized cost.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the BPI Group as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the statement of income and are reported as "Trading gains/losses". The BPI Group has no financial liabilities that are designated at fair value through profit loss.

(b) Other liabilities measured at amortized cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost. Financial liabilities measured at amortized cost include deposits from customers and banks, bills payable, amounts due to BSP and other banks, manager's checks and demand drafts outstanding, subordinated notes and other financial liabilities under deferred credits and other liabilities.

31.10.2 Recognition and measurement

(a) Initial recognition and measurement

Financial liabilities not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial liabilities carried at fair value through profit or loss are initially recognized at fair value; and transaction costs are recognized as expense in profit or loss.

(b) Subsequent measurement

Financial liabilities at fair value through profit or loss are subsequently carried at fair value. Other liabilities are measured at amortized cost using the effective interest method.

31.10.3 Derecognition

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished (i.e. when the obligation is discharged or is cancelled or has expired). Collateral (shares and bonds) furnished by the BPI Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognized because the BPI Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

31.11 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 of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The BPI Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp., etc.).

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter ("OTC") derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The BPI Group considers relevant and observable market prices in its valuations where possible. The BPI Group has no assets or liabilities classified under Level 3 as at December 31, 2017 and 2016.

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

(a) Financial instruments

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes mainly from Bloomberg.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at reporting dates. The BPI Group uses widely recognized valuation models for determining fair values of non-standardized financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market observable.

For more complex instruments, the BPI Group uses internally developed models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. Valuation models are used primarily to value derivatives transacted in the OTC market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The fair value of OTC derivatives is determined using valuation methods that are commonly accepted in the financial markets, such as present value techniques and option pricing models. The fair value of foreign exchange forwards is generally based on current forward exchange rates, with the resulting value discounted back to present value.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

(b) Non-financial assets or liabilities

The BPI Group uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach - A valuation technique that uses observable inputs, such as prices, broker quotes and other relevant information generated by market transactions involving identical or comparable assets or group of assets.

- Income approach - A valuation technique that converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions. The fair values of BPI Group's investment properties and foreclosed assets (shown as Assets held for sale) fall under level 2 of the fair value hierarchy. The BPI Group has no non-financial assets or liabilities classified under Level 3 as at December 31, 2017 and 2016.

31.12 Classes of financial instruments

The BPI Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments as follows:

	Categories (as defined by PAS 39)	Classes (as determined by the BPI Group)		
		Main classes	Sub-classes	
Financial assets	Financial assets at fair value through profit or loss	- Trading securities	- Debt securities - Equity securities	
		- Derivative financial assets		
	Loans and receivables	- Cash and other cash items		
		- Loans and advances to banks	- Due from BSP	
			- Due from other banks	
			- Interbank loans receivable and securities purchased under agreements to resell	
		- Loans and advances to customers	- Loans to individuals (retail)	- Real estate mortgages - Auto loans - Credit cards - Others
			- Loans to corporate entities	- Large corporate customers - Small and medium-sized enterprises
		- Others	- Accounts receivables - Sales contracts receivable - Rental deposits - Other accrued interest and fees receivable	
	Held-to-maturity investments	- Investment securities (debt securities)	- Government - Others	
	Available-for-sale financial assets	- Investment securities (debt securities)	- Government - Others	
		- Investment securities (equity securities)	- Listed - Unlisted	
Financial liabilities	Financial liabilities at fair value through profit or loss	- Derivative financial liabilities		
	Financial liabilities at amortized cost	- Deposits from customers	- Demand - Savings - Time	
		- Deposits from banks		
		- Bills payable		
		- Due to BSP and other banks		
		- Manager's check and demand drafts outstanding		
		- Interest payable		
		- Unsecured subordinated debt		
		- Other liabilities	- Accounts payable	
			- Outstanding acceptances	
			- Dividend payable	
Off-balance sheet financial instruments	Loan commitments			
	Guarantees, acceptances and other financial facilities			

31.13 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of condition when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

As at December 31, 2017 and 2016, there are no financial assets and liabilities that have been offset.

31.14 Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques (for example for structured notes), including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. The assessment of whether an embedded derivative is required to be separated from the host contract is done when the BPI Group first becomes a party to the contract. Reassessment of embedded derivative is only done when there are changes in the contract that significantly modify the contractual cash flows. The embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

The BPI Group's derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that do not qualify for hedge accounting are recognized immediately in the statement of income under "Trading gain/loss on securities".

31.15 Bank premises, furniture, fixtures and equipment

Land and buildings comprise mainly of branches and offices. All bank premises, furniture, fixtures and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of an asset which comprises its purchase price, import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the BPI Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Land is not depreciated. Depreciation for buildings and furniture and equipment is calculated using the straight-line method to allocate cost or residual values over the estimated useful lives of the assets, as follows:

Building	25-50 years
Furniture and equipment	3-5 years
Equipment for lease	2-8 years

Leasehold improvements are depreciated over the shorter of the lease term (ranges from 5 to 10 years) and the useful life of the related improvement (ranges from 5 to 10 years). Major renovations are depreciated over the remaining useful life of the related asset.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. There are no bank premises, furniture, fixtures and equipment that are fully impaired as at December 31, 2017 and 2016.

An item of Bank premises, furniture, fixtures and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

31.16 Investment properties

Properties that are held either to earn rental income or for capital appreciation or both, and that are not significantly occupied by the BPI Group are classified as investment properties. Transfers to, and from, investment property are made when, and only when, there is a change in use, evidenced by:

(a) Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
(b) Commencement of development with a view of sale, for a transfer from investment property to real properties held-for-sale and development;
(c) End of owner occupation, for a transfer from owner-occupied property to investment property; or
(d) Commencement of an operating lease to another party, for a transfer from real properties held-for-sale and development to investment property.

Transfers to and from investment property do not result in gain or loss.

Investment properties comprise land and building. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation on investment property is determined using the same policy as applied to Bank premises, furniture, fixtures, and equipment. Impairment test is conducted when there is an indication that the carrying amount of the asset may not be recovered. An impairment loss is recognized for the amount by which the property's carrying amount exceeds its recoverable amount, which is the higher of the property's fair value less costs to sell and value in use.

An item of investment property is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gains and losses arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

31.17 Foreclosed assets

Assets foreclosed shown as Assets held for sale in the statement of condition are accounted for at the lower of cost and fair value less cost to sell similar to the principles of PFRS 5. The cost of assets foreclosed includes the carrying amount of the related loan. Impairment loss is recognized for any subsequent write-down of the asset to fair value less cost to sell.

Foreclosed assets not classified as Assets held for sale are accounted for in any of the following classification using the measurement basis appropriate to the asset as follows:

(a) Investment property is accounted for using the cost model under PAS 40;

(b) Bank-occupied property is accounted for using the cost model under PAS 16; and

(c) Financial assets are classified as available-for-sale.

31.18 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the BPI Group's share in the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included under Other resources in the statement of condition. Goodwill on acquisitions of associates is included in Investments in subsidiaries and associates. Separately recognized goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary/associate include carrying amount of goodwill relating to the subsidiary/associate sold.

Goodwill is an indefinite-lived intangible asset and hence not subject to amortization.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each cash-generating unit is represented by each primary reporting segment.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relationships have finite useful lives of ten years and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationship. Contractual customer relationships are included under Other resources in the statement of condition.

(c) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis over the expected useful lives (three to five years). Computer software is included under Other resources in the statement of condition.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the BPI Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense when incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

31.19 Impairment of non-financial assets

Assets that have indefinite useful lives - for example, goodwill or intangible assets not ready for use - are not subject to amortization and are tested annually for impairment and more frequently if there are indicators of impairment. Assets that have definite useful lives are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

31.20 Borrowings and borrowing costs

The BPI Group's borrowings consist mainly of bills payable. Borrowings are recognized initially at fair value, being their issue proceeds, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred. The BPI Group has no qualifying asset as at December 31, 2017 and 2016.

31.21 Interest income and expense

Interest income and expense are recognized in profit or loss for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the BPI Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss.

31.22 Fees and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party (i.e. the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses) are recognized on completion of underlying transactions. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Asset management fees related to investment funds are recognized ratably over the period in which the service is provided.

31.23 Dividend income

Dividend income is recognized in profit or loss when the BPI Group's right to receive payment is established.

31.24 Credit card income

Credit card income is recognized upon receipt from merchants of charges arising from credit card transactions. These are computed based on rates agreed with merchants and are deducted from the payments to establishments.

31.25 Foreign currency translation

(a) Functional and presentation currency

Items in the financial statements of each entity in the BPI Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Philippine Peso, which is the Parent Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated at exchange rates as at the date of initial recognition. Non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value is determined.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss recognized under "Trading gain (loss)" in the statement of income. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale, are included in Accumulated other comprehensive income (loss) in the capital funds.

(c) Foreign subsidiaries

The results and financial position of BPI's foreign subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities are translated at the closing rate at reporting date;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component (Translation adjustments) of Accumulated other comprehensive income (loss) in the capital funds. When a foreign operation is sold, such exchange differences are recognized in profit or loss as part of the gain or loss on sale.

31.26 Accrued expenses and other liabilities

Accrued expenses and other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the BPI Group is established.

31.27 Provisions for legal or contractual obligations

Provisions are recognized when all of the following conditions are met: (i) the BPI Group has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item is included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

31.28 Income taxes

(a) Current income tax

Income tax payable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an expense for the year except to the extent that current tax is related to items (for example, current tax on available-for-sale investments) that are charged or credited in other comprehensive income or directly to capital funds.

The BPI Group has substantial income from its investment in government securities subject to final withholding tax. Such income is presented at its gross amount and the final tax paid or withheld is included in Provision for income tax - Current.

(b) Deferred income tax

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. Deferred income tax liabilities are recognized in full for all taxable temporary differences except to the extent that the deferred tax liability arises from the initial recognition of goodwill.

The BPI Group reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, and associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, and associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the BPI Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the BPI Group is unable to control the reversal of the temporary difference for associates except when there is an agreement in place that gives the BPI Group the ability to control the reversal of the temporary difference.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

31.29 Employee benefits

(a) Short-term benefits

The BPI Group recognizes a liability net of amount already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by to its employees include salaries and wages, social security contributions, short-term compensated absences and bonuses, and non-monetary benefits.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(b) Defined benefit retirement plan

The BPI Group has a defined benefit plan that shares risks among entities within the group. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statement of condition in respect of defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in profit or loss.

For individual financial reporting purposes, the unified plan assets are allocated among the BPI Group entities based on the level of the defined benefit obligation attributable to each entity to arrive at the net liability or asset that should be recognized in the individual financial statements.

(c) Defined contribution retirement plan

The BPI Group also maintains a defined contribution plan that covers certain full-time employees. Under its defined contribution plan, the Group pays fixed contributions based on the employees' monthly salaries. The Group, however, is covered under RA No. 7641, otherwise known as The Philippine Retirement Pay Law, which provides for its qualified employees a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641. Accordingly, the Group accounts for its retirement obligation under the higher of the defined benefit obligation relating to the minimum guarantee and the obligation arising from the defined contribution plan.

For the defined benefit minimum guarantee plan, the liability is determined based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution obligation at the end of the reporting period. The defined benefit obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The BPI Group and Parent Bank determine the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) then, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest and other expenses related to the defined benefit plan are recognized in the statement of income.

The defined contribution liability is measured at the fair value of the defined contribution assets upon which the defined contribution benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the defined contribution benefits.

Actuarial gains and losses arising from the remeasurements of the net defined contribution liability are recognized immediately in the other comprehensive income.

(d) Share-based compensation

The BPI Group engages in equity-settled share-based payment transactions in respect of services received from certain employees.

The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of employee services received in respect of the shares or share options granted is recognized in profit or loss (with a corresponding increase in reserve in capital funds) over the period that the services are received, which is the vesting period.

The fair value of the options granted is determined using option pricing models which take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors.

When the stock options are exercised, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (par value) and share premium for the excess of exercise price over par value.

(e) Profit sharing and bonus plans

The BPI Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Parent Bank's shareholders after certain adjustments. The BPI Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

31.30 Capital funds

Share capital, comprising common shares, is classified as equity.

Share premium includes any premiums or consideration received in excess of par value on the issuance of share capital.

Incremental costs directly attributable to the issue of new shares or options are shown in capital funds as a deduction from the proceeds, net of tax.

31.31 Earnings per share (EPS)

Basic EPS is calculated by dividing income applicable to common shares by the weighted average number of common shares outstanding during the year with retroactive adjustments for stock dividends. In case of a rights issue, an adjustment factor is being considered for the weighted average number of shares outstanding for all periods before the rights issue. Diluted EPS is computed in the same manner as basic EPS, however, net income attributable to common shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

31.32 Dividends on common shares

Dividends on common shares are recognized as a liability in the BPI Group's financial statements in the period in which the dividends are approved by the Board of Directors.

31.33 Fiduciary activities

The BPI Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the BPI Group (Note 26).

31.34 Leases

(a) BPI Group is the lessee

(i) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to "Occupancy and equipment-related expenses" in the statement of income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

(ii) Finance lease

Leases of assets, where the BPI Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(b) BPI Group is the lessor

(i) Operating lease

Properties (land and building) leased out under operating leases are included in "Investment properties" in the statement of condition. Rental income under operating leases is recognized in profit or loss on a straight-line basis over the period of the lease.

(ii) Finance lease

When assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income.

Lease income under finance lease is recognized over the term of the lease using the net investment method before tax, which reflects a constant periodic rate of return.

31.35 Insurance and pre-need operations

(a) Non-life insurance

The more significant accounting policies observed by the non-life insurance subsidiaries follow: (a) gross premiums written from short-term insurance contracts are recognized at the inception date of the risks underwritten and are earned over the period of cover in accordance with the incidence of risk using the 24th method; (b) acquisition costs are deferred and charged to expense in proportion to the premium revenue recognized; reinsurance commissions are deferred and deducted from the applicable deferred acquisition costs, subject to the same amortization method as the related acquisition costs; (c) a liability adequacy test is performed which compares the subsidiaries' reported insurance contract liabilities against current best estimates of all contractual future cash flows and claims handling, and policy administration expenses as well as investment income backing up such liabilities, with any deficiency immediately charged to profit or loss; (d) amounts recoverable from reinsurers and loss adjustment expenses are classified as assets, with an allowance for estimated uncollectible amounts; and (e) financial assets and liabilities are measured following the classification and valuation provisions of PAS 39.

(b) Pre-need

The more significant provisions of the PNUCA as applied by the pre-need subsidiary follow: (a) premium income from sale of pre-need plans is recognized as earned when collected; (b) costs of contracts issued and other direct costs and expenses are recognized as expense when incurred; (c) pre-need reserves which represent the accrued net liabilities of the subsidiary to its plan holders are actuarially computed based on standards and guidelines set forth by the Insurance Commission; the increase or decrease in the account is charged or credited to other costs of contracts issued in profit or loss; and (d) insurance premium reserves which represent the amount that must be set aside by the subsidiary to pay for premiums for insurance coverage of fully paid plan holders, are actuarially computed based on standards and guidelines set forth by the Insurance Commission.

31.36 Related party relationships and transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

31.37 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where PAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year. There were no changes to the presentation made during the year.

31.38 Subsequent events (or Events after the reporting date)

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

Note 32 - Supplementary information required by the Bureau of Internal Revenue

On December 28, 2010, Revenue Regulations (RR) No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the Notes to Financial Statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by PFRS.

Below is the additional information required by RR No. 15-2010 that is relevant to the Parent Bank. This information is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements.

(i) Documentary stamp tax

Documentary stamp taxes paid through the Electronic Documentary Stamp Tax System for the year ended December 31, 2017 consist of:

(In Millions of Pesos)	Amount
Deposit and loan documents	4,046
Trade finance documents	296
Mortgage documents	175
Shares of stocks	-
Others	3
	4,520

(ii) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2017 consist of:

	Amount		
(In Millions of Pesos)	Paid	Accrued	Total
Income taxes withheld on compensation	1,886	222	**2,108**
Final income taxes withheld on interest on deposits and yield on deposit substitutes	1,539	180	**1,719**
Final income taxes withheld on income payment	619	11	**630**
Creditable income taxes withheld (expanded)	331	38	**369**
Fringe benefit tax	88	32	**120**
VAT withholding tax	45	8	**53**
	4,508	**491**	**4,999**

(iii) All other local and national taxes

All other local and national taxes paid/accrued for the year ended December 31, 2017 consist of:

	Amount		
(In Millions of Pesos)	Paid	Accrued	Total
Gross receipts tax	2,688	282	**2,970**
Real property tax	117	-	**117**
Municipal taxes	159	-	**159**
Others	6	-	**6**
	2,970	**282**	**3,252**

(iv) Tax cases and assessments

As at reporting date, the Parent Bank has pending cases filed in courts and with the tax authorities contesting certain tax assessments and for various claims for tax refund. Management is of the opinion that the ultimate outcome of the said cases will not have a material impact on the financial statements of the Parent Bank.

ANNEX "E"

Globe Telecom, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2017 and 2016
and
Years Ended December 31, 2017, 2016 and 2015

and

Independent Auditor's Report

NavarroAmper&Co.

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BOA/PRC Reg. No. 0004
SEC Accreditation No. 0001-FR-4

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Globe Telecom, Inc.
The Globe Tower, 32nd Street corner 7th Avenue
Bonifacio Global City, Taguig City

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Globe Telecom, Inc. and Subsidiaries (the "Globe Group") which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and the 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 financial position of the Globe Group as at December 31, 2017 and 2016, and its financial performance, and 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 Globe Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with 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.

We identified the following key audit matters:

<u>Key Audit Matters</u>	**<u>Our audit performed and responses thereon</u>**
Revenue recognition	
The Globe Group provides mobile and wireline voice, data communication and broadband internet services which are both provided under postpaid and prepaid arrangements. Revenue is recognized when the delivery of the products or services has occurred and collectability is reasonably assured. Revenue is stated at amounts invoiced and accrued to customers, taking into consideration the bill cycle (for postpaid subscribers), the amount charged against preloaded airtime value (for prepaid subscribers), switch-monitored traffic (for carriers and content providers) and excludes value-added tax and overseas communication tax. Revenue recognition has been identified as a key audit matter primarily due to the significant volume of data and transactions processed through various systems, heavy reliance on automated processes and controls over the recording of transactions, complexity of the operation of billing systems used and determination of the accounting of new products introduced during the year. Service revenues amounted to ₱127,906 million during the year and is highly dependent on the accuracy of the flow of data among the systems employed by the Globe Group. The Globe Group's disclosures on the accounting for revenue recognition are discussed in Notes 2.6.1 and 29 to the consolidated financial statements.	Our audit approach included both controls testing and substantive procedures as follows: • We obtained an understanding of the Information Technology (IT) environment and evaluated the design and operating effectiveness of the General Information Technology Controls, as well as the application controls of the relevant IT systems, over the capture and recording of revenue transactions. In doing so, we involved our IT specialist to assist in the audit of automated controls, including interface controls between different IT applications. • We evaluated the business process controls in place over the initiation and authorization of rate changes, the introduction of new plans and input of this information into the billing systems. • We performed test on the accuracy of customer bills on a sample basis for existing products as well as for new products introduced in the year. • As part of the substantive tests, we tested key reconciliation used by management to assess the completeness and accuracy of revenue from business support systems to the general ledger. • We performed analytical review over prepaid and postpaid revenues based on underlying data and certain relationships as well as testing, on a sample basis, the accuracy of adjustments on revenues earned including those from carriers and content providers as a result of negotiations. • We profiled the manual journal entries posted to revenue accounts and tested supporting evidence to identify any unusual items.

Key Audit Matters	Our audit performed and responses thereon
Completion of fair valuation of identifiable assets and liabilities related to the acquired equity interest in Vega Telecom, Inc. (VTI), Bow Arken Holding Company, Inc. (BAHC) and Brightshare Holdings Corporation (BHC)	
On May 30, 2016, Globe Telecom, Inc., the Parent Company, acquired 50% equity interest in VTI, BAHC and BHC (the "Acquirees") for a total consideration amounting to ₱26,424 million, accounted for as an Investment in Joint Venture. VTI accounts substantial portion of the acquired equity interest. Following the provisionally determined net fair values of the Acquirees' identified assets and liabilities amounting to ₱8,558 million in 2016, fair valuation was completed on May 30, 2017, which resulted to final net fair values of the identified assets and liabilities amounting to ₱10,111 million. Moreover, in 2017, the Parent Company made an additional purchase price consideration amounting ₱1,561 million as a result of the confirmatory due diligence pursuant to the Sales and Purchase Agreement. Accordingly, these subsequent transactions related to the acquisition resulted in an adjusted goodwill of ₱18,012 million, from the previously determined goodwill of ₱18,004 million. The Globe Group's disclosures on the accounting for the said investment are set out in Notes 3.1.7 and 10.3 to the consolidated financial statements.	We reassessed the identification of the Acquirees' assets and liabilities, re-evaluated the estimated useful lives assigned to the identified intangible assets, and reviewed the subsequent adjustments during the measurement period using the accumulated relevant market and industry data since the provisional fair valuation in 2016. We have also assessed and corroborated the adequacy and completeness of the disclosures in relation to the acquisition. Based on our procedures, we determined that the final fair values approximate the provisional fair values and we are satisfied with the adjustments made in 2017 to the provisional amounts as at December 31, 2016.

Key Audit Matters	Our audit performed and responses thereon
Goodwill impairment review	
Under PFRSs, the Globe Group is required to annually test the amount of goodwill for impairment. As of December 31, 2017, the Globe Group's goodwill attributable to the cash generating unit (CGU) of mobile communications services or wireless segment amounting to ₱1,283 million is material to the consolidated financial statements. We consider this a key audit matter because the management's assessment process requires significant judgment and is based on assumptions affected by expected market or economic conditions such as revenue growth rate, discount rate and long-term growth rate. Management performed the assessment on the recoverability of goodwill using cash flow projections from the latest financial budgets covering a 5-year period. The Globe Group's disclosures on the accounting for goodwill are set out in Notes 2.6.15, 3.1.3 and 8 to the consolidated financial statements.	We evaluated the appropriateness of Management's identification of the Globe Group's CGUs, obtained an understanding of the Globe Group's impairment assessment process and tested the relevant controls addressing the risks related to the assumptions and the impairment analysis. We also involved our internal specialist in evaluating the methodology and valuation assumptions, including the parameters used in the determination of discount rate and the long-term growth rate. For the key business assumptions used such as revenue growth rate, we performed a retrospective analysis by comparing the projections to the historical performance of the cash generating unit, economic/market outlook and other relevant external data. We further challenged the assessment by analyzing the impact of changes in long-term growth rate, free cash flow forecasts, and discount rate to the excess of value in use over carrying amount of the CGU. In addition, we reviewed the disclosures on significant assumptions affecting the determination of the recoverable amount of goodwill. Based on our procedures, we consider that management's key assumptions are within reasonable range of our expectations.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Securities and Exchange Commission (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 available to us after the date of this auditor's report.

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

In connection with our audit 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 audit, 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 Globe 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 Globe Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Globe 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 Globe 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 Globe 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 Globe 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 Globe Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group 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 Mr. Oliver C. Bucao.

Navarro Amper & Co.
BOA Registration No. 0004, valid from December 4, 2015 to December 31, 2018
SEC Accreditation No. 0001-FR-4, issued on January 7, 2016; effective until January 6, 2019, Group A
TIN 005299331

By:

ocbucao

Oliver C. Bucao
Partner
CPA License No. 0086699
SEC A.N. 1623-A, issued on March 23, 2017; effective until March 22, 2020, Group A
TIN 129433612
BIR A.N. 08-002552-47-2017, issued on June 8, 2017; effective until June 8, 2020
PTR No. A-3745354, issued on January 5, 2018, Taguig City

Taguig City, Philippines
February 5, 2018

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	December 31 2017	2016
		(In Thousand Pesos)	
ASSETS			
Current Assets			
Cash and cash equivalents	16.5, 28.10, 30	**₱11,222,220**	₱8,632,852
Receivables – net	4, 16.5, 28.2.2	**27,304,288**	26,944,645
Inventories and supplies – net	5	**3,242,689**	4,579,954
Derivative assets	28.3, 28.10	**15,043**	68,311
Prepayments and other current assets	6	**15,730,897**	12,796,892
		57,515,137	53,022,654
Noncurrent Assets			
Property and equipment – net	7, 16.5	**162,602,646**	142,251,981
Intangible assets and goodwill – net	8	**14,883,706**	14,833,220
Investments	10	**35,602,999**	34,181,452
Deferred income tax assets – net	24	**2,761,626**	2,622,703
Derivative assets	28.3, 28.10	**911,358**	755,137
Other noncurrent assets	11, 28.10	**3,488,816**	2,195,963
		220,251,151	196,840,456
TOTAL ASSETS		**₱277,766,288**	₱249,863,110
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	12, 16, 28.10	**₱62,232,862**	₱59,137,686
Notes payable	14	**-**	4,500,000
Current portion of long-term debt	14, 28.2.3, 28.10	**8,278,222**	5,830,319
Unearned revenues	4	**5,509,773**	5,090,421
Income tax payable	24	**1,180,753**	1,105,931
Provisions	13	**2,064,361**	6,631,612
Derivative liabilities	28.3, 28.10	**191,060**	105,928
		79,457,031	82,401,897
Noncurrent Liabilities			
Long-term debt – net of current portion	14, 28.2.3, 28.10	**123,250,483**	95,398,272
Deferred income tax liabilities – net	24	**2,748,826**	1,916,923
Other long-term liabilities	15, 18.2, 28.10	**5,752,211**	6,669,716
		131,751,520	103,984,911
Total Liabilities		**211,208,551**	186,386,808
Equity			
Paid-up capital	17	**44,757,853**	44,505,703
Cost of share-based payments	18.1	**401,543**	584,586
Other reserves	17.6	**(352,375)**	(1,072,925)
Retained earnings	17.5	**21,708,003**	19,422,402
Equity attributable to equity holders of the Parent		**66,515,024**	63,439,766
Non-controlling interest		**42,713**	36,536
Total Equity		**66,557,737**	63,476,302
TOTAL LIABILITIES AND EQUITY		**₱277,766,288**	₱249,863,110

See accompanying Notes to Consolidated Financial Statements.

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	For the Years Ended December 31 2017	2016	2015
		(In Thousand Pesos, Except Per Share Figures)		
REVENUES				
Service revenues	16, 29	**₱127,905,853**	₱120,588,003	₱114,049,490
Nonservice revenues	29	**7,374,878**	6,193,657	6,289,968
		135,280,731	126,781,660	120,339,458
INCOME (LOSSES)				
Gain on fair value of retained interest	10.1, 10.4, 29	**1,889,901**	-	745,831
Equity in net losses of associates and joint ventures	10, 29	**(846,177)**	(855,198)	(153,512)
Interest income	19, 29	**139,581**	151,589	518,537
Gain on disposal of property and equipment – net	29	**38,455**	101,232	57,642
Other income – net	20, 29	**415,617**	983,186	1,385,022
		1,637,377	380,809	2,553,520
COSTS AND EXPENSES				
General, selling and administrative expenses	21	**56,608,922**	52,471,053	49,137,226
Depreciation and amortization	7, 8, 29	**27,512,689**	23,848,646	21,132,698
Cost of sales	5, 29	**13,013,437**	11,914,114	13,665,203
Interconnect costs	29	**7,852,336**	9,623,127	9,007,919
Financing costs	14, 22, 25, 29	**5,251,692**	4,096,826	3,372,924
Impairment losses and others	23, 29	**5,137,330**	3,271,301	3,109,520
		115,376,406	105,225,067	99,425,490
INCOME BEFORE INCOME TAX		**21,541,702**	21,937,402	23,467,488
PROVISIONS FOR INCOME TAX				
Current	24	**6,005,420**	5,556,965	6,203,825
Deferred	24	**452,069**	491,938	779,213
		6,457,489	6,048,903	6,983,038
NET INCOME		**15,084,213**	15,888,499	16,484,450
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified into profit or loss in subsequent periods:				
Remeasurement gains (losses) on defined benefit plan – net	17.6 , 18.2	**399,993**	197,508	(266,172)
Items that will be reclassified into profit or loss in subsequent periods:				
Transactions on cash flow hedges – net	17.6	**139,412**	(95,565)	923
Changes in fair value of available-for-sale investment in equity securities	17.6	**26,000**	13,440	24,267
Exchange differences arising from translations of foreign investments	17.6	**(23,140)**	23,205	7,322
Other comprehensive income (loss), net of tax		**542,265**	138,588	(233,660)
TOTAL COMPREHENSIVE INCOME		**₱15,626,478**	₱16,027,087	₱16,250,790

(Forward)

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	2017	2016	2015
		For the Years Ended December 31		
		(In Thousand Pesos, Except Per Share Figures)		
Total net income attributable to:				
Equity holders of the Parent		**₱15,065,779**	₱15,878,415	₱16,496,644
Non-controlling interest		**18,434**	10,084	(12,194)
		15,084,213	15,888,499	16,484,450
Total comprehensive income attributable to:				
Equity holders of the Parent		**15,608,044**	16,017,003	16,262,984
Non-controlling interest		**18,434**	10,084	(12,194)
		₱15,626,478	₱16,027,087	₱16,250,790
Earnings Per Share				
Basic	27	**₱109.22**	₱115.45	₱120.11
Diluted	27	**₱109.01**	₱115.27	₱119.92
Cash dividends declared per common share	17	**₱91.00**	₱88.00	₱83.00

See accompanying Notes to Consolidated Financial Statements.

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		For the Year Ended December 31, 2017							
		Attributable to Equity Holders of the Parent							
	Notes	Capital Stock (Note 17)	Additional Paid-in Capital	Cost of Share-Based Payments	Other Reserves (Note 17)	Retained Earnings	Subtotal	Non-controlling Interest	Total
					(In Thousand Pesos)				
As of January 1, 2017		₱8,430,504	₱36,075,199	₱584,586	(₱1,072,925)	₱19,422,402	₱63,439,766	₱36,536	₱63,476,302
Total comprehensive income for the year		-	-	-	542,265	15,065,779	15,608,044	18,434	15,626,478
Dividends on:	17.3								
Common Stock		-	-	-	-	(12,091,736)	(12,091,736)	-	(12,091,736)
Preferred Stock – voting		-	-	-	-	(33,731)	(33,731)	-	(33,731)
Preferred Stock – non-voting		-	-	-	-	(520,060)	(520,060)	-	(520,060)
Cost of share-based payments	18.1	-	-	104,828	-	-	104,828	-	104,828
Issue of shares under share-based compensation plan		7,000	224,298	(231,298)	-	-	-	-	-
Exercise of stock options	17.2	900	19,952	(12,939)	-	-	7,913	-	7,913
Forfeiture of stock options		-	-	(43,634)	-	43,634	-	-	-
Reclassification remeasurement gains (losses) on defined benefit plans		-	-	-	178,285	(178,285)	-	-	-
Non-controlling interest adjustment arising from subscription		-	-	-	-	-	-	(223)	(223)
Non-controlling interest arising from business combination	9.2	-	-	-	-	-	-	(12,034)	(12,034)
As of December 31, 2017		₱8,438,404	₱36,319,449	₱401,543	(₱352,375)	₱21,708,003	₱66,515,024	₱42,713	₱66,557,737

(Forward)

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		For the Year Ended December 31, 2016							
		Attributable to Equity Holders of the Parent							
	Notes	Capital Stock (Note 17)	Additional Paid-in Capital	Cost of Share-Based Payments	Other Reserves (Note 17)	Retained Earnings	Subtotal	Non-controlling Interest	Total
					(In Thousand Pesos)				
As of January 1, 2016		₱8,429,713	₱36,057,263	₱338,008	(₱1,211,513)	₱15,778,557	₱59,392,028	₱5,754	₱59,397,782
Total comprehensive income for the year		-	-	-	138,588	15,878,415	16,017,003	10,084	16,027,087
Dividends on:	17.3								
Common Stock		-	-	-	-	(11,682,483)	(11,682,483)	-	(11,682,483)
Preferred Stock – voting		-	-	-	-	(32,027)	(32,027)	-	(32,027)
Preferred Stock – non-voting		-	-	-	-	(520,060)	(520,060)	-	(520,060)
Cost of share-based payments	18.1	-	-	260,269	-	-	260,269	-	260,269
Exercise of stock options	17.2	791	17,936	(13,691)	-	-	5,036	-	5,036
Non-controlling interest arising from business combination		-	-	-	-	-	-	20,698	20,698
As of December 31, 2016		₱8,430,504	₱36,075,199	₱584,586	(₱1,072,925)	₱19,422,402	₱63,439,766	₱36,536	₱63,476,302

		For the Year Ended December 31, 2015							
		Attributable to Equity Holders of the Parent							
	Notes	Capital Stock (Note 17)	Additional Paid-in Capital	Cost of Share-Based Payments	Other Reserves (Note 17)	Retained Earnings	Subtotal	Non-controlling Interest	Total
					(In Thousand Pesos)				
As of January 1, 2015		₱8,429,229	₱36,049,013	₱189,433	(₱977,853)	₱10,852,478	₱54,542,300	(₱4,634)	₱54,537,666
Total comprehensive income for the year		-	-	-	(233,660)	16,496,644	16,262,984	(12,194)	16,250,790
Dividends on:	17.3								
Common Stock		-	-	-	-	(11,017,355)	(11,017,355)	-	(11,017,355)
Preferred Stock – voting		-	-	-	-	(33,150)	(33,150)	-	(33,150)
Preferred Stock – non-voting		-	-	-	-	(520,060)	(520,060)	-	(520,060)
Cost of share-based payments	18.1	-	-	153,994	-	-	153,994	-	153,994
Exercise of stock options	17.2	484	8,196	(5,419)	-	-	3,261	-	3,261
Equity transaction costs on non-voting preferred stock		-	54	-	-	-	54	-	54
Non-controlling interest arising from subscription		-	-	-	-	-	-	10	10
Non-controlling interest arising from business combination		-	-	-	-	-	-	22,572	22,572
As of December 31, 2015		₱8,429,713	₱36,057,263	₱338,008	(₱1,211,513)	₱15,778,557	₱59,392,028	₱5,754	₱59,397,782

See accompanying Notes to Consolidated Financial Statements.

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	2017	2016	2015
		For the Years Ended December 31		
		(In Thousand Pesos)		
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱21,541,702**	₱21,937,402	₱23,467,488
Adjustments for:				
Depreciation and amortization	7, 8	**27,512,689**	23,848,646	21,132,698
Impairment losses and others	23	**5,137,330**	3,271,301	3,109,520
Interest expense – net	22	**5,042,952**	3,408,899	2,774,078
Gain on fair value of retained interest		**(1,889,901)**	-	(745,831)
Equity in net losses of associates and joint ventures	10	**846,177**	855,198	153,512
Pension expense	18.2	**621,316**	594,557	543,248
Impairment losses on investment in an associate	10	**286,036**	-	-
Foreign exchange losses (gains) – net	20, 22	**(214,191)**	525,024	457,295
Loss (gain) on derivative instruments	20	**181,340**	116,960	(31,008)
Interest income	19	**(139,581)**	(151,589)	(518,537)
Cost of share-based payments	18.1	**104,828**	260,269	153,994
Gain on disposal of property and equipment	29	**(38,455)**	(101,232)	(57,642)
Share in distribution of income of joint operations		**(16,740)**	-	-
Loss (gain) on previously held equity interest	9.2, 20	**9,103**	30,186	(431,115)
Loss on disposal of associate/AFS investments	20	**-**	16,054	-
Gain on disposal of controlling interest in subsidiary	20	**-**	-	(449,148)
Operating income before working capital changes		**58,984,605**	54,611,675	49,558,552
Changes in operating assets and liabilities:				
Decrease (Increase) in:				
Receivables	10.1, 10.3	**(4,865,124)**	(8,210,048)	(5,714,476)
Inventories and supplies		**914,923**	(410,495)	(1,532,769)
Prepayments and other current assets		**(3,370,178)**	(4,786,592)	1,371,743
Other noncurrent assets		**(1,177,991)**	754,355	(825,851)
Increase (Decrease) in:				
Accounts payable and accrued expenses		**6,711,102**	478,914	(716,472)
Other long-term liabilities		**(1,713,211)**	449,880	(172,643)
Unearned revenues		**419,351**	152,189	40,085
Cash generated from operations		**55,903,477**	43,039,878	42,008,169
Income tax paid		**(5,599,215)**	(5,577,281)	(6,055,966)
Net cash flows from operating activities		**50,304,262**	37,462,597	35,952,203
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Property and equipment	7	**(42,121,307)**	(36,609,815)	(31,955,788)
Investment in joint ventures	10	**(12,234,212)**	(21,562,555)	(332,500)
Intangible assets	8	**(419,920)**	(135,273)	(174,698)
Proceeds from loans receivable		**243,780**	180,000	-
Proceeds from sale of property and equipment		**118,117**	170,116	141,759
Interest received		**145,234**	155,672	134,340
Dividends received		**93,258**	115,257	22,000
Proceeds from disposal of an investment in associate		**-**	16,120	-
Net cash outflow from deconsolidation	10.4	**(1,246,965)**	-	-
Net cash inflow (outflow) from acquisition of subsidiaries, net cash acquired	9	**-**	13,671	(1,318,689)
Net cash inflow (outflow) from sale of controlling interest in subsidiary	10.1	**-**	(4,780)	923,491
Net cash flows used in investing activities		**(55,422,015)**	(57,661,587)	(32,560,085)

(Forward)

GLOBE TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	For the Years Ended December 31		
		2017	2016	2015
		(In Thousand Pesos)		
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings:	14, 30			
Long-term		**₱36,430,730**	₱36,500,000	₱12,110,050
Short-term		**4,600,000**	21,600,000	-
Repayments of borrowings:	14, 30			
Long-term		**(5,953,717)**	(7,993,304)	(6,181,143)
Short-term		**(9,100,000)**	(17,100,000)	-
Payments of dividends to stockholders:	17.3			
Common		**(12,091,736)**	(11,682,483)	(11,017,356)
Preferred		**(553,791)**	(552,087)	(553,210)
Exercise of stock options		**7,913**	5,036	3,261
Interest paid		**(5,525,049)**	(3,812,532)	(2,767,879)
Net cash provided by (used in) financing activities		**7,814,350**	16,964,630	(8,406,277)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**2,696,597**	(3,234,360)	(5,014,159)
NET FOREIGN EXCHANGE DIFFERENCE ON CASH AND CASH EQUIVALENTS		**(107,229)**	52,833	71,630
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		**8,632,852**	11,814,379	16,756,908
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	16, 28.10, 30	**₱11,222,220**	₱8,632,852	₱11,814,379

See accompanying Notes to Consolidated Financial Statements.

GLOBE TELECOM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Corporate Information

Globe Telecom, Inc. (hereafter referred to as "Globe Telecom") is a stock corporation organized under the laws of the Philippines on January 16, 1935, and enfranchised under Republic Act (RA) No. 7229 and its related laws to render any and all types of domestic and international telecommunications services. Globe Telecom is one of the leading providers of digital wireless communications services in the Philippines under the Globe Postpaid and Prepaid, and Touch Mobile (TM) using a fully digital network. It also offers domestic and international long distance communication services or carrier services. Globe Telecom's head office is located at The Globe Tower, 32nd Street corner 7th Avenue, Bonifacio Global City, Taguig, Metropolitan Manila, Philippines. Globe Telecom is listed in the Philippine Stock Exchange (PSE) and has been included in the PSE composite index since September 17, 2001. Major stockholders of Globe Telecom include Ayala Corporation (AC), Singapore Telecom International Pte Ltd. (Singtel) and Asiacom Philippines, Inc. None of these companies exercise control over Globe Telecom.

Innove Communications, Inc. (Innove)

Globe Telecom owns 100% of Innove, a stock corporation organized under the laws of the Philippines and enfranchised under RA No. 7372 and its related laws to render any and all types of domestic and international telecommunications services. Innove holds a license to provide digital wireless communication services in the Philippines. Innove also offers a broad range of broadband internet and wireline voice and data communication services, as well as domestic and international long distance communication services or carrier services. Innove also has a license 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. On November 2, 2015, Innove and Techzone Philippines incorporated TechGlobal Data Center, Inc. (TechGlobal), a joint venture company formed for the purpose of operating and managing all kinds of data centers, and providing information technology-enabled, knowledge-based and computer-enabled support services. Innove and Techzone hold ownership interest of 49% and 51%, respectively. TechGlobal started commercial operations in August 2017.

On August 8, 2016, House Bill No. 2617 was filed to extend the legislative franchise of Innove prior to its expiry on March 23, 2017 and ensure uninterrupted and improved delivery of services. On May 17, 2017, House Bill No. 5556 (substitute of House Bill No. 2617), which sought the renewal and amendment of the franchise for another 25 years, was approved in the Philippine Congress and submitted to the Senate of the Philippines. As of February 5, 2018, the House Bill has undergone several reviews and approved by the Senate Committee on Public Services.

G-Xchange, Inc. (GXI)

Prior to deconsolidation in 2017, Globe Telecom owned 100% of GXI. GXI is a stock corporation organized under the laws of the Philippines and formed for the purpose of 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. GXI is registered with the Bangko Sentral ng Pilipinas (BSP) as a remittance agent and electronic money issuer. GXI handles the mobile payment and remittance service using Globe Telecom's network as transport channel under the GCash brand. The service, which is integrated into the cellular services of Globe Telecom, enables easy and convenient person-to-person fund transfers via short messaging services (SMS) and allows Globe Telecom subscribers to easily and conveniently put cash into and get cash out of the GCash system.

Pursuant to the approval by the Board of Directors (BOD) through its Executive Committee, the ownership of GXI was transferred on February 7, 2017 from Globe to Globe Fintech Innovations Inc. (GFI/Mynt), a wholly-owned subsidiary of Globe Telecom.

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 Singapore Holdings PTE. LTD. (Alipay) and Ayala Corporation (Ayala) for Alipay and Ayala to invest in the unissued common shares of GFI/Mynt, subject to the fulfillment of certain conditions. The Philippine Competition Commission (PCC) released through a memo dated August 23, 2017 its affirmative decision on the Alipay acquisition of GFI/Mynt shares, resulting in the dilution of GCVHI, ownership in GFI/Mynt from a wholly-owned subsidiary to 45% equity interest (see Note 10).

GTI Business Holdings, Inc. (GTI)

Globe Telecom owns 100% of GTI. GTI was incorporated and registered under the laws of the Philippines on November 25, 2008 as a holding company. In July 2009, GTI's wholly-owned subsidiary, GTI Corporation (GTIC), a company organized under the General Corporation Law of the United States of America, State of Delaware, for the purpose of engaging in any lawful act or activity for which corporations may be organized under the Delaware General Corporation Law. GTIC started commercial operations on April 1, 2011. In December 2011, GTI incorporated another wholly owned subsidiary, Globe Telecom HK Limited (GTHK), a limited company organized under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). GTHK started commercial operations on August 1, 2012. On May 10, 2013, GTI incorporated its wholly owned subsidiary, Globetel European Limited (GTEU) and the latter's wholly owned subsidiary, UK Globetel Limited (UKGT). GTEU was incorporated to act as holding company for the operating companies of Globe Telecom, which proposed to establish operations in Europe, marketing and selling mobile telecommunications services, to Filipino individuals and businesses located in the United Kingdom, Spain and Italy. These entities are private limited companies under the Companies Act of 2006, with the registered addresses in England and Wales. GTEU started commercial operations on the same date of incorporation while UKGT's commercial operations commenced on July 22, 2013.

On July 22, 2013 and October 4, 2013, respectively, GTEU incorporated additional two European wholly owned subsidiaries which are Globe Mobilé Italy S.r.l. (GMI), a limited liability company, with registered address in Milan, Italy and Globetel Internacional European España, S.L. (GIEE), with registered address in Barcelona, Spain. GMI and GIEE commenced commercial operations on November 24, 2013 and August 7, 2014, respectively. GMI and GIEE were organized to operate similar to UKGT. On June 2, 2016, the BOD approved the cessation of the operations of UKGT, GMI and GIEE effective July 31, 2016. As of reporting date, completion of the regulatory requirements on the liquidation of GMI and GIEE is still in process. UKGT filed strike off application to the Companies House. On January 2, 2018, notice of strike off was published in the London Gazette. UKGT is expected to be dissolved in April 2018.

On November 12, 2014, GTI incorporated Globetel Singapore Pte. Ltd. (GTSG), a wholly owned subsidiary, to provide international cable services that will help strengthen connectivity between Singapore and the Philippines, and for the purpose of offering full range of international data services in Singapore.

Kickstart Ventures, Inc. (Kickstart or KVI)

On March 28, 2012, Globe Telecom incorporated Kickstart, a stock corporation organized under the laws of the Philippines and formed for the purpose of investing in individual, corporate, or start-up businesses, and to do research, technology development and commercializing of new business ventures. Kickstart started commercial operations on March 29, 2012. In February 2014, Kickstart acquired 40% equity interest in Flipside Publishing Services, Inc. (FPSI) which was accounted for as a subsidiary and consolidated based on Kickstart's assessment of relevant facts and circumstances starting February 2014. In January 2015, FPSI is engaged primarily to acquire publishing rights, produce, publish, market, and sell printed and electronic books (e-books) and other electronic documents and content for international and domestic sales. FPSI has ceased operations in July 2016. As of reporting date, completion of regulatory requirements is still in process.

Asticom Technology, Inc. (Asticom)

On June 3, 2014, Globe Telecom signed an agreement with Azalea Technology Investments Inc. (ASTI) and SCS Computer Systems, Pte. Ltd. acquiring 100% ownership stake in Asticom. Asticom is engaged in trading, marketing, installing and servicing of computer equipment, peripherals, manpower, software and other data processing devices. Asticom was consolidated beginning June 2014.

Globe Capital Venture Holdings Inc. (GCVHI)

Globe Telecom owns 100% of GCVHI. GCVHI was incorporated on June 29, 2015. On July 8 and October 13, 2015, GCVHI incorporated its wholly owned subsidiaries, GFI and Adspark Holdings, Inc. (AHI), respectively (collectively referred here as "GCVHI Group"). GCVHI, GFI and AHI are holding companies for Globe Telecom's non-core businesses. GCVHI was consolidated starting July 2015. On December 28, 2015, AHI incorporated its wholly-owned subsidiary, Adspark Inc. (AI), to operate as an advertising company. On January 29, 2016, AI acquired 70% of the shares of Socialytics Inc. (Socialytics), a social media marketing firm founded in 2013. On August 5, 2016, GFI incorporated its wholly-owned subsidiary, Fuse Lending, Inc. (Fuse), to operate as a lending company.

On September 1, 2015, Yondu Inc. (Yondu), an associate of Globe telecom, and GCVHI entered into a Deed of Assignment to assign the former's 50% interest in Global Telehealth, Inc. ("GTHI") to GCVHI for a total consideration of ₱15 million (see Note 10.1).

Bayan Telecommunications Inc. (BTI)

On July 2, 2015, the National Telecommunications Commission (NTC) approved the conversion of BTI Tranche A convertible portion of the debt to equity, and resulted to Globe Telecom's gaining a controlling interest in BTI with increased ownership from 38% to at least 54% of BTI's outstanding shares. On July 20, 2015, Globe Telecom acquired additional voting shares of BTI, which increased its controlling interest to approximately 99% for a cash consideration amounting to ₱1,829.84 million. BTI was previously a subsidiary of Bayan Telecommunications Holdings Corporation (BTHC), a holding company also incorporated in the Philippines. BTI is a facilities-based provider of data services and fixed-line telecommunications. BTI was consolidated starting July 2015.

BTI's subsidiaries are: Radio Communications of the Philippines, Inc. (RCPI), Telecoms Infrastructure Corp. of the Philippines (Telicphil), Sky Internet, Incorporated (Sky Internet), GlobeTel Japan (formerly BTI Global Communications Japan, Inc.), BTI Global Communications Ltd. (BTI - UK), and NDTN Land, Inc. (NLI), (herein collectively referred to as "BTI Group"). On April 8, 2016, RCPI sold its 100% interest in Alarmnet Inc. to a third party amounting to ₱0.5 million. A Deed of Assignment was executed on March 31, 2016, assigning the receivables of RCPI from Alarmnet Inc. to the buyer amounting to ₱42.31 million. In July 2016, BTI - UK ceased its operations.

The formal notice on the final dissolution of BTI-UK effective March 14, 2017 was received from Companies House in UK. On May 30, 2017, the Management Committee, with representation of at least sixty-seven percent of the total voting interest, approved the termination of the Agreement on the Construction, Operation and Maintenance of the National Digital Transmission Network dated November 28, 1996, as well as the dissolution of Telicphil and NDTN Land, Inc.

TaoDharma Inc. (Tao)

In March 2013, Globe Telecom entered into a Shareholders' Agreement with four other entities to incorporate Tao. Globe Telecom subscribed to 25% preferred shares of Tao amounting to ₱55.00 million which was fully paid up as of August 2013. Tao was established to operate and maintain retail stores in strategic locations within the Philippines that will sell telecommunications or internet-related services, and devices, gadgets and accessories.

On November 4, 2016, the BOD of Globe Telecom approved the increase in stake in Tao from 25% to 67% resulting to Globe Telecom's gaining a controlling interest in Tao for a total consideration of ₱207.34 million. The transaction was accounted for as an acquisition of a subsidiary.

2 Summary of Significant Accounting Policies

2.1 Basis of Preparation

The accompanying consolidated financial statements of Globe Telecom, Inc. and its subsidiaries, collectively referred to as the "Globe Group", have been prepared under the historical cost convention method, except for derivative financial instruments and available-for-sale (AFS) investments that are measured at fair value, certain financial instruments carried at amortized cost, inventories which are carried at net realizable value, and accrued pension, which is measured as the excess of the present value of the defined benefit obligation over the fair value of the plan assets.

The consolidated financial statements of the Globe Group are presented in Philippine Peso (₱), which is Globe Telecom's functional currency, and rounded to the nearest thousands, except when otherwise indicated.

On February 5, 2018, the BOD approved and authorized the release of the consolidated financial statements of Globe Telecom, Inc. and its subsidiaries as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, 2016 and 2015.

2.2 Statement of Compliance

The consolidated financial statements of the Globe Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), which includes all applicable PFRS, Philippine Accounting Standards (PAS), and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC), and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and the Board of Accountancy, and adopted by the Securities and Exchange Commission (SEC).

2.3 Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Globe Telecom and the following subsidiaries:

			Percentage of Ownership	
Name of Subsidiary	Place of Incorporation	Principal Activity	**2017**	2016
Innove	Philippines	Wireline voice and data communication services	**100%**	100%
GTI	Philippines	Investment and holding company	**100%**	100%
GTIC	United States	Wireless and data communication services	**100%**	100%
GTHK	Hong Kong	Marketing and selling of products and services under distributorship agreement	**100%**	100%
GTSG	Singapore	Wireless and data communication services	**100%**	100%
GTEU	United Kingdom	Investment and holding company	**100%**	100%
UKGT**	United Kingdom	Wireless and data communication services	**100%**	100%
GMI**	Italy	Wireless and data communication services	**100%**	100%
GIEE**	Spain	Wireless and data communication services	**100%**	100%
KVI	Philippines	Investment, research, technology development and commercializing for business ventures	**100%**	100%
FPSI**	Philippines	E-book solutions	**40%**	40%
Asticom	Philippines	Support and shared services provider	**100%**	100%
GCVHI	Philippines	Investment and Holding Company	**100%**	100%
GFI***	Philippines	Holding company	**45%**	100%
Fuse***	Philippines	Lending company	**45%**	100%
GXI***	Philippines	Mobile payment, money remittance services and electronic money issuer	**45%**	100%
AHI	Philippines	Holding company	**100%**	100%
AI	Philippines	Advertising company	**100%**	100%
Socialytics	Philippines	Social media marketing firm	**70%**	70%
BTI	Philippines	Telecommunication services	**99%**	99%
RCPI	Philippines	Telecommunication services	**91%**	91%
Telicphil**	Philippines	Design, planning, technical administration, and maintenance	**58%**	58%
Sky Internet	Philippines	Communication and information networking services.	**100%**	100%
GlobeTel Japan	Japan	Call center and telemarketing services, international private leased circuits and internet services	**100%**	100%
BTI – UK**	United Kingdom	Prepaid international phone services	**-**	100%
NLI**	Philippines	Acquire and lease land for the use and benefit of NLI's shareholders	**65%**	65%
Tao	Philippines	Premium dealership	**67%**	67%

**Deconsolidated in 2016.*
***Ceased operations in 2016.*
****Deconsolidated in 2017 (see Note 1)*

The assets, liabilities, income and expense of subsidiaries are consolidated from the date on which control is transferred to the Parent Company and ceases to be consolidated from the date on which control is transferred out of Parent Company.

Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Parent Company controls an investee if and only if the Parent Company has: (a) power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee); (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect its returns.

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including: (a) the contractual arrangement with the other vote holders of the investee; (b) rights arising from other contractual arrangements; and (c) the Parent Company's voting rights and potential voting rights.

The Globe 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.

Non-controlling interests pertain to the equity in a subsidiary not attributable, directly or indirectly to the Globe Group. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not wholly-owned and are presented in the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of financial position, separately from the equity attributable to the Parent.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent of the Globe Group and to the non-controlling interests, even if this results in the non-controlling interests having deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. The carrying amounts of the Globe Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiaries. Any difference between the amount by which the non-controlling interest are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the equity holders of the Parent.

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

The financial statements of the subsidiaries are prepared for the same reporting year as Globe Telecom as well as accounting policies for like transactions and other events in similar circumstances. When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with the Globe Group's accounting policies. On February 2, 2015, SEC approved the change in accounting period of Asticom from fiscal year, April 1 to March 31, to calendar year, January 1 to December 31, and approved by BIR on January 15, 2016. All significant intercompany balances and transactions, including intercompany profits and losses, were eliminated in full during consolidation in accordance with the accounting policy on consolidation.

2.4 Adoption of New Standards, Amendments to Standards and Interpretations

The Company adopted all applicable accounting standards as at December 31, 2017. The new and revised accounting standards and interpretations that have been published by the International Accounting Standards Board (IASB) and issued by the FRSC in the Philippines were adopted by the Group and were assessed to have no impact on the Group's consolidated financial statements.

The accounting policies adopted in the preparation and presentation of the consolidated financial statements are consistent with prior years, except for the new and revised accounting standards. Moreover, the Globe Group modified the classification of the prior years' amounts to conform to current year's presentation.

2.5 Future Adoption of New Standards and Amendments to Standards

The Globe Group will adopt the following new standards and amendment to standards enumerated below when these become effective. Except as otherwise indicated, the Globe Group does not expect the adoption of these new and amended standards to have significant impact on the consolidated financial statements.

- **PFRS 9, Financial Instruments (2014)**

This standard consists of the following three phases:

Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement under this standard, all recognized financial assets that are currently within the scope of PAS 39 will be subsequently measured at either amortized cost or fair value. Specifically:

- A debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortized cost (net of any write done for impairment), unless the asset is designated as at fair value through profit or loss (FVTPL) under the fair value option.
- A debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at fair value through other comprehensive income (FVTOCI), unless the asset is designated at FVTPL under the fair value option.
- All other debt instruments must be measured at FVTPL.
- All equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognized in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognized in profit or loss.

This standard also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. Under this standard, changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk shall be presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or increase an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

Phase 2: Impairment methodology

The impairment model under this standard reflects expected credit losses, as opposed to incurred credit losses under PAS 39. Under the impairment approach of this standard, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

The future adoption of the standard will result in initial measurement of financial assets classified as loans and receivables at fair value net of transactions cost and expected credit losses.

Phase 3: Hedge accounting

The general hedge accounting requirements for this standard retain the three types of hedge accounting mechanism in PAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of economic relationships. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

The standard is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Globe Group's financial assets but will have no impact on the classification and measurement of the Globe Group's financial liabilities. The adoption will also have an effect on the Globe Group's application of hedge accounting.

- **PFRS 16 - Leases**

This standard specifies how a PFRS reporter will recognize, measure, present and disclose leases. It provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with PFRS 16's approach to lessor accounting substantially unchanged from its predecessor, PAS 17.

The standard is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is not permitted, until IFRS 15, Revenue from Contracts with Customers, is adopted.

The management is still evaluating the impact of PFRS 16 on the Globe Group's consolidated financial liabilities as of the reporting period.

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

The amendments to PFRS 2 includes:

a. Accounting for cash-settled share-based payment transactions that contain a performance condition. The amendment added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

b. Classification of share-based payment transactions with net settlement features. The amendment has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

c. Accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendment has introduced the following clarifications:

   - On modifications, the original liability recognized in respect of the cash-settled share-based payment is derecognized and the equity-settled share-based payment is recognized at the modification date fair value to the extent services have been rendered up to the modification date.

   - Any difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately.

The amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted.

The management is still evaluating the impact of PFRS 2 on the Globe Group's consolidated financial assets and liabilities as of the reporting period.

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

The amendments provide two options for entities that issue insurance contracts within the scope of PFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach; and

- an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

An entity applies the deferral approach for annual periods beginning on or after January 1, 2018.

The management is still evaluating the impact of PFRS 4 on the Globe Group's consolidated financial statements as of the reporting period.

- **Annual Improvements to PFRSs 2014-2016 Cycle**

The annual improvements address the following issues:

   - *Amendments to PFRS 1 - First-time Adoption of International Financial Reporting Standards*

   The amendments include the deletion of short-term exemptions stated in the appendix of PFRS 1, because they have now served their intended purpose. The amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted.

   The amendments have no impact on the Globe Group's consolidated financial statements.

- *Amendments to PAS 28 - Investments in Associates and Joint Ventures*

  The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

  The amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted.

  The management is still evaluating the impact of PAS 28 on the Globe Group's consolidated financial statements as of the reporting period.

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

  The amendments in Transfers of Investment Property (Amendments to IAS 40) are:

  Stating that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

  The list of evidence in paragraph 57(a) - (d) was designated as non-exhaustive list of examples instead of the previous exhaustive list.

  The amendments are effective for periods beginning on or after January 1, 2018. Earlier application is permitted.

  The management is still evaluating the impact of PAS 40 on the Globe Group's consolidated financial statements as of the reporting period.

- **Philippine Interpretations IFRIC 22 - Foreign Currency Transactions and Advance Consideration**

The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at the fair value of the consideration received or payed at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability.

The Interpretation is effective for periods beginning on or after January 1, 2018. Earlier application is permitted.

The management is still evaluating the impact of IFRIC 22 on the Globe Group's consolidated financial statements as of the reporting period.

- **PFRS 15 - Revenue from Contracts with Customers**

The standard combines, enhances, and replaces specific guidance on recognizing revenue with a single standards. An entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

It defines a new five-step model to recognize revenue from customer contracts.

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price

- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Application of this guidance will depend on the facts and circumstances present in a contract with a customer and will require the exercise of judgment.

The standard is mandatory for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted.

The adoption of PFRS 15 will have an effect on the timing of the recognition of revenue from contracts with customers and the presentation thereof in the consolidated statements of comprehensive income and/or notes to financial statements. The adoption will also have an effect on the presentation of the related receivables and payables in the consolidated statements of financial position.

- **Amendments to PFRS 15 - Clarifications to PFRS 15**

The amendments in the standard addresses three topics namely identifying performance obligations, principal versus agent considerations, and licensing and provide some transition relief for modified contracts and completed contracts.

- Added a clarification that the objective of the assessment of a promise to transfer goods or services to a customer is to determine whether the nature of the promise, within the context of the contract, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs.
- Clarification on how to assess control in in determining whether a party providing goods or services is a principal or an agent
- Clarification on when an entity's activities significantly affect the intellectual property by amending the application guidance.

The standard is mandatory for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted.

The management is still evaluating the impact of PFRS 15 on the Globe Group's consolidated financial statements.

- **PIC Q&A No. 2016-04 -** ***Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-completion Contracts***

This interpretation applies to the accounting for revenue from the sale of a residential property unit under pre-completion stage (i.e., construction is on-going or has not yet commenced) by a real estate developer that enters into a Contract to Sell (CTS) with a buyer, and the developer has determined that the contract is within the scope of PFRS 15 by satisfying all the criteria in paragraph 9 of PFRS 15.

This interpretation does not deal with the accounting for other aspects of real estate sales such as variable considerations, financing components, commissions and other contract costs, timing of sales of completed properties, etc.

The management evaluated that this interpretation has no impact on the Globe Group's current revenue recognition.

New Accounting Standards Effective After the Reporting Period Ended December 31, 2017 - Adopted by FRSC but pending publication in the Official Gazette by the Board of Accountancy.

The Globe Group will adopt the following once these become effective.

- **PFRS 9 - Prepayment Features with Negative Compensation**

  The amendments to PFRS 9 include:

  - *Changes regarding symmetric prepayment options*

  Under the current IFRS 9 requirements, the SPPI condition is not met if the lender has to make a settlement payment in the event of termination by the borrower (also referred to as early repayment gain).

  Prepayment Features with Negative Compensation amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

  Under the amendments, the sign of the prepayment amount is not relevant, i.e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favor of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

  - *Clarification regarding the modification of financial liabilities*

  The final amendments also contain a clarification regarding the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability. The IASB clarifies that an entity recognizes any adjustment to the amortized cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange. A retrospective change of the accounting treatment may therefore become necessary if in the past the effective interest rate was adjusted and not the amortized cost amount.

  The amendments are effective for periods beginning on or after January 1, 2019. Earlier application is permitted.

  The management is still evaluating the impact of PFRS 9 on the Globe Group's consolidated financial statements as of the reporting period.

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

The amendments are clarification that an entity applies PFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The amendment is effective for periods beginning on or after January 1, 2019. Earlier application is permitted.

- **Philippine Interpretations IFRIC 23 - Uncertainty over Income Tax Treatments**

The Interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under PAS 12.

The Interpretation is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The management is still evaluating the impact of the new IFRIC 23 on the Globe Group's consolidated financial statements as of the reporting period.

2.6 Significant Accounting Policies

2.6.1 *Revenue Recognition*

The Globe Group provides mobile and wireline voice, data communication and broadband internet services which are provided both under postpaid and prepaid arrangements.

The Globe Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent (see Note 3.1.4).

Revenue is recognized when the delivery of the products or services has occurred and collectability is reasonably assured.

Revenue is stated at amounts invoiced and accrued to customers, taking into consideration the bill cycle cut-off (for postpaid subscribers), the amount charged against preloaded airtime value (for prepaid subscribers), switch-monitored traffic (for carriers and content providers) and excludes value-added tax (VAT) and overseas communication tax. Inbound and outbound traffic charges, net of discounts, are accrued based on actual volume of traffic monitored by Globe Group's network and in the traffic settlement system.

2.6.1.1 *Service Revenue*

2.6.1.1.1 Subscribers

Revenues from subscribers principally consist of: (1) fixed monthly service fees for postpaid wireless, wireline voice, broadband internet, data subscribers and wireless prepaid and postpaid subscription fees for promotional offers; (2) subscription to promotional offers, usage of airtime and toll fees for local, domestic and international long distance calls in excess of consumable fixed monthly service fees and subscription fees for the promotional offer over the validity period and, less (a) bonus airtime and free short messaging services (SMS) on Subscribers' Identification Module (SIM), and (b) prepaid reload discounts; (3) revenues from value-added services (VAS) such as SMS in excess of consumable fixed monthly service fees (for postpaid) and free SMS allocations (for prepaid), multimedia messaging services (MMS), content and infotext services, net of payout to content providers; (4) mobile data services; (5) inbound revenues from other carriers which terminate their calls to the Globe Group's network less discounts; (6) revenues from international roaming services for Voice, SMS and Data on top of the subscription promo offers, net of payout to roaming partners; (7) usage of broadband and internet services in excess of fixed monthly service fees; and (8) one-time service connection fees (for wireline voice and data subscribers).

Postpaid service arrangements include fixed monthly service fees, which are recognized over the subscription period on a pro-rata basis. Monthly service fees billed in advance are initially deferred and recognized as revenues during the period when earned. Telecommunications services provided to postpaid subscribers are billed throughout the month according to the bill cycles of subscribers. As a result of bill cycle cut-off, monthly service revenues earned but not yet billed at the end of the month are accrued.

Proceeds from over-the-air reloading channels and the sale of prepaid cards are deferred and shown as "Unearned revenues" in the consolidated statements of financial position. Revenue is recognized upon actual usage of airtime value net of free prepaid cards proportionately allocated across all services. Revenue on subscription based services are recorded over the validity period. Unused load value is recognized as revenue upon expiration based on the load denomination. The Globe Group offers loyalty programs which allow its subscribers to accumulate points when they purchase services from the Globe Group. The points can then be redeemed for free services, discounts, subject to a minimum number of points being obtained. The consideration received or receivable is allocated between the sale of services and award credits. The portion of the consideration allocated to the award credits is accounted for as unearned revenues. This will be recognized as revenue upon the award redemption or upon expiration.

2.6.1.1.2 Traffic

Inbound revenues refer to traffic originating from other telecommunications providers terminating to the Globe Group's network, while outbound charges represent traffic sent out or using agreed termination rates and/or revenue sharing with other foreign and local carriers. Adjustments are made to the accrued amount for discrepancies between the traffic volume per Globe Group's records and per records of the other carriers as these are determined and/or mutually agreed upon by the parties. Outstanding inbound revenues are shown as traffic settlements receivable under the "Receivables" account, while unpaid outbound charges are shown as traffic settlements payable under the "Accounts payable and accrued expenses" account in the consolidated statements of financial position unless a legal right of offset exists in which case the net amount is shown either under "Receivables" or "Accounts payable and accrued expenses" account.

2.6.1.1.3 GCash

Service revenues of GXI consist of SMS revenue arising from GCash transactions passing through the telecom networks of Globe Telecom. Service revenue also includes transaction fees and discounts earned from arrangements with partners and from remittances made through GCash partners using the Globe Group's facilities. The Globe Group earns service revenue from one-time connection fee received from new partners. Depending on the arrangement with partners and when the fee is nonconsumable, outright service revenue is recognized upon cash receipt.

2.6.1.1.4 Fuse Revenue

Service revenues of Fuse Lending, Inc., consist of effective interest income from loans. Interest income per borrower is calculated by multiplying the outstanding loan amount by the number of days it is outstanding by the end of the month and by the daily interest rate of their loan. Service revenue also includes penalties and processing fee income.

2.6.1.2 *Nonservice Revenues*

Proceeds from sale of handsets, nomadic broadband sticks, modems, other mobile devices & accessories, SIM packs, call cards and others are recognized as revenue upon delivery of the items and the related cost or net realizable value are presented as "Cost of sales" in the consolidated statements of comprehensive income.

2.6.1.3 *Others*

Interest income other than from lending is recognized as it accrues using the effective interest rate method.

Lease income from operating lease is recognized on a straight-line basis over the lease term.

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

2.6.2 *Subscriber Acquisition and Retention Costs*

The related costs incurred in connection with the acquisition of wireless and wireline voice subscribers are charged against current operations, while the related acquisition costs of data communication and broadband internet subscribers are capitalized. Subscriber acquisition costs primarily include commissions, handset, phone kit, modems, mobile internet kit subsidies, device subsidies and selling expenses. Subsidies represent the difference between the cost of handsets, nomadic broadband sticks, modems, other mobile devices and accessories, SIM packs, call cards and others (included in the "Cost of sales" and "Impairment losses and others" account), and the price offered to the subscribers (included in the "Nonservice revenues" account). The data communication and broadband internet costs represent the acquisition cost of modems (included in the "Property and Equipment" account) which are depreciated over a period of two years or contract term whichever is shorter (included in the "depreciation and amortization" account). Retention costs for existing postpaid subscribers are in the form of free handsets, devices and bill credits. Retention costs are charged against current operations and included under the "General, selling and administrative expenses" account in the consolidated statement of comprehensive income upon delivery or when there is a contractual obligation to deliver. Bill credits are deducted from service revenues upon application against qualifying subscriber bills.

2.6.3 *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 date of placement and that are subject to an insignificant risk of change in value.

2.6.4 *Financial Instruments*

2.6.4.1 *General*

2.6.4.1.1 Initial Recognition and Measurement

Financial instruments are recognized in the Globe Group's consolidated statements of financial position when the Globe Group 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 (regular way trades) on the trade date, i.e., the date that the Globe Group commits to purchase or sell the asset.

Financial instruments are recognized initially at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes directly attributable transaction costs.

The Globe Group classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables. The Globe Group 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. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation every reporting date.

2.6.4.1.2 Financial Assets or Financial Liabilities at FVPL

This category consists of financial assets or financial liabilities that are held for trading or designated by management as FVPL on initial recognition. Financial assets or financial liabilities are classified as held for sale 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 as defined by PAS 39.

Financial assets or financial liabilities at FVPL are recorded in the consolidated statements of financial position at fair value, with changes in fair value being recorded in the consolidated profit or loss. Interest earned or incurred on the financial asset or liability is recorded as "Interest income or expense", respectively, while dividend income is recorded when the right to receive payment has been established. Both are recorded in the consolidated profit or loss.

Financial assets or financial liabilities are classified in this category as designated by management on initial recognition when any of the following criteria are met:

- 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 a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and information about the grouping is provided internally on that basis; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Globe Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When in rare circumstances the Globe Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Globe Group may elect to reclassify these financial assets. The reclassification to loans and receivables, AFS or HTM depends on the nature of the asset. This evaluation does not affect any financial assets designated at FVPL using the fair value option at designation because these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at FVPL. These embedded derivatives are measured at fair value with changes in fair value recognized in the consolidated profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

2.6.4.1.3 HTM Investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Globe Group's management has the positive intention and ability to hold to maturity. Where the Globe Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. After initial measurement, HTM investments are subsequently measured at amortized cost using the effective interest rate method, less any impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process. The amortization is included in "Interest income" in the consolidated statement of comprehensive income. The effects of restatement of foreign currency-denominated HTM investments are recognized in the consolidated statements of comprehensive income.

There are no outstanding HTM investments as of December 31, 2017 and 2016.

2.6.4.1.4 Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS investments or designated at FVPL.

This accounting policy relates to the consolidated statement of financial position caption "Receivables", which arise primarily from subscriber and traffic revenues and other types of receivables, which arise primarily from unquoted debt securities, and other nontrade receivables included under "Prepayments and other current assets" and loans receivables included under "Other noncurrent assets".

Receivables are recognized initially at fair value. After initial measurement, 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 the issue and fees that are an integral part of the effective interest rate.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or, when appropriate, a shorter period, to the net carrying amount on initial recognition.

Penalties, termination fees and surcharges on past due accounts of postpaid subscribers are recognized as revenues upon collection. The losses arising from impairment of receivables are recognized in the "Impairment losses and others" account in the consolidated statement of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability of accounts (see accounting policy on 2.6.4.2 Impairment of Financial Assets).

Other nontrade receivables and loans receivable are recognized initially at fair value, which normally pertains to the consideration paid. Similar to receivables, subsequent to initial recognition, other nontrade receivables and loans receivables are measured at amortized cost using the effective interest rate method, less any allowance for impairment losses.

2.6.4.1.5 AFS Investments

AFS investments are those investments which are designated as such or do not qualify to be classified or designated as at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments.

After initial measurement, AFS investments are subsequently measured at fair value. Interest earned on holding AFS investments are reported as interest income using the effective interest rate. The unrealized gains and losses arising from the fair value changes of AFS investments are included in other comprehensive income and are reported as "Other reserves" (net of tax where applicable) in the equity section of the consolidated statement of financial position. When the investment is disposed of, the cumulative gains or losses previously recognized in equity is recognized in the consolidated profit or loss.

When the fair value of AFS investments 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. Dividends earned on holding AFS investments are recognized in the consolidated profit or loss when the right to receive payment has been established.

The losses arising from impairment of such investments are recognized as "Impairment losses and others" in the consolidated statements of comprehensive income.

2.6.4.1.6 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 Globe Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the 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 profit or loss.

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

2.6.4.1.7 Derivative Instruments

2.6.4.1.7.1 *General*

The Globe Group enters into short-term deliverable and nondeliverable currency forward contracts to manage its currency exchange exposure related to short-term foreign currency-denominated monetary assets and liabilities and foreign currency linked revenues.

The Globe Group also enters into long-term currency and interest rate swap contracts to manage its foreign currency and interest rate exposures arising from its long-term loan. Such swap contracts are sometimes entered into in combination with options.

2.6.4.1.7.2 *Recognition and Measurement*

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedge of an identified risk and qualifies for hedge accounting treatment. The objective of hedge accounting is to match the impact of the hedged item and the hedging instrument in the consolidated profit or loss. To qualify for hedge accounting, the hedging relationship must comply with strict requirements such as the designation of the derivative as a hedge of an identified risk exposure, hedge documentation, probability of occurrence of the forecasted transaction in a cash flow hedge, assessment (both prospective and retrospective bases) and measurement of hedge effectiveness, and reliability of the measurement bases of the derivative instruments.

Upon inception of the hedge, the Globe Group documents the relationship between the hedging instrument and the hedged item, its risk management objective and strategy for undertaking various hedge transactions, and the details of the hedging instrument and the hedged item. The Globe Group also documents its hedge effectiveness assessment methodology, both at the hedge inception and on an ongoing basis, as to whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge effectiveness is likewise measured, with any ineffectiveness being reported immediately in the consolidated profit or loss.

2.6.4.1.7.3 *Types of Hedges*

The Globe Group designates derivatives which qualify as accounting hedges as either: (a) a hedge of the fair value of a recognized fixed rate asset, liability or unrecognized firm commitment (fair value hedge); or (b) a hedge of the cash flow variability of recognized floating rate asset and liability or forecasted sales transaction (cash flow hedge).

Fair Value Hedges

Fair value hedges are hedges of the exposure to variability in the fair value of recognized assets, liabilities or unrecognized firm commitments. The gain or loss on a derivative instrument designated and qualifying as a fair value hedge, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in the consolidated profit or loss in the same accounting period. Hedge effectiveness is determined based on the hedge ratio of the fair value changes of the hedging instrument and the underlying hedged item. When the hedge ceases to be highly effective, hedge accounting is discontinued.

As of December 31, 2017 and 2016, there were no derivatives designated and accounted for as fair value hedges.

Cash Flow Hedges

The Globe Group designates as cash flow hedges the following derivatives:

(a) cross currency swaps as cash flow hedge of foreign exchange and interest rate risk of United States Dollar (USD) loans (b) principal only swaps as cash flow hedge of foreign exchange risk of USD loans (c) interest rate swaps as cash flow hedge of the interest rate risk of a floating rate obligation, and (d) certain foreign exchange forward contracts as cash flow hedge of expected USD revenues.

A cash flow hedge is a hedge of the exposure to variability in future cash flows related to a recognized asset, liability or a forecasted sales transaction. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in "Other reserves," which is a component of equity. Any hedge ineffectiveness is immediately recognized in the consolidated profit or loss.

If the hedged cash flow results in the recognition of a nonfinancial asset or liability, gains and losses previously recognized directly in equity are transferred from equity and included in the initial measurement of the cost or carrying value of the asset or liability. Otherwise, for all other cash flow hedges, gains and losses initially recognized in equity are transferred from equity to consolidated profit or loss in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affect earnings.

Hedge accounting is discontinued prospectively when the hedge ceases to be highly effective. When hedge accounting is discontinued, the cumulative gains or losses on the hedging instrument that has been recognized in OCI is retained in "Other reserves" until the hedged transaction impacts consolidated profit or loss. When the forecasted transaction is no longer expected to occur, any net cumulative gains or losses previously recognized in "Other reserves" is immediately recycled in the consolidated profit or loss.

For cash flow hedges of USD revenues, the effective portion of the hedge transaction coming from the fair value changes of the currency forwards are subsequently recycled from equity to consolidated profit or loss and is presented as part of the US dollar-based revenues upon consummation of the transaction or when the hedge become ineffective.

2.6.4.1.7.4 *Other Derivative Instruments Not Accounted for as Accounting Hedges*

Certain freestanding derivative instruments that provide economic hedges under the Globe Group's policies either do not qualify for hedge accounting or are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized immediately in the consolidated profit or loss. For bifurcated embedded derivatives in financial and nonfinancial contracts that are not designated or do not qualify as hedges, changes in the fair values of such transactions are recognized in the consolidated profit or loss.

2.6.4.1.7.5 *Offsetting*

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

2.6.4.2 *Impairment of Financial Assets*

The Globe Group assesses at end of the reporting date whether a financial asset or group of financial assets is impaired.

2.6.4.2.1 Assets Carried at Amortized Cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g., receivables) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is to be recognized in the consolidated profit or loss.

The Globe Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

With respect to receivables, the Globe Group performs a regular review of the risk profile of accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment losses being determined for each risk grouping identified by the Globe Group.

2.6.4.2.1.1 Subscribers

Management regularly reviews its portfolio and assesses if there are accounts requiring specific provisioning based on objective evidence of high default probability. Observable data indicating high impairment probability could be deterioration in payment status, declaration of bankruptcy or national/local economic indicators that might affect payment capacity of accounts.

Full allowance for impairment losses, net of average recoveries, is provided for receivables from permanently disconnected wireless, wireline and broadband subscribers. Permanent disconnections are made after a series of collection steps following nonpayment by postpaid subscribers. Such permanent disconnections generally occur within a predetermined period from due date.

Impairment losses are applied to active wireless, wireline and broadband accounts specifically identified to be doubtful of collection where there is information on financial incapacity after considering the other contractual obligations between Globe Group and the subscriber. Allowance is applied regardless of age bucket of identified accounts.

Application of impairment losses to receivables, net of receivables with applied specific loss, is also determined based on the results of net flow to permanent disconnection methodology.

For wireless, net flow tables are derived from account-level monitoring of subscriber accounts between different age brackets depending on the defined permanent disconnection timeline, from current to 210 days past due and up. The net flow to permanent disconnection methodology relies on the historical data of net flow tables to establish a percentage ("net flow rate") of subscriber receivables that are current or in any state of delinquency as of reporting date that will eventually result to permanent disconnection. The allowance for impairment losses is then computed based on the outstanding balances of the receivables at the end of reporting date and the net flow rates determined for the current and each delinquency bucket. Full allowance net of recoveries is provided for receivables from permanently disconnected accounts.

For wireline voice and broadband subscribers, the allowance for impairment loss is also determined based on the results of net flow rate to permanent disconnection computed from account-level monitoring of accounts from current to 180 days past due and up age bucket. Except for permanently disconnected and specific active accounts that are assessed to be fully provided, net of recoveries, the allowance for impairment loss is then computed based on the outstanding balances of the receivables at the end of the reporting date and the corresponding impairment rates computed.

2.6.4.2.1.2 Traffic

As per PAS 39, impairment provision is recognized in the light of actual losses incurred by the Globe Group as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of assets that can be reliably estimated.

For traffic receivables, impairment losses are provided on specific or per carrier basis observing objective evidence of impairment. Objective evidence of impairment includes the following: a) financial difficulty of interconnect carriers; b) default or delinquency; c) high probability of bankruptcy or financial re-organization; and d) historical pattern of collections that amounts due will not be collected. For receivable balances that appear doubtful of collection, allowance is provided after review of the status of settlement with each carrier and roaming partner, taking into consideration normal payment cycles, recovery experience and credit history of the counterparties.

2.6.4.2.1.3 Other receivables

Other receivables from dealers, credit card companies and other parties are provided with allowance for impairment losses if specifically identified to be doubtful of collection regardless of the age of the account.

2.6.4.2.2 AFS Investments Carried at Cost

If there is 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 a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The carrying amount of the asset is reduced through the use of an allowance account.

2.6.4.2.3 AFS Investments Carried at Fair Value

If an AFS investment carried at fair value is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated profit or loss, is transferred from equity to profit or loss. Reversals of impairment losses in respect of equity instruments classified as AFS are not recognized in the consolidated profit or loss. Reversals of impairment losses on debt instruments are made through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated profit or loss.

2.6.4.3 *Derecognition of Financial Instruments*

2.6.4.3.1 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 asset have expired;
- the Globe 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 Globe Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of ownership or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

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

2.6.4.3.2 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 profit or loss.

2.6.5 *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 the Globe Group.

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

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

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

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

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

- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For the purpose of fair value disclosures, the Globe 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.

2.6.6 *Inventories and Supplies*

Inventories and supplies are initially measured at cost and subsequently, stated at the lower of cost and net realizable value (NRV). NRV for handsets, modems, devices and accessories is the selling price in the ordinary course of business less direct costs to sell, while NRV for SIM packs, call cards, spare parts and supplies consists of the related replacement costs. In determining the NRV, the Company considers any adjustment necessary for obsolescence, which is generally provided at 80% for non-moving items after a certain period. Cost is determined using the moving average method.

When inventories and supplies are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

2.6.7 *Prepayments*

Prepayments, included under "Prepayments and Other current assets" account in the consolidated statement of financial position, are expenses paid in advance and recorded as asset before they are utilized.

This account comprises of advance payment to suppliers and contractors, prepaid rentals and insurance premiums and other prepaid items and creditable withholding taxes. Prepaid rentals and insurance premiums and other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in profit or loss when incurred.

Prepayments that are expected to be realized for no more than 12 months after the balance sheet date are classified as current assets; otherwise, these are classified as other noncurrent assets.

2.6.8 *Value Added Tax (VAT)*

Input VAT is recognized when the Globe Group purchases goods or services from a VAT registered supplier or vendor. This account is offset against any output VAT previously recognized. Input VAT on capital goods exceeding ₱1 million and input VAT from purchases of goods and services which remain unpaid at each reporting date are recognized as "Deferred input VAT" presented under "Prepayments and Other Current Assets" (see Note 6).

2.6.9 *Property and Equipment*

Property and equipment, except land, are carried at cost less accumulated depreciation, amortization and impairment losses. Land is stated at cost.

The initial cost of an item of property and equipment includes its purchase price and any cost attributable to bringing the property and equipment to its intended location and working condition. Cost also includes: (a) interest and other financing charges on borrowed funds specifically used to finance the acquisition of property and equipment to the extent incurred during the period of installation and construction; and (b) asset retirement obligations (ARO) specifically on property and equipment installed/constructed on leased properties.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the period when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Subsequent costs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Globe Group and the cost of the item can be measured reliably.

Assets under construction (AUC) are carried at cost and transferred to the related property and equipment account when the construction or installation and the related activities necessary to prepare the property and equipment for their intended use are complete, and the property and equipment are ready for service.

Depreciation and amortization of property and equipment commences once the property and equipment are available for use and computed using the straight-line method over the estimated useful lives (EUL) of the property and equipment.

Leasehold improvements are amortized over the shorter of their EUL or the corresponding lease terms.

The EUL of property and equipment are reviewed annually based on expected asset utilization of expected future technological developments and market behavior.

When property and equipment is retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and impairment losses are removed from the accounts. Any resulting gain or loss is credited to or charged against current operations.

2.6.10 *ARO*

The Globe Group is contractually required under various contracts to restore leased property to its original condition and to bear the cost of dismantling and deinstallation at the end of the contract period. The Globe Group recognizes the present value of these obligations and capitalizes these costs as part of the carrying value of the related property and equipment accounts, and are depreciated on a straight-line basis over the useful life of the related property and equipment or the contract period, whichever is shorter.

The amount of ARO is recognized at present value and the related accretion is recognized as interest expense.

2.6.11 *Intangible Assets*

Intangible assets consist of: (1) telecommunications equipment software licenses, corporate application software and licenses and other Value Added Service (VAS) software applications that do not form integral part of the hardware or equipment; (2) exclusive dealership right in Tao; (3) goodwill arising from acquisition of BTI, Socialytics and Tao; (4) other intangible assets such as customer contracts, franchise and spectrum. Costs directly associated with the development of identifiable software that generate expected future benefits to the Globe Group are recognized as intangible assets. All other costs of developing and maintaining software programs are recognized as expense when incurred.

Intangible assets are initially measured at cost. Subsequently, intangible assets are measured at cost less accumulated amortization and any impairment losses. The EUL of intangible assets with finite lives are assessed at the individual asset level. Intangible assets with finite lives are amortized on a straight-line basis over their useful lives. The periods and method of amortization for intangible assets with finite useful lives are reviewed annually or more frequently when an indicator of impairment exists.

Intangible assets are derecognized on disposal, or when no future economic benefits are expected from use or disposal. 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 asset and is recognized in the consolidated statements of comprehensive income when the asset is derecognized.

2.6.12 *Business Combinations and Goodwill*

Business combinations are accounted for using the purchase 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 Globe Group elects whether it 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 incurred are expensed and included in administrative expenses in the consolidated profit or loss.

When the Globe Group acquires a business, it assesses the financial assets and financial 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, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. It is then considered in the determination of goodwill. 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 that 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 OCI. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of PAS 39, it is measured in accordance with the appropriate PFRS.

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 the consolidated profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Globe Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU 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 this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

The Globe Group and acquiree may have a relationship that existed before they contemplated the business combination, referred to here as a 'pre-existing relationship'. A pre-existing relationship between the acquirer and acquiree may be contractual or non-contractual.

If the business combination in effect settles a pre-existing relationship, the acquirer recognizes a gain or loss, measured as follows:

(a) for a pre-existing non-contractual relationship (such as a lawsuit), fair value.

(b) for a pre-existing contractual relationship, the lesser of (i) and (ii):

(i) the amount by which the contract is favourable or unfavourable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items. (An unfavourable contract is a contract that is unfavourable in terms of current market terms. It is not necessarily an onerous contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.)

(ii) the amount of any stated settlement provisions in the contract available to the counterparty to whom the contract is unfavourable.

If (ii) is less than (i), the difference is included as part of the business combination accounting. The amount of gain or loss recognized may depend in part on whether the acquirer had previously recognized a related asset or liability, and the reported gain or loss therefore may differ from the amount calculated by applying the above requirements.

2.6.13 *Investments in Associate and Joint Venture*

An associate is an entity over which the Globe 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 (JV) 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.

Investments in associate or JV are measured initially at cost. Subsequent to initial recognition, Globe Group's investments in its associate and JV are accounted for using the equity method. Under the equity method, the investments in an associate and JV are carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Globe Group's share in net assets of the associate and JV, less any allowance for impairment losses. The profit or loss includes Globe Group's share in the results of operations of its associate or JV. Any change in OCI of those investees is presented as part of the Globe Group's OCI. In addition, where there has been a change recognized directly in the equity of the associate or JV, the Globe Group recognizes its share of any changes and discloses this, when applicable, in OCI.

When the share of losses recognized under the equity method has reduced the investment to zero, the Globe Group shall discontinue recognizing its share of further losses and apply it to other interests that, in substance, form part of Globe Group's net investment in the associate or JV. If the associate or JV subsequently reports profits, the Globe Group will resume recognizing its share of those profits only after its share of the profits equal the share in losses not recognized.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Globe Group.

Upon loss of significant influence over the associate or joint control over the joint venture, the Globe 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 the consolidated profit or loss.

2.6.14 *Related Party Transactions*

A related party transaction is a transfer of resources, services or obligations between the Parent Company and a related party, regardless of whether a price is charged. Parties are considered related if one party has control, joint control, or significant influence over the other party in making financial and operating decisions. An entity that is a post-employment benefit plan for the employees of the Globe Group and the key management personnel of the Globe Group are also considered to be related parties.

2.6.15 *Impairment of Nonfinancial Assets*

For nonfinancial assets, excluding goodwill, an assessment is made at the end of the reporting date to determine whether there is any indication that an asset may be impaired, or whether there is any indication that an impairment loss previously recognized for an asset in prior periods may no longer exist or may have decreased. If any such indication exists and when the carrying value of an asset exceeds its estimated recoverable amount, the asset or CGU to which the asset belongs is written down to its recoverable amount. The recoverable amount of an asset is the higher of its fair value less cost to sell and value in use. Recoverable amounts are estimated for individual assets or investments or, if it is not possible, for the CGU to which the asset belongs. For impairment loss on specific assets or investments, the recoverable amount represents the fair value less cost to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against operations in the year in which it arises. A previously recognized impairment loss is reversed only if there has been a change in estimate used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any accumulated depreciation and amortization for property and equipment and intangible assets) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations.

After application of the equity method, the Globe 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 Globe Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Globe Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognizes the loss as "Equity in net losses of associates and joint ventures" account in the consolidated profit or loss.

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 their carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

2.6.16 *Unearned Revenues*

Unearned revenues are recognized when proceeds are collected from wireless subscribers under prepaid arrangements. These also represent advance payments for leased lines, installation fees and monthly service fees and points expected to be redeemed under its Loyalty programmes.

2.6.17 *Income Tax*

2.6.17.1 *Current Income 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 tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting date.

2.6.17.2 *Deferred Income Tax*

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

Deferred income tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred income tax assets are recognized for all deductible temporary differences, with certain exceptions, and carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and 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 the carryforward benefits of unused MCIT and NOLCO can be used.

Deferred income tax is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting income nor taxable income or loss.

Deferred income tax relating to items recognized directly in equity or OCI is included in the related equity or OCI account and not in profit or loss.

The carrying amounts of deferred income tax assets are reviewed every end of reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the assets are realized or the liabilities are settled based on tax rates (and tax laws) that have been enacted or substantively enacted as at the end of the reporting date.

Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged or credited to income for the period.

2.6.18 *Provisions*

Provisions are recognized when: (a) the Globe Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed every end of the reporting period and adjusted to reflect the current best estimate. 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 assessment 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 under "financing costs" in the consolidated statement of comprehensive income.

2.6.19 *Share-based Payment Transactions*

Certain employees (including directors) of the Globe Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions") (see Note 18.1.1).

The cost of equity-settled transactions with employees and directors is measured by reference to the fair value at the date at 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 vest.

The cost of equity-settled transactions is recognized in the consolidated profit or loss, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('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 number of awards that, in the opinion of the management of the Globe Group at that date, based on the best available estimate of the number of equity instruments, will ultimately vest. Costs of exercised awards plus the corresponding strike amount are reclassified to the capital accounts.

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, 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. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (EPS) (see Note 27).

2.6.20 *Capital Stock*

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value. The transaction costs incurred as a necessary part of completing an equity transaction are accounted for as part of that transaction and are deducted from additional paid-in capital, net of related income tax benefits.

2.6.21 *Additional Paid-in Capital*

Additional paid-in capital includes any premium received in excess of par value on the issuance of capital stock.

2.6.22 *Treasury Stock*

Treasury stock is recorded at cost and is presented as a deduction from equity. 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 to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

2.6.23 *Other Comprehensive Income*

OCI are items of income and expense that are not recognized in the consolidated profit or loss for the year in accordance with PFRS.

2.6.24 *Retained Earnings*

Retained earnings represent accumulated profit attributable to equity holders of the Parent Company after deducting dividends declared. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

2.6.25 *Pension Cost*

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. Defined benefit costs comprise service cost, net interest on the net defined benefit liability or asset and remeasurements of net defined benefit liability or asset.

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

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated 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 OCI in the period in which they arise. Remeasurements are not reclassified to the consolidated profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Globe Group, nor can they be paid directly to the Globe Group. Fair value of plan assets is based on market price information. 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.

2.6.26 *Borrowing Costs*

Borrowing costs are capitalized if these are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities for the asset's intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. These costs are amortized using the straight-line method over the EUL of the related property and equipment. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other related financing charges incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs. Premiums on long-term debt are included under the "Long-term debt" account in the consolidated statement of financial position and are amortized using the effective interest rate method.

Other borrowing costs are recognized as expense in the period in which these are incurred.

2.6.27 *Leases*

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

- there is a change in contractual terms, other than a renewal or extension of the arrangement;
- a renewal option is exercised or an extension granted, unless that term of the renewal or extension was initially included in the lease term;
- there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- 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 any of the scenarios above, and at the date of renewal or extension period for the second scenario.

2.6.27.1 *Globe Group as Lessee*

Finance leases, which transfer to the Globe Group substantially all the risks and rewards 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 and included in the "Property and equipment" account with the corresponding liability to the lessor included in the "Other long-term liabilities" account in the consolidated statements of financial position. 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 as "Interest expense" in the consolidated statements of comprehensive income.

Capitalized leased assets are depreciated over the shorter of the EUL of the assets and the respective lease terms.

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated profit or loss on a straight-line basis over the lease term.

2.6.27.2 *Globe Group as Lessor*

Leases where the Globe Group does not transfer substantially all the risk and rewards of ownership of the assets are classified as operating leases. 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 rents are recognized as revenue in the period in which they are earned.

2.6.28 *General, Selling and Administrative Expenses*

General, selling and administrative expenses, except for rent, are charged against current operations as incurred.

2.6.29 *Foreign Currency Transactions*

The functional and presentation currency of the Globe Group is the Philippine Peso, except for GTIC US and GTHK whose functional currency is the USD; GMI and GIEE whose functional currency is Euro; GTSG whose functional currency is the Singapore Dollar (SGD); BTI - UK, GTEU and UKGT whose functional currency is GBP; and BTI - Japan whose functional currency is JPY. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the end of reporting period.

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 the initial transaction and are not subsequently restated. 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. All foreign exchange differences are taken to the consolidated profit or loss, except where it relates to equity securities where gains or losses are recognized directly in other OCI.

As at the reporting date, the assets and liabilities of GTIC US and GTHK, GTEU, UKGT, GMI, GIEE, GTSG, BTI - UK, and BTI - Japan are translated into the presentation currency of the Globe Group at the rate of exchange prevailing at the end of reporting period and its profit or loss is translated at the monthly weighted average exchange rates during the year. The exchange differences arising on the translation are taken directly to a separate component of equity under "Other reserves" account. Upon disposal of GTIC, GTHK, GTEU, UKGT, GMI, GIEE, GTSG, BTI - UK, and BTI – Japan, the cumulative translation adjustments shall be recognized in the consolidated profit or loss.

2.6.30 *Fair Value of Financial Instruments*

When the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

2.6.31 *EPS*

Basic EPS is computed by dividing net income attributable to common stock by the weighted average number of common shares outstanding, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period.

Diluted EPS is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period, and adjusted for the effect of dilutive options and dilutive convertible preferred shares. Outstanding stock options will have a dilutive effect under the treasury stock method only when the average market price of the underlying common share during the period exceeds the exercise price of the option. If the required dividends to be declared on convertible preferred shares divided by the number of equivalent common shares, assuming such shares are converted, would decrease the basic EPS, then such convertible preferred shares would be deemed dilutive. Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have anti-dilutive effect, basic and diluted EPS are stated at the same amount.

2.6.32 *Operating Segment*

The Globe Group's major operating business units are the basis upon which the Globe Group reports its primary segment information. The Globe Group's business segments consist of: (1) mobile communication services; and (2) wireline communication services. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Globe Group generally accounts for intersegment revenues and expenses at agreed transfer prices.

2.6.33 *Contingencies*

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

2.6.34 *Events after the Reporting Period*

Any post period-end event up to the date of approval of the BOD of the consolidated financial statements that provides additional information about the Globe Group's position at the end of reporting period (adjusting event) is reflected in the consolidated financial statements. Any post period-end event that is not an adjusting event is disclosed in the consolidated financial statements when material.

3 Management's Significant Accounting Judgments and Use of Estimates and Assumptions

The preparation of the accompanying consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments, 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 judgments, estimates and assumptions.

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

3.1 Judgments

3.1.1 *Leases*

3.1.1.1 *Operating Lease Commitments as Lessor*

The Globe Group has entered into lease agreements as a lessor. Critical judgment was exercised by management to distinguish the lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. The Globe Group has determined that it retains all the significant risks and rewards of ownership of the properties and so accounts for the agreements as an operating lease (see Note 25.1.1).

3.1.1.2 *Operating Lease Commitments as Lessee*

The Globe Group has entered into various lease agreements as a lessee where it has determined that the lessors retain all the significant risks and rewards of ownership of the properties and, as such, accounts for the agreements as operating lease (see Note 25.1.1).

3.1.1.3 *Finance Lease*

The Globe Group has entered into finance lease agreements related to hardware infrastructure and information technology equipment. Management has determined based on the evaluation of the terms and conditions of the arrangements, that the Globe Group bear substantially all the risks and rewards incidental to ownership of the said machineries and equipment and so account for the contracts as finance leases (see Note 25.1.2).

3.1.2 *Financial Assets not Quoted in an Active Market*

The Globe 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.

3.1.3 *Allocation of Goodwill to Cash-Generating Units*

The Globe Group allocated the carrying amount of goodwill to cash-generating unit (CGU) of mobile communications services or wireless segment. The Globe Group believes that CGUs represent the lowest level within the Globe Group at which the goodwill is monitored for internal management reporting purposes; and not larger than an operating segment determined in accordance with PFRS 8.

When a business combination occurs, the fair values of the identifiable assets and liabilities assumed, including intangible assets, are recognized.

The determination of the fair values of acquired assets and liabilities is based, to a considerable extent, on management's judgment and estimates. If the purchase consideration exceeds the fair value of the net assets acquired then the difference is recognized as goodwill. If the purchase price consideration is lower than the fair value of the assets acquired then a gain is recognized in the consolidated profit or loss.

The final fair values of the net liabilities of Vega Telecom Inc. (VTI), Bow Arken Holdings Company Inc. (BAHC), and Brightshare Holdings Corporation (BHC) at the time of acquisition amounted to ₱7,243.22 million (see Note 10.3), which was estimated using appropriate valuation methodologies. Valuation methodologies include net present value techniques, comparison to similar assets for which market observable prices exist and other relevant valuation models.

3.1.4 *Determination of Whether the Globe Group is Acting as a Principal or an Agent*

The Globe Group assesses its revenue arrangements against the following criteria to determine whether it is acting as a principal or an agent:

- whether the Globe Group has primary responsibility for providing the goods and services;
- whether the Globe Group has inventory risk;
- whether the Globe Group has discretion in establishing prices; and
- whether the Globe Group bears the credit risk.

If the Globe Group has determined that it is acting as a principal, the Globe Group recognizes revenue on a gross basis, with the amount remitted to the other party being accounted for as part of costs and expenses.

If the Globe Group has determined that it is acting as an agent, only the net amount retained is recognized as revenue.

The Globe Group assessed its revenue arrangements and concluded that it is acting mainly as a principal in its arrangements.

3.1.5 *Provisions and Contingencies*

Globe Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and external counsel handling Globe Group's defense in these matters and is based upon an analysis of potential results. Globe Group currently does not believe that these proceedings will have a material adverse effect on the consolidated statements of financial position and financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Notes 13 and 26).

In 2016, Globe Group is involved in discussions with creditor suppliers of VTI, BAHC and BHC in relation to the liabilities of the said entities discussed in Note 10.3. Management has assessed that such action has created a valid expectation from these creditor suppliers that Globe Group will settle the liabilities or provide funds for the settlement of these liabilities considering that these entities do not have sufficient funds to date to settle these liabilities on their own. As such, Globe concluded that it incurred a constructive obligation and met the requirements for recognizing a provision/liability as of December 31, 2016 (see Note 10.3).

3.1.6 *Assessment of Investment in Associates*

As discussed in Note 10, the Globe Group holds ownership interest of 49% in Yondu and 20% in Automated Fare Payments Inc. (AFPI), which were accounted for as investments in associates.

Critical judgment was exercised to assess the facts and circumstances indicating the elements of control or level of influence of Globe Telecom over the associates. Globe Telecom determined that it has significant influence, but no control, over the financial and operating policy decisions.

3.1.7 *Assessment of Investments in Joint Venture*

The Globe Group holds ownership interest in the following investments: (a) 50% in VTI, BAHC and BHC as disclosed in Note 10.3; (b) 45% in GFI/Mynt as disclosed in Note 10.4; (c) 49% in TechGlobal as disclosed in Note 10.5; (d) 50% in GTHI as disclosed in Note 10.7 and (e) 10% in Bridge Mobile Pte. Ltd. (BMPL) as disclosed in Note 10.6. The Globe Group determined that it has rights only to the net assets of the joint arrangements based on the structure, legal form, contractual terms and other facts and circumstances of the arrangements. As such, Globe Telecom classified its joint arrangements in VTI, BAHC and BHC, GFI/Mynt, TechGlobal, GTHI and BMPL as joint ventures.

3.2 Estimates

3.2.1 *Revenue Recognition*

The Globe Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and receivables.

Agreements with domestics and foreign carriers for inbound and outbound traffic subject to settlements require reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by the company. Initial recognition of revenues is based on observed traffic adjusted by normal experience adjustments, which historically are not material to consolidated financial statements. Difference between the amounts initially recognized and the actual settlements are taken up in the accounts upon reconciliation.

The Globe Group estimates the fair value of points awarded under its Loyalty programmes, which are within the scope of Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, by applying estimation procedures using historical data and trends. The points expected to be redeemed is estimated based on the remaining points, the run-rate redemption by the subscribers and the points to peso conversion. As of December 31, 2017 and 2016, the estimated liability for unredeemed points included in "Unearned revenues" in the consolidated statements of financial position amounted to ₱232.37 million and ₱217.31 million, respectively.

3.2.2 *Allowance for Impairment Losses on Receivables*

The Globe Group maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The Globe Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment losses being determined for each risk grouping identified by the Globe Group. The amount and timing of recorded expenses for any period would differ if the Globe Group made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

Impairment losses on receivables for the years ended December 31, 2017, 2016 and 2015 amounted to ₱4,078.98 million, ₱2,934.31 million and ₱2,693.57 million, respectively (see Note 23). Receivables, net of allowance for impairment losses, amounted to ₱27,304.29 million and ₱26,944.65 million as of December 31, 2017 and 2016, respectively (see Note 4).

The carrying value of loans receivable presented under "Other noncurrent assets" and "Prepayments and other current assets" as of December 31, 2017 and 2016 amounted to ₱906.62 million and ₱946.62 million, respectively (see Notes 6 and 11).

3.2.3 *Obsolescence and Market Decline*

The Globe Group, in determining the NRV, considers any adjustment necessary for obsolescence which is generally provided at 80% for nonmoving items after a certain period. The Globe Group adjusts the cost of inventory to the recoverable value at a level considered adequate to reflect market decline in the value of the recorded inventories. The Globe Group reviews the classification of the inventories and generally provides adjustments for recoverable values of new, actively sold and slow-moving inventories by reference to prevailing values of the same inventories in the market. Provisions are generally made based on expected recoveries, which is 80% of the cost.

The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in allowance for obsolescence and market decline would increase recorded cost of sales and impairment losses, and decrease current assets.

Inventory obsolescence and market decline in 2017, 2016 and 2015 amounted to ₱403.04 million, ₱341.76 million and ₱384.14 million, respectively (see Note 23).

Inventories and supplies, net of allowances, amounted to ₱3,242.69 million and ₱4,579.95 million as of December 31, 2017 and 2016, respectively (see Note 5). Allowance for inventory losses amounted to ₱636.04 million and ₱676.43 million as of December 31, 2017 and 2016, respectively.

3.2.4 *ARO*

The Globe Group is legally required under various contracts to restore leased property to its original condition and to bear the costs of dismantling and de-installation at the end of the contract period. These costs are accrued based on an in-house estimate, which incorporates estimates of asset retirement costs and interest rates. The Globe Group recognizes the present value of these obligations and capitalizes the present value of these costs as part of the balance of the related property and equipment accounts, which are being depreciated and amortized on a straight-line basis over the EUL of the related asset or the lease term, whichever is shorter.

The present value of dismantling costs is computed based on an average credit-adjusted risk-free rate of 5.72% and 6.69% for the years ended December 31, 2017 and 2016, respectively. Assumptions used to compute ARO are reviewed and updated annually.

The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in ARO would increase recorded operating expenses and increase noncurrent liabilities.

As of December 31, 2017 and 2016, ARO amounted to ₱2,420.22 million and ₱2,239.11 million, respectively (see Note 15).

3.2.5 *EUL of Property and Equipment, Investment Properties and Intangible Assets*

The useful life of each of the Globe Group's property and equipment, investment properties and intangible assets with finite useful lives is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets and expected asset utilization based on future technological developments and market behavior. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

A reduction in the EUL of property and equipment and intangible assets would increase the recorded depreciation and amortization expense and decrease noncurrent assets.

The EUL of property and equipment are as follows:

	Years
Telecommunications equipment:	
Tower	20
Switch	7-10
Outside plant, cellsite structures and improvements	10-20
Distribution dropwires and other wireline assets	2-10
Cellular equipment and others	3-10
Buildings	20
Investments in cable systems	5-20
Office equipment	3-7
Transportation equipment	3-5
Leasehold improvements	5 years or lease term, whichever is shorter

Intangible assets consisting of licenses and application software are amortized over the EUL of the related hardware or equipment ranging from three (3) to ten (10) years or life of the telecommunications and office equipment where it is assigned, while exclusive dealership rights are amortized over the life of the dealership agreement (see Note 8).

3.2.6 *Asset Impairment*

3.2.6.1 *Impairment of Nonfinancial Assets Other Than Goodwill*

The Globe Group assesses impairment of assets (property and equipment, intangible assets and investments in associates and joint ventures) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Globe Group considers important which could trigger an impairment review include the following:

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

An impairment loss is recognized whenever the carrying amount of an asset or investment exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or investments or, if it is not possible, for the CGU to which the asset belongs.

For impairment loss on specific assets or investments, the recoverable amount represents the fair value less cost to sell.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets or holding of an investment, the Globe Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

The aggregate carrying value of property and equipment, intangible assets (excluding goodwill) and investments amounted to ₱211,806.31 million and ₱189,998.56 million as of December 31, 2017 and 2016, respectively (see Notes 7, 8 and 10).

3.2.6.2 *Impairment of Goodwill*

The Globe Group's impairment test for goodwill is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the business plan for the next five years and do not include restructuring activities that the Globe Group is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. As of December 31, 2017 and 2016, the carrying value of goodwill amounted to ₱1,283.04 million and ₱1,268.10 million, respectively (see Note 8).

The recoverable amount of the CGU, which exceeds the carrying amount of the related goodwill by ₱184,020.24 million and ₱141,649.38 million in 2017 and 2016, respectively, has been determined based on value in use calculations using cash flow projections from business plans covering a five-year period. The pre-tax discount rate applied to cash flow projections was 8.23% in 2017 and 9.24% in 2016 and cash flows beyond the five-year period are extrapolated using a 2% long-term growth rate in 2017 and 2016. Impairment testing was conducted in September 2017.

3.2.7 *Deferred Income Tax Assets*

The carrying amounts of deferred income tax assets are 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 or part of the deferred income tax assets to be utilized (see Note 24).

As of December 31, 2017 the combined net deferred tax assets of Innove, GXI, BTI, Asticom and Tao amounted to ₱2,761.63 million. As of December 31, 2016, the combined net deferred tax assets of Globe Telecom, Innove, GXI, BTI and Asticom amounted to ₱2,622.70 million (see Note 24).

As of December 31, 2017, the combined net deferred income tax liabilities of Globe Telecom, KVI, and GTI amounted to ₱2,748.83 million. As of December 31, 2016, the combined net deferred income tax liabilities of Globe Telecom, KVI, and GTI amounted to ₱1,916.92 million. (see Note 24).

3.2.8 *Financial Assets and Financial Liabilities*

The Globe Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates), the amount of changes in fair value would differ if the Globe Group utilized different valuation methodologies. Any changes in fair value of these financial assets and liabilities would affect the consolidated statement of comprehensive income and consolidated statement of changes in equity.

Financial assets comprising AFS investments and derivative assets carried at fair values as of December 31, 2017 and 2016 amounted to ₱2,127.59 million and ₱1,617.54 million, respectively, and financial liabilities comprising derivative liabilities carried at fair values as of December 31, 2017 and 2016 amounted to ₱191.06 million and ₱105.93 million (see Note 28.12).

3.2.9 *Pension and Other Employee Benefits*

The cost of defined benefit pension plans as well as the present value of the pension obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on the 1994 Group Annuity Mortality Table developed by the Society of Actuaries, which provides separate rates for males and females 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.

The net pension liability as of December 31, 2017 and 2016 amounted to ₱2,101.31 million and ₱3,101.55 million, respectively. Further details are provided in Note 18.2.

The Globe Group also determines the cost of equity-settled transactions using assumptions on the appropriate pricing model. Significant assumptions for the cost of share-based payments include, among others, share price, exercise price, option life, expected dividend and expected volatility rate.

Cost of share-based payments in 2017, 2016 and 2015 amounted to ₱104.83 million, ₱260.27 million, and ₱153.99 million, respectively (see Notes 16.6 and 18.1).

The Globe Group also estimates other employee benefit obligations and expenses, including cost of paid leaves based on historical leave availments of employees, subject to the Globe Group's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

The accrued balance of other employee benefits (included in the "Accounts payable and accrued expenses" account and in the "Other long-term liabilities" account in the consolidated statements of financial position) as of December 31, 2017 and 2016 amounted ₱827.41 million and ₱775.80 million, respectively (see Notes 12 and 15).

While the Globe Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

4 Receivables - net

This account consists of receivables from:

	Notes	2017	2016
		(In Thousand Pesos)	
Subscribers	16, 28.2.2	**₱30,422,075**	₱30,779,750
Traffic settlements – net	12, 16, 28.2.2	**2,818,856**	1,931,550
Dealers	28.2.2	**1,053,473**	1,023,515
Others	28.2.2	**2,141,495**	1,375,432
		36,435,899	35,110,247
Less allowance for impairment losses:			
Subscribers	28.2.2	**8,504,349**	7,594,107
Traffic settlements and others	28.2.2	**627,262**	571,495
		9,131,611	8,165,602
		₱27,304,288	₱26,944,645

Receivables are noninterest-bearing and are generally due within twelve months.

Subscriber receivables arise from wireless and wireline voice, data communications and broadband internet services provided under postpaid arrangements.

Traffic settlement receivables are presented net of traffic settlement payables from the same carrier (see Note 28.11).

"Unearned Revenues" account in the consolidated statements of financial position is summarized as follows:

	2017	2016
	(In Thousand Pesos)	
Deferred revenue from wireless subscribers under prepaid arrangements	**₱2,617,189**	₱2,351,404
Advance monthly service fees	**2,562,874**	2,428,095
Deferred revenue rewards	**232,371**	217,306
Others	**97,339**	93,616
	₱5,509,773	₱5,090,421

Deferred revenues from wireless subscribers under prepaid arrangements are recognized as revenues upon actual usage of airtime value, consumption of prepaid subscription fees or upon expiration of the unused load value prepaid credit.

Advance monthly service fees represent advance collections from post-paid subscribers.

Deferred revenue rewards represent unredeemed customer award credit under customer loyalty program.

In 2018, a new regulation will be implemented extending the expiration of prepaid load (see Note 31).

5 Inventories and Supplies - net

This account consists of:

	2017	2016
	(In Thousand Pesos)	
Handsets, devices and accessories	**₱1,931,997**	₱2,755,093
Modem and accessories	**533,947**	896,816
Spare parts and supplies	**287,714**	284,549
Nomadic broadband device	**270,571**	362,037
SIM cards and SIM packs	**203,241**	270,731
Call cards and others	**15,219**	10,728
	₱3,242,689	₱4,579,954

Breakdown of cost of inventories recognized as expense are as follows:

	Note	**2017**	2016	2015
		(In Thousand Pesos)		
Cost of sales		**₱13,013,437**	₱11,914,114	₱13,665,203
Inventory obsolescence	23	**403,037**	341,759	384,143
		₱13,416,474	₱12,255,873	₱14,049,346

Cost of sales incurred consists of:

	2017	2016	2015
	(In Thousand Pesos)		
Handsets, devices and accessories	**₱10,752,145**	₱9,542,528	₱10,800,718
Nomadic broadband device	**1,289,983**	1,603,905	2,186,284
SIM cards and SIM packs	**623,013**	632,870	566,100
Call cards and others	**162,897**	116,892	104,640
Modems and accessories	**13,787**	14,362	364
Spare parts and supplies	**4,858**	3,557	7,001
Others	**166,754**	-	96
	₱13,013,437	₱11,914,114	₱13,665,203

6 Prepayments and Other Current Assets

This account consists of:

	Notes	2017	2016
		(In Thousand Pesos)	
Advance payments to suppliers and contractors	25.3	**₱11,666,998**	₱8,215,535
Prepayments		**1,887,080**	1,510,837
Creditable withholding tax		**879,003**	797,925
Miscellaneous receivable – net	28.2.2	**240,971**	195,441
Deferred input VAT	11	**233,484**	142,684
Current portion of loan receivable from:			
Globe Group Retirement Plan (GGRP)	16.3	**-**	788,000
Bethlehem Holdings, Inc. (BHI)	16.3	**-**	158,620
Fuse Lending Inc.		**60,000**	-
Dividend receivable	16.4	**34,963**	68,743
Input VAT – net		**33,133**	450,730
Others	25.1.1	**695,265**	468,377
		₱15,730,897	₱12,796,892

The "Prepayments" account includes prepaid insurance, rent, maintenance, and licenses fee among others.

Deferred input VAT pertains to various purchases of goods and services which cannot be claimed yet as credits against output VAT liabilities, pursuant to the existing VAT rules and regulations. Deferred input VAT can be applied against future output VAT liabilities. Details are as follows:

	Note	2017	2016
		(In Thousand Pesos)	
Due for credits within 12 months		**₱233,484**	₱142,684
Due for credits beyond 12 months	11	**212,567**	260,720
		₱446,051	₱403,404

Other current assets include advances to employees amounting to ₱279.89 million and ₱216.34 million as of December 31, 2017 and 2016, respectively.

7 Property and Equipment - net

The rollforward analysis of this account follows:

2017

	Telecommunication Equipment	Buildings and Leasehold Improvement	Cable System	Office Equipment	Transportation Equipment	Land	Assets Under Construction	Total
				(In Thousand Pesos)				
Cost								
At January 1	₱223,570,596	₱46,414,056	₱22,926,569	₱14,458,134	₱2,767,427	₱3,048,654	₱21,441,248	₱334,626,684
Additions	1,663,928	8,730	2,973,019	202,472	398,574	31,454	45,596,957	50,875,134
Retirements/disposals	(6,802,900)	(53,795)	(2,215,051)	(565,621)	(237,357)	(3,750)	(61,671)	(9,940,145)
Reclassifications/adjustments	28,323,644	7,138,957	2,842,270	947,422	(12,086)	(798,015)	(43,133,959)	(4,691,767)
At December 31	246,755,268	53,507,948	26,526,807	15,042,407	2,916,558	2,278,343	23,842,575	370,869,906
Accumulated Depreciation and Amortization								
At January 1	140,960,791	22,538,532	14,004,555	11,228,421	1,856,868	-	-	190,589,167
Depreciation and amortization	17,338,960	2,286,372	1,173,150	1,683,650	354,434	-	-	22,836,566
Retirements/disposals	(6,117,645)	(39,005)	(43)	(426,532)	(219,141)	-	-	(6,802,366)
Reclassifications/adjustments	59,150	(10,121)	(37)	(165,889)	(26,434)	-	-	(143,331)
At December 31	152,241,256	24,775,778	15,177,625	12,319,650	1,965,727	-	-	206,480,036
Impairment Losses								
At January 1	1,231,614	23,252	-	-	9,860	-	520,810	1,785,536
Additions (Note 23)	11,916	-	-	-	-	-	16,403	28,319
Write-off/adjustments	(24,519)	-	-	-	-	-	(2,112)	(26,631)
At December 31	1,219,011	23,252	-	-	9,860	-	535,101	1,787,224
Carrying amount at December 31	₱ 93,295,001	₱28,708,918	₱11,349,182	₱2,722,757	₱940,971	₱2,278,343	₱23,307,474	₱162,602,646

2016

	Telecommunication Equipment	Buildings and Leasehold Improvement	Cable System	Office Equipment	Transportation Equipment	Land	Assets Under Construction	Total
				(In Thousand Pesos)				
Cost								
At January 1	₱239,521,081	₱42,809,270	₱22,677,742	₱13,660,352	₱2,698,476	₱3,145,123	₱13,631,840	₱338,143,884
Additions	605,839	37,636	133,354	355,789	386,345	-	37,436,955	38,955,918
Acquired from acquisition of a subsidiary	-	9,124	-	104,566	1,058	-	-	114,748
Retirements/disposals	(35,888,129)	(62,642)	(1,131)	(748,791)	(317,780)	(156,822)	(125)	(37,175,420)
Reclassifications/adjustments	19,331,805	3,620,668	116,604	1,086,218	(672)	60,353	(29,627,422)	(5,412,446)
At December 31	223,570,596	46,414,056	22,926,569	14,458,134	2,767,427	3,048,654	21,441,248	334,626,684
Accumulated Depreciation and Amortization								
At January 1	161,671,467	20,616,530	12,666,242	10,415,931	1,863,952	-	-	207,234,122
Depreciation and amortization	15,213,437	1,937,047	1,332,832	1,474,311	307,368	-	-	20,264,995
Acquired from acquisition of subsidiary	-	2,817	-	60,625	-	-	-	63,442
Retirements/disposals	(35,885,464)	(60,392)	(1,131)	(736,287)	(311,906)	-	-	(36,995,180)
Reclassifications/adjustments	(38,649)	42,530	6,612	13,841	(2,546)	-	-	21,788
At December 31	140,960,791	22,538,532	14,004,555	11,228,421	1,856,868	-	-	190,589,167
Impairment Losses								
At January 1	1,318,884	23,252	-	-	9,860	-	518,244	1,870,240
Additions (Note 23)	6,850	-	-	-	-	-	2,566	9,416
Write-off/adjustments	(94,120)	-	-	-	-	-	-	(94,120)
At December 31	1,231,614	23,252	-	-	9,860	-	520,810	1,785,536
Carrying amount at December 31	₱81,378,191	₱23,852,272	₱8,922,014	₱3,229,713	₱900,699	₱3,048,654	₱20,920,438	₱142,251,981

Assets under construction include intangible components of a network system which are reclassified to depreciable intangible assets only when assets become available for use (see Note 8).

Investments in cable systems include the cost of the Globe Group's ownership share in the capacity of certain cable systems under a joint venture or a consortium or private cable set-up and indefeasible rights of use (IRUs) of circuits in various cable systems. It also includes the cost of cable landing station and transmission facilities where the Globe Group is the landing party.

The costs of fully depreciated property and equipment that are still being used as of December 31, 2017 and 2016 amounted to ₱55,691.75 million and ₱64,890.79 million, respectively.

The Globe Group uses its borrowed funds to finance the acquisition of property and equipment and bring it to its intended location and working condition. Borrowing costs incurred relating to these acquisitions were included in the cost of property and equipment using 4.32% and 4.21% capitalization rates in 2017 and 2016, respectively. The Globe Group's total capitalized borrowing costs amounted to ₱734.26 million and ₱532.24 million in 2017 and 2016, respectively.

The carrying value of the hardware infrastructure and information equipment held under finance lease included under "Office Equipment" amounted to ₱266.18 million and ₱432.17 million as of December 31, 2017 and 2016, respectively (see Note 25.1.2).

Pursuant to the Amended Rehabilitation Plan (ARP) and Master Restructuring Agreement (MRA), the remaining outstanding restructured debt of BTI to creditors other than Globe Telecom amounting to USD2.54 million will be secured by a real estate mortgage on identified real property assets (see Note 14.1). The processing of the real properties to be mortgaged is still ongoing as of December 31, 2017.

8 Intangible Assets and Goodwill - net

The rollforward analysis of this account follows:

2017

	Licenses and Application Software	Customer Contracts	Exclusive Dealership Right	Other Intangible Assets and Goodwill	Total Intangible Assets and Goodwill
Cost					
At January 1	₱28,070,660	₱571,760	₱150,324	₱1,758,931	₱30,551,675
Additions	152,254	-	-	404,946	557,200
Retirements/disposals	(757,324)	-	-	-	(757,324)
Reclassifications/ adjustments (Note 7)	4,385,078	-	-	-	4,385,078
At December 31	31,850,668	571,760	150,324	2,163,877	34,736,629
Accumulated Amortization					
At January 1	15,245,462	214,410	150,324	108,259	15,718,455
Amortization	4,464,599	142,940	-	68,584	4,676,123
Retirements/disposals	(443,572)	-	-	-	(443,572)
Reclassifications/adjustments	(63,449)	-	-	(34,634)	(98,083)
At December 31	19,203,040	357,350	150,324	142,209	19,852,923
Carrying Amount at December 31	₱12,647,628	₱214,410	₱ -	₱2,021,668	₱14,883,706

2016

	Licenses and Application Software	Customer Contracts	Exclusive Dealership Right	Other Intangible Assets and Goodwill	Total Intangible Assets and Goodwill
Cost					
At January 1	₱22,924,678	₱571,760	₱141,019	₱1,644,864	₱25,282,321
Additions	135,273	-	-	-	135,273
Acquired from acquisition of a subsidiary	-	-	-	125,457	125,457
Retirements/disposals	(68,334)	-	-	-	(68,334)
Reclassifications/adjustments (Note 7)	5,079,043	-	9,305	(11,390)	5,076,958
At December 31	28,070,660	571,760	150,324	1,758,931	30,551,675
Accumulated Amortization					
At January 1	12,082,383	71,470	47,001	24,542	12,225,396
Amortization	3,290,936	142,940	96,336	49,083	3,579,295
Retirements/disposals	(13)	-	-	-	(13)
Reclassifications/adjustments	(127,844)	-	6,987	34,634	(86,223)
At December 31	15,245,462	214,410	150,324	108,259	15,718,455
Carrying Amount at December 31	₱12,825,198	₱357,350	₱ -	₱1,650,672	₱14,833,220

Intangible assets pertain to telecommunications equipment software licenses, corporate application software and licenses and other VAS software applications that are not integral to the hardware or equipment; exclusive dealership right; goodwill arising from acquisition of BTI, Socialytics and Tao and franchise, customer contracts and spectrum.

As of December 31, 2017 and 2016, Globe Group has the following individually material intangible assets arising from acquisition of BTI.

	2017	2016	**2017**	2016
	Carrying amount *(In Thousand Pesos)*		Remaining amortization period	
Customer contracts	**₱214,410**	₱357,350	**1.5 years**	2.5 years
Franchise	**541,298**	613,471	**7.5 years**	8.5 years
Spectrum	**368,126**	417,209	**7.5 years**	8.5 years
Goodwill	**1,140,249**	1,140,249	**Indefinite life**	Indefinite life

The Globe Group conducts its annual impairment test of goodwill as of the end of the third fiscal quarter of each year. The Globe Group considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment.

For impairment testing purposes, the Globe Group allocated the carrying amount of goodwill arising from the acquisition of BTI to CGU of mobile communications services or wireless segment. The recoverable amount of said CGU is determined based on a value in use calculation which uses cash flow projections based on financial budgets covering a five-year period, and a pre-tax discount rate of 8.23% and 9.24% per annum in 2017 and 2016, respectively. Cash flows beyond the five-year period are extrapolated using a steady growth rate of 2%.

The Globe Group has determined that the recoverable amount calculations are most sensitive to changes in assumptions on gross margins, discount rates, market share, and growth rates.

No impairment loss on intangible assets was recognized in 2017 and 2016. The management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

9 Business Combinations

9.1 Investment in Socialytics

On January 29, 2016, AI acquired 70% of the outstanding shares of Socialytics Inc. for a total amount of ₱3.01 million. Socialytics is a social media marketing firm founded in 2013. The transaction was accounted for as an acquisition of a subsidiary.

Globe Group's acquisition of Socialytics is in line with its strategy to expand its business operations in the advertising industry.

The initial accounting for the acquisition of Socialytics in 2016 was only provisionally determined pending the finalization of necessary market valuations based on management's best estimate of the likely values. As allowed under the relevant standard, the Globe Group should determine the final fair values of identifiable assets and liabilities within 12 months from the acquisition date and any adjustment to the provisional values are taken up as adjustments to goodwill. In 2017, management determined that the provisional values in 2016 represents the final fair values of the identifiable assets and liabilities of Socialytics.

Details of the fair values upon acquisition of Socialytics in 2016 follows:

	Amount recognized on acquisition
	(In Thousand Pesos)
ASSETS	
Current assets	₱4,904
Other noncurrent assets	60
	4,964
LIABILITIES	
Current liabilities	1,760
Other long term liabilities	2,325
	4,085
Net assets acquired and liabilities assumed	₱879
Purchase consideration transferred	₱3,006
Net assets acquired and liabilities assumed	(879)
Non-controlling interest measured at fair value	264
Goodwill arising on acquisition	₱2,391

Net cash outflow from the acquisition is as follows (in thousand pesos):

Total cash paid on acquisition	₱3,006
Cash and cash equivalents acquired from Socialytics	(175)
Net cash outflow on acquisition	₱2,831

In 2016, Socialytics contributed ₱11.74 million and ₱6.72 million in consolidated revenue and loss before income tax, respectively. If the combination had taken place in the beginning of 2016, revenue from Socialytics would have been ₱12.30 million and income before income tax would have been ₱6.60 million in 2016.

9.2 Investment in Tao

In March 2013, Globe Telecom entered into a Shareholders Agreement with four other entities to incorporate Tao.

Globe Telecom subscribed to 25% preferred shares of Tao amounting to ₱55.00 million which was fully paid as of August 2013. Tao shall carry on the business of establishing, operating and maintaining retail stores in strategic locations within the Philippines that will sell telecommunications or internet-related services, and devices, gadgets, accessories or embellishments in connection and in accordance with the terms and conditions of the exclusive dealership agreement executed among all of the entities.

On November 4, 2016, the BOD of Globe Telecom approved the increase in stake in Tao from 25% to 67% resulting in Globe Telecom's gaining controlling interest in Tao by converting certain advances to equity and purchasing incremental shares or advances from Tao for a total consideration of ₱207.34 million. The transaction was accounted for as an acquisition of a subsidiary. Globe Telecom's acquisition of Tao is intended to augment its existing stores retail network.

The Globe Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's net assets acquired and liabilities assumed.

The initial accounting for the acquisition of Tao as a subsidiary in 2016 was only provisionally determined pending the finalization of necessary market valuations based on management's best estimate of the likely values. As allowed under the relevant standard, the Globe Group determined the final fair values of identifiable assets and liabilities within 12 months from the acquisition date and any adjustment to the provisional values were taken up as adjustments to goodwill.

In June 2017, the management completed the assessment of the fair values of the net assets of Tao and determined adjustments amounting ₱36.41 million decrease in its net assets. The adjustments to the provisional values likewise resulted to goodwill from acquisition amounting to ₱140.40 million.

The provisional and final fair values of the identifiable assets and liabilities of Tao as at the date of acquisition are shown in the following table:

	Final fair value	Provisional fair value
	(In Thousand Pesos)	
ASSETS		
Current assets	₱194,369	₱164,135
Property and equipment	14,680	51,306
Other noncurrent assets	6,634	6,634
	215,683	222,075
LIABILITIES		
Current liabilities	188,003	140,402
Other long term liabilities	-	17,579
	188,003	157,981
Net assets acquired and liabilities assumed	₱27,680	₱64,094
Purchase consideration transferred	₱207,015	₱207,345
Net assets acquired and liabilities assumed	(27,680)	(64,094)
Non-controlling interest measured at fair value	9,148	21,182
Share in previously held equity interest	(48,080)	(38,976)
Goodwill arising on acquisition	₱140,403	₱125,457

As discussed in the preceding section, the net assets recognized in the December 31, 2016 consolidated financial statements were based on a provisional assessment of their fair values, which was finalized in 2017.

The goodwill comprises the fair value of expected synergies arising from the acquisition and presented under Intangible assets and goodwill in the consolidated statements of financial position (see Note 8). None of the goodwill recognized is expected to be deductible for income tax purposes.

10 Investments

This account consists of the following as of December 31:

	2017	2016
	(In Thousand Pesos)	
Investments in associates:		
Yondu	**₱941,887**	₱928,386
AFPI	**56,034**	370,774
Investments in joint ventures:		
VTI, BAHC and BHC	**32,411,987**	32,706,360
GFI/Mynt	**2,042,001**	-
TechGlobal	**93,180**	115,326
BMPL	**46,006**	39,133
GTHI	**11,904**	21,473
Investments and advances at equity	**₱35,602,999**	₱34,181,452

Details of the Globe Group's investments in associate and joint ventures and the related percentages of ownership are shown below:

	Country of Incorporation	Principal Activities	**2017**	2016
Associates				
Yondu	Philippines	Mobile content and application development services	**49%**	49%
AFPI	Philippines	Construction and establishment of systems, infrastructure	**20%**	20%
Joint Ventures				
VTI	Philippines	Telecommunications	**50%**	50%
BAHC	Philippines	Holding company	**50%**	50%
BHC	Philippines	Holding company	**50%**	50%
GTHI	Philippines	Health hotline facility	**50%**	50%
TechGlobal	Philippines	Installation and management of data centers	**49%**	49%
GFI/Mynt*	Philippines	Holding company	**45%**	100%
BMPL	Singapore	Mobile technology infrastructure and common service	**10%**	10%
BPI Globe BanKO Inc., A Savings Bank (BPI Globe BanKO)**	Philippines	Micro-finance enterprises banking services	**-**	-

**A subsidiary of Globe Telecom through GCVHI until September 2017 (see Note 10.4).*
***Disposed in 2016 (see Note 10.8).*

The movement in investments in associates and joint ventures are as follows:

	Notes	**2017**	2016
		(In Thousand Pesos)	
Costs			
At January 1		**₱34,983,996**	₱1,989,455
Acquisitions during the year	10.2, 10.3	**-**	32,113,701
Reclassification arising from loss of control over GFI/Mynt	10.4	**2,278,305**	-
Additional capital contributions during the year:			
Investment in VTI	10.3	**372,443**	1,316,082
Investment in AFPI	10.2	**100,000**	130,000
Purchase price adjustment	10.3	**(155,122)**	-
Return on investment	10.1	**(42,737)**	-
Disposal during the year	10.8	**-**	(565,242)
At December 31		**37,536,885**	34,983,996
Accumulated Equity in Net Losses			
At January 1		**(825,917)**	(511,950)
Equity share in net losses		**(846,177)**	(855,198)
Disposal during the year	10.8	**-**	541,231
At December 31		**(1,672,094)**	(825,917)
Other Comprehensive Income			
At January 1		**23,373**	21,060
Equity share in other comprehensive income		**871**	2,313
At December 31		**24,244**	23,373
Impairment Losses			
At January 1		**-**	-
Impairment losses	10.2	**(286,036)**	-
At December 31		**(286,036)**	-
Carrying Value at December 31		**₱35,602,999**	₱34,181,452

Investment in Associates

10.1 Investment in Yondu

Yondu is engaged in the development and creation of wireless products and services accessible through mobile devices or other forms of communication devices. It also provides internet and mobile value added services, information technology and technical services including software development and related services. Yondu is registered with the Department of Transportation and Communication (DOTC) as a content provider.

Loss of control on investment in Yondu

On September 15, 2015, Globe Telecom sold its controlling interest in Yondu for a total consideration of ₱670.00 million. On the same date, Yondu issued additional 5,000 common shares from its unissued authorized capital stock to a third party which further diluted Globe Telecom's ownership interest to 49%. Gain on disposal of controlling interest in subsidiary and gain on fair value of retained interest was recognized in the consolidated statements of comprehensive income amounting to ₱449.15 million and ₱745.83 million, respectively, for the year ended December 31, 2015 (see Note 20).

The fair value of retained interest in Yondu is based on the most recent market transaction at the time of sale of controlling interest.

Total assets and liabilities of Yondu as of the date of disposal of controlling interest amounted to ₱740.70 million and ₱728.10 million, respectively, including cash and cash equivalents of ₱75.51 million. The fair value of the Yondu shares held by Globe Telecom amounted to ₱864.71 million as of September 15, 2015.

On August 14, 2017, Yondu's BOD approved the declaration of cash dividend of ₱1,938 per common share or an aggregate amount of ₱87.22 million to common stockholders of record as of August 14, 2017. Of the total amount, ₱42.74 million represents Globe Telecom's share in the dividends and ₱32.06 million of which remains outstanding as of December 31, 2017.

The following table presents the summarized unaudited financial information of Yondu as of and for the years then ended December 31, 2017 and 2016.

	2017	2016
	(In Thousand Pesos)	
Statements of Financial Position:		
Current assets, including cash and cash equivalents	**₱622,260**	₱568,563
Noncurrent assets	**89,801**	92,567
Current liabilities	**305,908**	283,739
Noncurrent liabilities	**5,871**	4,662
Equity	**400,282**	372,729
Statements of Comprehensive Income:		
Revenue	**834,624**	744,398
Costs and expenses	**(674,993)**	(621,446)
Income before tax	**159,631**	122,952
Provision for income tax	**(44,860)**	(38,461)
Total comprehensive income/Net income for the year	**₱114,771**	₱84,491
Globe Group's share in net income for the year	**₱56,238**	₱41,401

10.2 Investment in AFPI (formerly Automated Fare Collection Service Inc. (AFCS))

On January 30, 2014, following a competitive bidding process, the DOTC awarded to AF Consortium, composed of AC Infrastructure Holdings Corp., BPI Card Finance Corp., Globe Telecom, Inc., Meralco Financial Services, Inc., Metro Pacific Investments Corp., and Smart Communications, Inc. the rights to design, build and operate the ₱1.72 billion automated fare collection system. This is a public-private partnership project intended to upgrade and consolidate the fare collection systems of the three urban rail transit systems which presently serve Metro Manila.

On February 10, 2014, AF Consortium incorporated AFCS, a special purpose company, which will assume the rights and obligations of the concessionaire. These rights and obligations include the construction and establishment of systems, infrastructure including implementation, test, acceptance and maintenance plans, and operate the urban transit system for a period of 10 years.

On March 11, 2015, AFCS amended its corporate name to AFPI.

In 2017 and 2016, Globe Telecom infused additional capital amounting to ₱100.00 million and ₱130.00 million, respectively.

As of December 31, 2017 and 2016, Globe Telecom's total capital contribution in AFPI amounted to ₱690.00 million and ₱590.00 million, respectively, representing 20% equity interest. The investment in AFPI is accounted for as investment in associate.

In 2017, management determined that the recoverable amount of the investment in AFPI is less than the carrying value. Accordingly, Globe Group recognized as impairment loss the difference in the investment's recoverable amount and carrying value amounting to ₱286.04 million.

The following table presents the summarized unaudited financial information of AFPI as of December 31, 2017 and 2016 and for the years then ended.

	2017	2016
	(In Thousand Pesos)	
Statements of Financial Position:		
Current assets, including cash and cash equivalents	**₱684,908**	₱786,008
Noncurrent assets	**1,689,353**	1,803,749
Current liabilities	**335,381**	367,511
Equity	**1,710,353**	1,853,871
Statements of Comprehensive Loss:		
Revenue	**48,184**	44,510
Cost and expenses	**(695,657)**	(688,446)
Loss before tax	**(647,473)**	(643,936)
Net loss for the year	**(647,473)**	(643,936)
Other comprehensive income (loss)	**3,952**	(111)
Total comprehensive loss	**(₱643,521)**	(₱644,047)
Globe Group's share in net loss for the year	**(₱129,495)**	(₱128,809)
Globe Group's share in other comprehensive income for the year	**₱790**	₱ -
Share in stock issuance costs	**₱ -**	(₱1.61)

The Globe Group has no share in any contingent liabilities of any associates as of December 31, 2017 and 2016.

Investment in Joint Ventures

10.3 Investment in VTI, BAHC and BHC

On May 30, 2016, Globe Telecom's BOD, through its Executive Committee, approved the signing of a Sale and Purchase Agreement (SPA) and other related definitive agreements for acquisition of 50% equity interest in the telecommunications business of San Miguel Corporation (SMC), Schutzengel Telecom, Inc. and Grace Patricia W. Vilchez-Custodio (the "Sellers"; SMC being the major seller) through their respective subsidiaries namely, VTI, BAHC and BHC, respectively (the Acquirees). The preceding sentence is hereinafter referred to as "the Transaction".

VTI owns an equity stake in Liberty Telecom Holdings, Inc. (LIB), a publicly listed company in the Philippine Stock Exchange. It also owns, directly and indirectly, equity stakes in various enfranchised companies, including Bell Telecommunication Philippines, Inc. (Bell Tel), Eastern Telecom Philippines, Inc. (Eastern Telecom), Cobaltpoint Telecommunication, Inc (formerly Express Telecom, Inc.), and Tori Spectrum Telecom, Inc., among others.

The remaining 50% equity stake in the Acquirees was acquired by Philippine Long Distance Telephone Company (PLDT) under similar definitive agreements.

Total consideration for the Transaction amounts to ₱52,847.82 million for the purchase of the equity interest and advances of the Acquirees, which translated to an agreed consideration of ₱26,423.91 million for Globe Telecom's 50% equity stakes in the Acquirees. The SPA also provided for the assumption of total liabilities of ₱17,151.18 million 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 Sellers at the end of the confirmatory due diligence period. Total price adjustment amounted to ₱2,564.28 million resulting to adjusted total consideration of ₱55,412.10 million. As of December 31, 2016 the negotiated assumed liabilities amounted to ₱10,782.50 million, of which, ₱5,391.25 million was attributed as Globe Telecom's share. Acquisition-related costs amounting to ₱298.53 million were carried as part of the investment cost. The confirmatory due diligence was finalized as of June 30, 2017. The assumption of liabilities of the Acquirees by Globe Telecom 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 consideration for the equity interest and advances was fully settled on a deferred basis as follows: 50% on May 30, 2016, 25% on December 1, 2016 and 25% on May 30, 2017.

The acquisition provided Globe Telecom an access to frequencies assigned to Bell Tel in the 700 Mhz, 900 Mhz, 1800 Mhz, 2300 Mhz and 2500 Mhz bands through a co-use arrangement approved by the NTC on May 27, 2016. NTC's approval is subject to the fulfillment of certain conditions including roll out of telecom infrastructure covering at least 90% of the cities and municipalities in three years to address the growing demand for broadband infrastructure and internet access.

The memorandum of agreement between Globe and PLDT provides for both parties to pool resources and share in the profits and losses of the companies on a 50%-50% basis with a view to being financially self-sufficient and able to operate or borrow funds without recourse to the parties. Globe extended advances to Vega Group amounting to ₱1,316.08 million for the period June 1, 2016 to December 31, 2016 which was carried as part of investment cost.

Of the various companies within the group, only Eastern Telecom and its subsidiary have commercial operations generating ₱2,350.17 million, ₱733.72 million and ₱708.67 million in revenues, EBITDA and net income for the year ended December 31, 2017, respectively, and ₱2,093.60 million, ₱955.70 million and ₱670.50 million in revenues, EBITDA and net income for the year ended December 31, 2016, respectively. Globe Telecom has adjusted its share in the net assets of the Acquirees to reflect losses on fair value of assets and onerous contracts.

On June 21, 2016, Globe Telecom exercised its rights as holder of 50% equity interest of VTI to cause VTI to propose the conduct of a tender offer on the common shares of LIB held by minority shareholders as well as the voluntary delisting of LIB. At the completion of the tender offer and delisting of LIB, VTI's ownership on LIB is at 99.1%.

The net assets recognized in the December 31, 2016 consolidated financial statements 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 VTI Group and determined a net increase in identifiable net assets of VTI amounting to ₱1,552.84 million. The Globe Group 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 ₱18,012.26 million as of December 31, 2017.

The provisional and final fair values of the identifiable assets and liabilities of VTI Group as of date of the acquisition are as follows:

	Final fair values		Provisional fair values	
Assets		**₱6,487,084**		**₱8,857,921**
Liabilities		**(13,730,305)**		**(18,474,206)**
Total net liabilities at fair value		**(7,243,221)**		**(9,616,285)**
Intangible assets arising from the acquisition:				
Spectrum	**₱39,420,882**		**₱37,769,443**	
Trademark	**378,349**		**419,401**	
Customer contracts	**297,000**	**40,096,231**	**660,400**	**38,849,244**
Property and equipment appraisal increase		**1,160,045**		**1,049,964**
Deferred tax liabilities		**(12,376,883)**		**(11,969,762)**
Non-controlling interest measured at fair value		**(1,415,006)**		**(1,197,681)**
		₱20,221,166		**₱17,115,480**
Purchase consideration transferred		**₱28,122,847**		**₱26,562,192**
Share in identifiable assets and intangible assets (50%)		**(10,110,583)**		**(8,557,740)**
Goodwill arising on the acquisition		**₱18,012,264**		**₱18,004,452**

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 Telecom and PLDT.

Spectrum was valued using the greenfield approach where the Globe Telecom 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 Group.

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 the Globe Group can continue generating optimum level of future cash flows.

On February 28, 2017, Globe Telecom 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 Telecom and PLDT's assigned advances from SMC, which amounted to ₱11,040 million, were treated as deposit on future stock subscription by VTI and subsequently applied as full payment of the subscription price.

Also, on the same date, Globe Telecom 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 Telecom and PLDT each paid ₱148 million in cash for the subscribed shares. The remaining balance of the subscription price shall be paid by Globe Telecom and PLDT upon call of the VTI's BOD.

The following table presents the summarized unaudited financial information of the Acquirees as at and for the period ended December 31, 2017 and 2016.

	2017	2016 (For the period June 1 to December 31, 2016)
Statements of Financial Position:		
Current assets, including cash and cash equivalents	**₱2,779,719**	₱3,334,344
Noncurrent assets	**3,725,832**	4,418,434
Current liabilities	**1,940,313**	17,083,846
Equity	**4,168,927**	(10,543,361)
Statements of Comprehensive Income:		
Revenue	**2,352,260**	2,007,149
Cost of sales and expenses	**(2,489,433)**	(52,392,298)
Loss before tax	**(137,173)**	(50,385,149)
Provision for income tax	**(201,541)**	(333,712)
Total comprehensive loss/net loss for the period	**(₱338,714)**	(₱50,718,861)
Globe Group's share in net loss for the period including share in amortization of identifiable assets upon acquisition	**(₱511,693)**	(₱723,423)

The Transaction has been the subject of review notice filed by the PCC against Globe Telecom, PLDT, SMC and VTI on June 7, 2016 where PCC claimed that the notice was deficient in form and substance and concluded that the acquisition cannot be claimed to be deemed approved. Globe Telecom has clarified that that supposed deficiency in form and substance is not a ground to prevent the transaction from being deemed approved. The petitions of both parties with the Court of Appeals have been subsequently consolidated and the parties were required to submit their respective memoranda after which the case shall be deemed submitted for resolution. The status of the petitions with the Court of Appeals are further disclosed in Note 26.

On November 7, 2017, the NTC approved the transfer of Certificate of Public Convenience and Necessities and Provisional Authorities issued to Telecommunications Technologies Philippines, Inc. (TTPI) to operate Local Exchange Carrier (LEC) service in Metro Manila and in Region II and Region 4A and Provision Authority to provide nationwide inter-exchange (IXC) and the outside plant facilities and other telecommunications assets of TTPI, in favor of ETPI. TTPI, a wholly owned subsidiary of ETPI, used to be the voice business arm of ETPI. The latter provides internet, data and voice products, and business-centric managed services, catering mostly to enterprise subscribers.

10.4 Investment in GFI/Mynt

Prior to September 27, 2017, GCVHI holds 100% ownership interest in GFI/Mynt and accordingly, GFI/Mynt's financial position and financial performance are included in the Globe Group's consolidated financial statements. GFI/Mynt is engaged in purchasing, subscribing, owning, holding and assigning real and personal property, shares of stock and other securities. GFI/Mynt has a wholly-owned subsidiary, Fuse, which operates as a lending company.

Loss of control on investment in GFI/Mynt

As disclosed in Note 1, on February 17, 2017, Globe Telecom and its wholly-owned subsidiaries, GFI/Mynt and GCVHI entered into an investment agreement with Alipay and Ayala, for Alipay and Ayala to invest in the unissued common shares of GFI/Mynt. PCC released through a memo its affirmative decision on the Alipay acquisition of GFI/Mynt shares, resulting in the dilution of GCVHI ownership in GFI/Mynt.

On September 27, 2017, following the approval from PCC, GFI/Mynt received the capital infusion from Alipay and Ayala amounting to ₱2,784.60 million in exchange for GFI/Mynt's 513 million common shares. The issuance of shares to Alipay and Ayala 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.

Total net assets of GFI/Mynt as of the date of loss of control amounted to ₱388.40 million. The fair value of the retained interest in GFI/Mynt held by GCVHI amounted to ₱2,278.30 million as of December 31, 2017. The gain on fair value of retained equity interest in GFI/Mynt amounting to ₱1,889.90 million, was presented as "Gain on fair value of retained interest" in the consolidated statement of comprehensive income in 2017.

The following table presents the summarized unaudited financial information of GFI/Mynt for the period from October 1 to December 31, 2017.

	2017
	(In Thousand Pesos)
Statement of Financial Position:	
Current assets, including cash and cash equivalents	**₱4,355,868**
Noncurrent assets	**542,833**
Current liabilities	**2,171,759**
Equity	**2,714,855**
Statement of Comprehensive Loss:	
Revenue	**189,317**
Cost and expenses	**(719,761)**
Loss before tax	**(530,444)**
Benefit from income tax	**5,324**
Total comprehensive loss for the period	**(₱525,120)**
Globe Group's share in net loss for the period	**(₱236,304)**

10.5 Investment in TechGlobal

On November 2, 2015, Innove and Techzone Philippines incorporated TechGlobal, a Joint Venture Company, formed to install, own, operate, maintain and manage all kinds of data centers and to provide information technology-enabled services and computer-enabled support services. Innove and Techzone hold ownership interest of 49% and 51%, respectively. TechGlobal started commercial operations in August 2017.

The following table presents the summarized unaudited financial information of TechGlobal as of and for the years ended December 31, 2017 and 2016.

	2017	2016
	(In Thousand Pesos)	
Statements of Financial Position:		
Current assets, including cash and cash equivalents	**₱22,577**	₱19,487
Noncurrent assets	**242,253**	256,261
Current liabilities	**74,666**	40,389
Equity	**190,164**	235,359
Statements of Comprehensive Loss:		
Revenue	**4,911**	-
Cost and expenses	**(66,391)**	(14,641)
Loss before tax	**(61,480)**	(14,641)
Benefit from income tax	**16,285**	-
Total comprehensive loss/ Net loss for the year	**(₱45,195)**	(₱14,641)
Globe Group's share in net loss for the year	**(₱22,146)**	(₱7,174)

10.6 Investment in BMPL

Globe Telecom and other leading Asia Pacific mobile operators (JV partners) signed an Agreement in 2004 (JV Agreement) to form a regional mobile alliance, which will operate through a Singapore-incorporated company, BMPL. The JV company is a commercial vehicle for the JV partners to build and establish a regional mobile infrastructure and common service platform and deliver different regional mobile services to their subscribers.

Globe Group has a ten percent (10%) stake in BMPL. The other joint venture partners each with equal stake in the alliance include SK Telecom, Co. Ltd., Advanced Info Service Public Company Limited, Bharti Airtel Limited, Maxis Communications Berhad, Optus Mobile Pty. Limited, Singapore Telecom Mobile Pte, Ltd., Taiwan Mobile Co. Ltd., PT Telekomunikasi Selular and CSL Ltd. Under the JV Agreement, each partner shall contribute USD4.00 million based on an agreed schedule of contribution. Globe Telecom may be called upon to contribute on dates to be determined by the JV partners. On November 25, 2014, Globe Telecom received a return of capital amounting to USD1.40 million.

The following table presents the summarized unaudited financial information of the BMPL as of and for the years then ended December 31, 2017 and 2016.

	2017	2016
	(In Thousand Pesos)	
Statements of Financial Position:		
Current assets, including cash and cash equivalents	**₱560,444**	₱481,340
Noncurrent assets	**24,824**	33,430
Current liabilities	**128,787**	127,015
Equity	**456,481**	387,755
Statements of Comprehensive Income:		
Revenue	**232,335**	231,510
Cost and expenses	**(165,081)**	(175,262)
Total comprehensive income/ Net income for the year	**₱67,254**	₱56,248
Globe Group's share in net income for the year	**₱6,792**	₱5,422
Cumulative translation difference	**₱80**	₱3,914

10.7 Investment in GTHI

On October 23, 2014, Yondu and Salud Interactiva (SI) signed a shareholder's agreement to enter into a joint venture through a Philippine corporation. The Joint Venture (JV) Company was registered with the Securities and Exchange Commission on June 3, 2015 under the name GTHI as a stock corporation with 50% foreign equity formed to establish, operate, manage and provide a health hotline facility, including ancillary Information Technology services with intent to operate as a domestic market enterprise. GTHI started commercial operations in July 2015.

On September 1, 2015, Yondu assigned its interest to GCVHI and the investment was accounted for using the equity method.

The following table presents the summarized unaudited financial information of the GTHI as of and for the years then ended December 31, 2017 and 2016.

	2017	2016
	(In Thousand Pesos)	
Statements of Financial Position:		
Current assets, including cash and cash equivalents	**₱43,342**	₱60,660
Noncurrent assets	**1,197**	4,286
Current liabilities	**20,144**	22,000
Equity	**23,806**	42,945
Statements of Comprehensive Loss:		
Revenue	**35,822**	26,502
Cost and expenses	**(54,961)**	(53,424)
Total comprehensive loss/ Net loss for the year	**(₱19,139)**	(₱26,922)
Globe Group's share in net loss for the year	**(₱9,570)**	(₱13,461)

10.8 Investment in BanKO

On July 17, 2009, Globe Telecom acquired a 40% stake in BPI Globe BanKO pursuant to a Shareholder Agreement with Bank of the Philippine Islands (BPI), Ayala Corporation and PS Bank, and a Deed of Absolute Sale with BPI. BPI Globe BanKO provides financial services to micro-finance institutions and retail clients through mobile and related technology.

On August 27, 2015, Globe Telecom, AC and BPI Globe BanKO entered into an agreement to turn over full ownership of BPI Globe BanKO to BPI, one of the majority owners of the joint venture. On September 20, 2016, Globe Telecom disposed of its 40% interest in Globe BanKO for a total consideration of ₱16.12 million. The carrying value of investment amounted to ₱24.01 million as of September 20, 2016, resulting to a loss on disposal of ₱7.89 million. Globe Group's equity share in net loss of BanKO immediately prior to disposal amounted to ₱29.15 million in 2016.

The Globe Group has no share of any contingent liabilities of the joint ventures as of December 31, 2017 and 2016.

11 Other Noncurrent Assets

This account consists of:

	Notes	**2017**	2016
		(In Thousand Pesos)	
AFS investment in equity securities	28.12	**₱1,201,187**	₱794,087
Miscellaneous deposits - net	25.1	**1,069,660**	1,043,479
Non-current portion of loan receivable from:			
GGRP	16.3	**718,000**	-
BHI	16.3	**128,620**	-
Deferred input VAT	6	**212,567**	260,720
Others		**158,782**	97,677
		₱3,488,816	₱2,195,963

12 Accounts Payable and Accrued Expenses

This account consists of:

	Notes	2017	2016
		(In Thousand Pesos)	
Accrued project costs	25.3	**₱25,785,455**	₱21,533,633
Accounts payable	16	**10,240,603**	15,817,727
Accrued expenses:	16		
Services		**4,353,493**	3,539,472
Repairs and maintenance		**4,310,915**	3,627,299
Lease		**2,796,454**	2,112,170
Manpower		**2,332,892**	1,179,182
General, selling and administrative		**2,033,922**	1,983,909
Advertising		**2,000,560**	1,821,800
Utilities		**1,009,463**	1,083,614
Interest		**709,851**	523,439
Traffic settlements - net	4	**1,074,476**	846,074
Taxes payable		**5,322,423**	4,807,012
Dividends payable	17.3	**262,355**	262,355
		₱62,232,862	₱59,137,686

General, selling and administrative accrued expenses include travel, professional fees, supplies, commissions and miscellaneous, which are individually immaterial.

Traffic settlements payable are presented net of traffic settlements receivable from the same carrier (see Note 28.11).

13 Provisions

The rollforward analysis of this account follows:

	Notes	2017	2016
		(In Thousand Pesos)	
At beginning of year		**₱6,631,612**	₱1,160,118
Provisions for claims		**1,120,480**	634,963
Provisions for investments	3.1.5, 10.3	**-**	5,391,250
Payments/reversals for investments		**(5,298,268)**	-
Payments/reversals for claims		**(389,463)**	(554,719)
At end of year		**₱2,064,361**	₱6,631,612

Provisions relate to various pending unresolved claims over the Globe Group's businesses such as provision for taxes, employee benefits, onerous contracts and various labor cases. Provision for investments pertains to Globe Telecom's share in the total assumed liabilities related to the acquired interest in VTI, BAHC and BHC as discussed in Note 10.3.

The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed as it may prejudice the outcome of these on-going claims and assessments. As of February 5, 2018, the remaining pending claims are still being resolved.

14 Notes Payable and Long-term Debt

Notes payable consist of short-term unsecured peso-denominated promissory notes.

The Globe Group has available uncommitted short-term credit facilities of USD118.90 million and ₱19,500 million as of December 31, 2017 and USD80.40 million and ₱13,445 million, as of December 31, 2016.

The Globe Group also has available committed short-term credit facilities of ₱3,000 million and ₱1,200 million as of December 31, 2017 and 2016, respectively.

Outstanding short-term notes payable from various local and foreign banks amounted to nil and ₱4,500 million as of December 31,2017 and 2016, respectively.

These short-term loans have maturities ranging from 1 to 3 months and bear interest ranging from 2.4% to 3.25%.

The Globe Group's long-term debt consists of the following:

	2017	2016
	(In Thousand Pesos)	
Term Loans:		
Peso	**₱99,182,125**	₱71,610,561
Dollar	**19,905,492**	12,715,561
	119,087,617	84,326,122
Retail bonds	**12,441,088**	16,902,469
	131,528,705	101,228,591
Less current portion	**(8,278,222)**	(5,830,319)
	₱123,250,483	₱95,398,272

The maturities of long-term debt at nominal values as of December 31, 2017 follow (in thousands):

Due in:	
2018	₱8,284,601
2019	16,727,647
2020	11,392,581
2021	7,012,420
2022 and thereafter	88,638,173
	₱132,055,422

Unamortized debt issuance costs included in the above long-term debt as of December 31, 2017 and 2016 amounted to ₱526.72 million and ₱476.13 million, respectively.

Total interest expense recognized related to long-term debt including the amortization of the related debt issuance cost, but excluding the capitalized interest, amounted to ₱4,776.24 million, ₱3,101.95 million and ₱2,504.10 million in 2017, 2016 and 2015, respectively (see Notes 7 and 22).

The interest rates and maturities of the above debts are as follows:

	Maturities	Interest Rates
Term Loans:		
Peso	2018-2031	2.53% to 6.00% in 2017
	2017-2031	2.06% to 6.00% in 2016
Dollar	2018-2027	1.68% to 5.00% in 2017
	2017-2023	1.12% to 5.00% in 2016
Retail bonds	2019-2023	4.89% to 6.00% in 2017
	2017-2023	4.89% to 6.00% in 2016

14.1 Term Loans and Corporate Notes

Globe Telecom has unsecured term loans and corporate notes, which consist of fixed and floating rate notes and dollar and peso-denominated term loans. The term loans bear interest at stipulated and prevailing market rates. Globe Group also has a secured debt amounting to USD2.54 million as of December 31, 2017 arising from its acquisition of BTI (see Note 7).

The loan agreements with banks and other financial institutions provide for certain restrictions and requirements with respect to, among others, maintenance of financial ratios and percentage of ownership of specific shareholders, incurrence of additional long-term indebtedness or guarantees and creation of property encumbrances.

The financial tests under Globe Group's loan agreements include compliance with the following ratios:

- Total debt* to equity not exceeding 2.5:1;
- Total debt* to EBITDA not exceeding 3:1;
- Debt service coverage exceeding 1.3 times; and
- Secured debt ratio not exceeding 0.2 times.

**Composed of notes payable, long term debt and net derivative liabilities.*

As of December 31, 2017 and 2016, the Globe Group is not in breach of any loan covenants.

14.2 Retail Bonds

On June 1, 2012, Globe Telecom issued ₱10,000.00 million fixed rate bonds. The amount comprises ₱4,500.00 million and ₱5,500.00 million fixed rate bonds due in 2017 and 2019, with interest rate of 5.75% and 6.00%, respectively. The net proceeds of the issue were used to partially finance Globe Telecom's capital expenditure requirements in 2012.

The five-year and seven-year retail bonds may be redeemed in whole, but not in part only, starting two years before maturity date and on the anniversary thereafter at a price equal to 101.00% and 100.50%, respectively, of the principal amount of the bonds and all accrued interest to the date of the redemption. In 2017, Globe Telecom fully redeemed its ₱4,500.00 million retail bonds.

On July 17, 2013, Globe Telecom issued ₱7,000.00 million fixed rate bond. The amount comprises ₱4,000.00 million and ₱3,000.00 million bonds due in 2020 and 2023, with interest rate of 4.8875% and 5.2792%, respectively. The net proceeds of the issue were used to partially finance Globe Telecom's capital expenditure requirements in 2013.

The seven-year and ten-year retail bonds may be redeemed in whole, but not in part only, starting two years for the seven-year bonds and three years for the ten-year bonds before the maturity date and on the anniversary thereafter at a price ranging from 101.0% to 100.5% and 102.0% to 100.5%, respectively, of the principal amount of the bonds and all accrued interest depending on the year of redemption.

The prepayment feature is assessed as clearly and closely related to the host debt instrument, and hence need not be separately accounted for at FVPL.

In August 2016, the Bond Trust Indentures were amended to adjust the maximum debt-to-equity ratio from 2:1 to 2.5:1.

As of December 31, 2017, the Globe Group is not in breach of any bond covenants.

15 Other Long-term Liabilities

This account consists of:

	Notes	2017	2016
		(In Thousand Pesos)	
ARO	3.2.4, 7	**₱2,420,224**	₱2,239,107
Accrued pension	16.3, 18.2	**2,101,313**	3,101,552
Accrued lease obligations and others	25.1.2	**1,230,674**	1,329,057
		₱5,752,211	₱6,669,716

ARO represents Globe Group's obligation to restore leased properties to their original condition and estimated dismantling cost of property and equipment. The rollforward analysis of the Globe Group's ARO follows:

	Notes	2017	2016
		(In Thousand Pesos)	
At beginning of year		**₱2,239,107**	₱2,054, 970
Accretion expense during the year	22	**117,188**	167,742
Capitalized to property and equipment during the year		**97,079**	23,210
Reversals		**(7,744)**	(7,535)
Adjustments due to changes in estimates		**(25,406)**	720
At end of year		**₱2,420,224**	₱2,239,107

16 Related Party Transactions

Parties are considered to be related to Globe Group if they have the ability, directly or indirectly, to control the Globe Group or exercise significant influence over the Globe Group in making financial and operating decisions, or vice versa, or where the Globe Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are under the significant influence of related parties of the Globe Group where those parties are individuals, and post-employment benefit plan which are for the benefit of employees of the Globe Group or of any entity that is a related party of the Globe Group.

The Globe Group, in their regular conduct of business, enter into transactions with their major stockholders, AC and Singtel, associates, joint ventures and certain related parties.

16.1 Entities with Joint Control over Globe Group - AC and Singtel

- Globe Telecom has interconnection agreements with Singtel. The related net traffic settlements receivable (included in "Receivables" account in the consolidated statements of financial position) and the interconnection revenues earned (included in "Service revenues" account in the consolidated statements of comprehensive income) are as follows:

	2017	2016	2015
	(In Thousand Pesos)		
Receivables – net	**₱92,732**	₱70,141	₱22,824
Service revenues	**695,985**	755,514	725,635
Interconnection costs	**67,867**	85,148	50,346

- Globe Telecom and Singtel have a technical assistance agreement whereby Singtel will provide consultancy and advisory services, including those with respect to the construction and operation of Globe Telecom's networks and communication services, equipment procurement and personnel services. In addition, Globe Telecom has software development, supply, license and support arrangements, lease of cable facilities, maintenance and restoration costs and other transactions with Singtel.

  The details of fees (included in repairs and maintenance under the "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) incurred under these agreements are as follows:

	2017	2016	2015
	(In Thousand Pesos)		
Maintenance and restoration costs and other transactions	**₱150,521**	₱126,148	₱57,551
Technical assistance fee	**174,285**	89,400	67,907
Software development, supply, license and support	**65,735**	28,342	7,069
	₱390,541	₱243,890	₱132,527

  The outstanding balances due to Singtel (included in the "Accounts payable and accrued expenses" account in the consolidated statements of financial position) arising from these transactions are as follows:

	2017	2016	2015
	(In Thousand Pesos)		
Technical assistance fee	**₱65,035**	₱63,510	₱57,967
Maintenance and restoration costs and other transactions	**23,559**	22,695	8,985
Software development, supply, license and support	**43,725**	17,974	-
	₱132,319	₱104,179	₱66,952

- Globe Telecom, Innove and BTI earn subscriber revenues from AC. The outstanding subscribers receivable from AC (included in "Receivables" account in the consolidated statements of financial position) and the amount earned as service revenue (included in the "Service revenues" account in the consolidated statements of comprehensive income) are as follows:

	2017	2016	2015
		(In Thousand Pesos)	
Subscriber receivables	**₱15,876**	₱11,463	₱12,215
Service revenues	**25,580**	24,112	19,338

- Globe Telecom reimburses AC for certain operating expenses. The net outstanding liabilities (included in "Accounts payable and accrued expenses" account in the consolidated statements of financial position) and the amount of expenses incurred (included in the "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) are as follows:

	2017	2016	2015
		(In Thousand Pesos)	
General, selling and administrative expenses	**₱37,353**	₱95,717	₱48,743
Accounts payable and accrued expenses	**85**	24,653	50

16.2 Joint Ventures in which the Globe Group is a venturer (see Note 10)

- Globe Telecom has preferred roaming service contract with BMPL. Under this contract, Globe Telecom will pay BMPL for services rendered by the latter which include, among others, coordination and facilitation of preferred roaming arrangement among JV partners, and procurement and maintenance of telecommunications equipment necessary for delivery of seamless roaming experience to customers. Globe Telecom also earns or incurs commission from BMPL for regional top-up service provided by the JV partners. The net outstanding liabilities to BMPL related to these transactions amounted to ₱0.32 million and ₱1.55 million as of December 31, 2017 and 2016, respectively. Balances related to these transactions (included in "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) amounted to ₱20.71 million, ₱19.42 million, ₱18.68 million, for the years ended December 31, 2017, 2016 and 2015, respectively.

- In October 2009, the Globe Group entered into an agreement with BPI Globe BanKO for the pursuit of services that will expand the usage of GCash technology. As a result, the Globe Group recognized revenue amounting to nil, ₱7.46 million and ₱8.96 million in 2017, 2016 and 2015, respectively. The related receivables amounted to nil and ₱16.30 million as of December 31, 2017 and 2016, respectively.

16.3 Transactions with the GGRP (see Note 11)

- In 2007, Globe Telecom, Innove and GXI pooled its plan assets for single administration by the GGRP, which was created for the management of the retirement fund. The decisions of the GGRP are made through collective decision of the Board of Trustees.

  The plan is funded by contributions as recommended by the independent actuary on the basis of reasonable actuarial assumptions. These assumptions and the funded status of the pension plan are disclosed in Note 18.2.

The accrued pension obligation of Globe Group amounted to ₱2,101.31 million and ₱3,101.55 million as of December 31, 2017 and 2016, respectively (see Notes 15 and 18.2).

The fair value of plan assets by each class held by the retirement fund, on a pooled basis is disclosed in Note 18.2.

- As of December 31, 2017 and 2016, the pension plan assets of the retirement plan include shares of stock of Globe Telecom with total fair value of ₱41.25 million and ₱32.18 million, and shares of stock of other related parties with total fair value of ₱323.83 million and ₱107.23 million, respectively. Gains arising from these investments amounted to ₱13.78 million, ₱7.55 million and ₱11.75 million in 2017, 2016 and 2015, respectively.

  The Globe Group granted various loans to the GGRP at an interest rate of 5% which matured on September 11, 2017. Upon maturity, the loan was extended until September 11, 2020 with the interest rate increased to 5.50% per annum. Interest income amounted to ₱38.24 million, ₱44.33 million and ₱49.07 million in 2017, 2016 and 2015, respectively (see Note 19).

  The retirement plan utilized the loan to fund its investments in BHI, a domestic corporation organized to invest in media ventures. BHI has controlling interest in Altimax Broadcasting Co., Inc. (Altimax) and Broadcast Enterprises and Affiliated Media Inc. (BEAM), respectively.

  As of December 31, 2017 and 2016, the outstanding balance of loan receivable from GGRP presented in the "Other noncurrent assets" (see Note 11) and Prepayment and other current assets" (see Note 6) in the consolidated statements of financial position amounted to ₱718.00 million and ₱788.00 million, respectively.

- The Globe Group granted loans amounting to ₱250.00 million and ₱45.00 million to BHI at 5% interest which matured on August 14, 2017. The ₱250.00 million loan is covered by a pledge agreement whereby in the event of default, the Globe Group shall be entitled to offset whatever amount is due to BHI from any unpaid fees to BEAM from the Globe Group. The ₱45.00 million loan is fully secured by a chattel mortgage agreement dated December 21, 2009 between Globe Group and BEAM. Upon maturity, the loan was extended until August 14, 2020 with the interest rate increased to 5.75% per annum (see Note 11).

  As of December 31, 2017 and 2016, the outstanding balance of loan receivable from BHI presented in the "Other noncurrent assets" (see Note 11) and Prepayment and other current assets" (see Note 6) in the consolidated statements of financial position amounted to ₱128.62 million and ₱158.62 million, respectively. Interest income amounted to ₱7.84 million, ₱8.06 million, and ₱8.04 million in 2017, 2016 and 2015, respectively (see Note 19).

- On February 1, 2009, the Globe Group entered into a memorandum of agreement (MOA) with BEAM for the latter to render mobile television broadcast service to Globe subscribers using the mobile TV service. Effective January 1, 2015, BEAM charged an increased service fee rate to Globe Group as a result of an amendment to the MOA. As a result, the Globe Group recognized an expense (included in "Professional and other contracted services") amounting to ₱190.00 million annually in 2017, 2016 and 2015.

- On October 1, 2009, the Globe Group entered into a MOA with Altimax for the Globe Group's co-use of specific frequencies of Altimax's for the rollout of broadband wireless access to the Globe Group's subscribers. As a result, the Globe Group recognized an expense (included in "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) amounting to ₱55.00 million, ₱32.49 million and ₱24.85 million in 2017, 2016 and 2015, respectively.

16.4 Transactions with Yondu

As a result of Globe Telecom's loss of controlling stake in Yondu as discussed in Note 10.1, transactions between Globe group and Yondu are recognized in the consolidated financial statements beginning September 16, 2015.

The Globe Group has a VAS sharing agreement with Yondu. Under the agreement, Yondu is entitled to a 30% share on revenue for providing mobile contents to Globe and TM subscribers. The Globe Group's payout to Yondu on mobile content transactions in 2017, 2016 and 2015 amounted to ₱45.33 million, ₱264.30 million and ₱78.85 million, respectively.

Yondu also provides various enterprise solutions-based services to the Globe Group for network, platform and applications development under its Business Process Outsourcing Unit (BPO) and mobile content. The Globe Group's related expenses in 2017, 2016 and 2015 amounted to ₱441.54 million, ₱240.21 million and ₱39.32 million, respectively, out of which ₱74.36 million, ₱102.32 million and ₱1.42 million were capitalized under "Asset Under Construction", respectively.

The outstanding balances of receivable and payables resulting from transactions with Yondu amounted to ₱1.09 million and ₱274.94 million in 2017, respectively, and nil and ₱345.71 million in 2016, respectively. Dividends receivable amounting to ₱34.96 million and ₱68.74 million was recognized under "Prepayments and Other Current Assets" in the consolidated statements financial position as of December 31, 2017 and 2016, respectively (see Note 6).

16.5 Transactions with other related parties

The Globe Group earns service revenues, maintains money market placements and cash in bank balances, acquires transportation equipment and incurs general, selling and administrative expenses such as rentals, utilities and customer contract services, from entities which are either controlled, jointly controlled or significantly influenced by AC.

16.6 Transactions with key management persomel of the Globe Group

The Globe Group's compensation of key management personnel by benefit type are as follows:

	Notes	2017	2016
		(In Thousand Pesos)	
Short-term employee benefits	21	**₱204,000**	₱205,000
Share-based payments	18.1	**159,500**	81,360
Post-employment benefits	18.2	**15,300**	14,600
		₱378,800	₱300,960

There are no agreements between the Globe Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Globe Group's retirement plans.

The summary of balances arising from related party transactions for the relevant financial year follows (in thousands):

2017

	Amount		Outstanding Balance					
	Revenue and Other Income	Costs and Expenses	Property and Equipment (Note 7)	Cash and Cash Equivalents (Note 30)	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Entities with joint control over the Company								
Singtel	₱695,985	₱458,408	₱ -	₱ -	₱92,732	₱132,319	Interest-free, settlement in cash	Unsecured, no impairment
AC	25,580	37,353	-	-	15,876	85	Interest-free, settlement in cash	Unsecured, no impairment
Jointly controlled entities								
BMPL	-	20,711	-	-	320	-	Interest-free, settlement in cash	Unsecured, no impairment
Associate								
Yondu	-	486,867	74,365	-	274,696	36,057	Interest-free, settlement in cash	Unsecured, no impairment
Other related parties								
GGRP	38,244	-	-	-	718,000	-	3 years, 5.5%, settlement in cash	Unsecured, no impairment
BHI	7,842	-	-	-	128,620	-	3 years, 5.75%, settlement in cash	The ₱250.00 million is covered by a pledge agreement while the ₱45.00 million is fully secured by chattel mortgage agreement.
BEAM	-	190,000	-	-	-	-	-	-
Altimax	-	55,000	-	-	-	-	-	-
Key management personnel		378,800	-	-	-	-	-	-
Others	574,314	381,289	192,933	1,020,445	261,332	64,292	Interest-free excluding cash and cash equivalents, settlement in cash	Unsecured, no impairment
	₱1,341,965	₱2,008,428	₱267,298	₱1,020,445	₱1,491,576	₱232,753		

2016

	Amount		Outstanding Balance					
	Revenue and other income	Costs and expenses	Property and equipment (Note 7)	Cash and cash equivalents (Note 30)	Amounts owed by related parties	Amounts owed to related parties	Terms	Conditions
Entities with joint control over the Company								
Singtel	₱755,514	₱329,038	₱ -	₱ -	₱70,141	₱104,179	Interest-free, settlement in cash	Unsecured, no impairment
AC	24,112	95,717	-	-	11,463	24,653	Interest-free, settlement in cash	Unsecured, no impairment
Jointly controlled entities								
BPI Globe BanKO	7,456	-	-	-	16,300	-	Interest-free, settlement in cash	Unsecured, no impairment
BMPL	-	19,420	-	-	-	1,553	Interest-free, settlement in cash	Unsecured, no impairment
Associate								
Yondu	-	504,505	102,321	-	68,740	345,713	Interest-free, settlement in cash	Unsecured, no impairment
Other related parties								
GGRP	44,334	-	-	-	788,000	-	3 years, 5%, settlement in cash	Unsecured, no impairment
BHI	8,063	-	-	-	158,620	-	3 years, 5%, settlement in cash	The ₱250.00 million is covered by a pledge agreement while the ₱45.00 million is fully secured by chattel mortgage agreement.
BEAM	-	190,000	-	-	-	-	-	-
Altimax	-	32,490	-	-	-	-	-	-
Key management personnel	-	300,960	-	-	-	-	-	-
Others	601,097	260,312	425,029	1,468,905	192,795	35,314	Interest-free excluding cash and cash equivalents, settlement in cash	Unsecured, no impairment
	₱1,440,576	₱1,732,442	₱527,350	₱1,468,905	₱1,306,059	₱511,412		

17 Equity and Other Comprehensive Income

Globe Telecom's authorized capital stock as of December 31, 2017 and 2016 consists of (amounts in thousands pesos and number of shares):

	Shares	Amount
Voting preferred stock – ₱5 per share	160,000	₱800,000
Non-voting preferred stock – ₱50 per share	40,000	2,000,000
Common stock – ₱50 per share	148,934	7,446,719

Globe Telecom's issued, subscribed and fully paid capital stock consists of:

	2017		2016	
	Shares	**Amount**	Shares	Amount
	(In Thousand Pesos and Number of Shares)			
Voting preferred stock	**158,515**	**₱792,575**	158,515	₱792,575
Non-voting preferred stock	**20,000**	**1,000,000**	20,000	1,000,000
Common stock	**132,917**	**6,645,829**	132,759	6,637,929
Total capital stock		**₱8,438,404**		₱8,430,504

Below is the summary of the Globe Telecom's track record of registration of securities:

	Number of shares registered	Issue/offer price	Date of approval
	(In Thousands, Except for Issue/Offer price)		
Voting preferred stock	158,515	₱5.00	June 2001
Non-voting preferred stock	20,000	500.00	August 11, 2014
Common stock*	30,000	0.50	August 11, 1975

**Initial number of registered shares only*

17.1 Preferred Stock

Non-Voting Preferred Stock

On February 10, 2014, Globe Telecom's BOD approved the amendment of Articles of Incorporation (AOI) to reclassify 31 million of unissued common shares with par value of ₱50 per share and 90 million of unissued voting preferred shares with par value of ₱5 per share into a new class of 40 million non-voting preferred shares with par value of ₱50 per share.

On April 8, 2014, the stockholders approved the issuance, offer and listing of up to 20 million non-voting preferred shares, with an issue volume of up to ₱10 billion. The preferred shares shall be redeemable, non-convertible, non-voting, cumulative and may be issued in series.

On June 5, 2014, the SEC approved the amendment of AOI to implement the foregoing reclassification of shares.

On August 8, 2014, the SEC approved the offer of non-voting preferred perpetual shares and on August 15, 2014, the 20 million non-voting preferred shares were fully subscribed and issued. Subsequently, the shares were listed at the Philippines Stock Exchange (PSE) on August 22, 2014.

The proceeds from the preferred shares issuance were used to partially finance capital expenditures.

Non-voting preferred stock has the following features:

a) Issued at ₱50 par;

b) Dividend rate to be determined by the BOD at the time of issue;

c) Redemption - at Globe Telecom's option at such times and price(s) as may be determined by the BOD at the time of issue, which price may not be less than the par value thereof plus accrued dividends;

d) Eligibility of investors - Any person, partnership, association or corporation regardless of nationality wherein at least 60% of the outstanding capital stock shall be owned by Filipino

e) No voting rights;

f) Cumulative and non-participating;

g) No pre-emptive rights over any sale or issuance of any share in Globe Telecom's capital stock; and

h) Stocks shall rank ahead of the common shares and equally with the voting preferred stocks in the event of liquidation.

Voting Preferred Stock

Voting preferred stock has the following features:

(a) Issued at ₱5 par;

(b) Dividend rate to be determined by the BOD at the time of issue;

(c) One preferred share is convertible to one common share starting at the end of the 10th year of the issue date at a price to be determined by Globe Telecom's BOD at the time of issue which shall not be less than the market price of the common share less the par value of the preferred share;

(d) Call option - Exercisable any time by Globe Telecom starting at the end of the 5th year from issue date at a price to be determined by the BOD at the time of issue;

(e) Eligibility of investors - Only Filipino citizens or corporations or partnerships wherein 60% of the voting stock or voting power is owned by Filipino;

(f) With voting rights;

(g) Cumulative and non-participating;

(h) Preference as to dividends and in the event of liquidation; and

(i) No preemptive right to any share issue of Globe Telecom, and subject to yield protection in case of change in tax laws.

The dividends for preferred stocks are declared upon the sole discretion of the Globe Telecom's BOD.

17.2 Common Stock

The rollforward of outstanding common shares follows:

	2017		2016	
	Shares	**Amount**	Shares	Amount
	(In Thousand Pesos and Number of Shares)			
At beginning of year	**132,759**	**₱6,637,929**	132,743	₱6,637,138
Issuance of shares under share-based compensation plan and exercise of stock options	**158**	**7,900**	16	791
At end of year	**132,917**	**₱6,645,829**	132,759	₱6,637,929

Holders of fully paid common stock are entitled to voting and dividends rights.

17.3 Cash Dividends

Information on the Globe Telecom's BOD declaration of cash dividends follows:

			Date	
	Per Share	Amount	Record	Payment
	(In Thousand Pesos, Except Per Share Figures)			
Dividends on Voting Preferred stock:				
November 6, 2015	₱0.21	₱33,150	November 24, 2015	December 4, 2015
November 4, 2016	0.20	32,027	November 18, 2016	December 2, 2016
November 3, 2017	0.21	33,731	November 17, 2017	December 1, 2017
Dividends on Non-voting Preferred stock:				
May 12, 2015	13.00	260,030	August 10, 2015	August 22, 2015
December 11, 2015	13.00	260,030	January 26, 2016	February 22, 2016
May 4, 2016	13.00	260,030	August 10, 2016	August 22, 2016
December 7, 2016	13.00	260,030	January 27, 2017	February 22, 2017
May 9, 2017	13.00	260,030	August 10, 2017	August 22, 2017
December 5, 2017	13.00	260,030	January 26, 2018	February 22, 2018
Dividends on Common stock:				
February 4, 2015	20.75	2,754,224	February 18, 2015	March 4, 2015
May 12, 2015	20.75	2,754,346	May 26, 2015	June 11, 2015
August 3, 2015	20.75	2,754,373	August 17, 2015	September 2, 2015
November 6, 2015	20.75	2,754,412	November 24, 2015	December 4, 2015
February 5, 2016	22.00	2,920,444	February 22, 2016	March 4, 2016
May 4, 2016	22.00	2,920,661	May 19, 2016	June 3, 2016
August 2, 2016	22.00	2,920,689	August 16, 2016	September 1, 2016
November 4, 2016	22.00	2,920,689	November 18, 2016	December 2, 2016
February 7, 2017	22.75	3,020,280	February 21, 2017	March 8, 2017
May 9, 2017	22.75	3,023,806	May 23, 2017	June 7, 2017
August 7, 2017	22.75	3,023,806	August 22, 2017	September 6, 2017
November 3, 2017	22.75	3,023,844	November 17, 2017	December 1, 2017

Unpaid cash dividends declared related to non-voting preferred stock amounted to ₱260.03 million as of December 31, 2017 and 2016.

17.4 Common Stock Dividend

The dividend policy of Globe Telecom as approved by the BOD is to declare cash dividends to its common stockholders on a regular basis as may be determined by the BOD. On November 8, 2011, the BOD approved the current dividend policy of Globe Telecom to distribute cash dividends at the rate of 75% to 90% of prior year's core net income. On August 6, 2013, the BOD further approved the change in distribution from semi-annual dividend payments to quarterly dividend distributions.

The dividend distribution policy is reviewed annually and subsequently each quarter of the year, taking into account Globe Telecom's operating results, cash flows, debt covenants, capital expenditure levels and liquidity.

17.5 Retained Earnings Available for Dividend Declaration

The total unrestricted retained earnings available for dividend declaration amounted to ₱11,246.92 million as of December 31, 2017. This amount excludes the undistributed net earnings of consolidated subsidiaries, accumulated equity in net earnings of joint ventures accounted for under the equity method, and unrealized gains recognized on asset and liability currency translations and unrealized gains on fair value adjustments. The Globe Group is also subject to loan covenants that restrict its ability to pay dividends (see Note 14).

17.6 Other Comprehensive Income

Other Reserves

2017

	Cash flow hedges	AFS	Exchange differences arising from translations of foreign investments	Remeasurement losses on defined benefit plan	Total
As of January 1	(₱54,208)	₱115,874	₱38,981	(₱1,173,572)	(₱1,072,925)
Other comprehensive income for the year					
Remeasurement gain on defined benefit plan	-	-	-	570,289	570,289
Transferred to profit or loss	372,161	-	-	-	372,161
Income tax effect to or transferred from equity	(59,748)	(10,076)	-	(171,087)	(240,911)
Fair value changes	(173,001)	36,076	-	-	(136,925)
Exchange differences	-	-	(23,220)	-	(23,220)
Share in other comprehensive income from investment in associate	-	-	80	791	871
	139,412	26,000	(23,140)	399,993	542,265
Reclassification remeasurement losses on defined benefit plans	-	-	-	178,285	178,285
As of December 31	₱85,204	₱141,874	₱15,841	(₱595,294)	(₱352,375)

2016

	Cash flow hedges	AFS	Exchange differences arising from translations of foreign investments	Remeasurement losses on defined benefit plan	Total
			(In Thousand Pesos)		
As of January 1	₱41,357	₱102,434	₱15,776	(₱1,371,080)	(₱1,211,513)
Other comprehensive income for the year					
Fair value changes	(457,499)	14,536	-	-	(442,963)
Transferred to profit or loss	320,977	-	-	-	320,977
Remeasurement gain on defined benefit plan	-	-	-	279,966	279,966
Income tax effect to or transferred from equity	40,957	(1,096)	-	(82,458)	(42,597)
Exchange differences	-	-	23,205	-	23,205
	(95,565)	13,440	23,205	197,508	138,588
As of December 31	(₱54,208)	₱115,874	₱38,981	(₱1,173,572)	(₱1,072,925)

2015

	Cash flow hedges	AFS	Exchange differences arising from translations of foreign investments	Remeasurement losses on defined benefit plan	Total
			(In Thousand Pesos)		
As of January 1	₱40,434	₱78,167	₱8,454	(₱1,104,908)	(₱977,853)
Other comprehensive income for the year					
Remeasurement losses on defined benefit plan	-	-	-	(379,091)	(379,091)
Fair value changes	299,772	24,267	-	-	324,039
Transferred to profit or loss	(298,453)	-	-	-	(298,453)
Income tax effect to or transferred from equity	(396)	-	-	112,919	112,523
Exchange differences	-	-	7,322	-	7,322
	923	24,267	7,322	(266,172)	(233,660)
As of December 31	₱41,357	₱102,434	₱15,776	(₱1,371,080)	(₱1,211,513)

18 Employee Benefits

18.1 Stock Plans

The Globe Group has Executive Stock Option Plan (ESOP) and Long-Term Incentive Plan (LTIP). The number of shares allocated under these plans shall not exceed the aggregate equivalent of 6% of the authorized capital stock.

18.1.1 *Executive Stock Option Plan*

The following are the stock option grants to key executives and senior management personnel of the Globe Group under the ESOP from 2006 to 2017:

Date of Grant	Number of Options/ Grants	Exercise Price	Exercise Dates	Fair Value of Each Option/Grants	Fair Value Measurement
March 24, 2006	749,500	854.75 per share	50% of the options become exercisable from March 24, 2008 to March 23, 2016; the remaining 50% become exercisable from March 24, 2009 to March 23, 2016	₱292.12	Trinomial option pricing model
May 17, 2007	604,000	1,270.50 per share	50% of the options become exercisable from May 17, 2009 to May 16, 2017, the remaining 50% become exercisable from May 17, 2010 to May 16, 2017	375.89	Trinomial option pricing model
August 1, 2008	635,750	1,064.00 per share	50% of the options become exercisable from August 1, 2010 to July 31, 2018, the remaining 50% become exercisable from August 1, 2011 to July 31, 2018	305.03	Trinomial option pricing model
October 1, 2009	298,950	993.75 per share	50% of the options become exercisable from October 1, 2011 to September 30, 2019, the remaining 50% become exercisable from October 1, 2012 to September 30, 2019	346.79	Trinomial option pricing model

The exercise price is based on the average quoted market price for the last 20 trading days preceding the approval date of the stock option grant.

A summary of the Globe Group's ESOP activity and related information follows:

	2017		2016	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
	(In Thousand Number of Shares Except per Share Figures)			
Outstanding, at beginning of year	**205**	**₱1,157.45**	251	₱1,084.20
Exercised	**(35)**	**1,227.71**	(25)	945.49
Expired/forfeited	**(77)**	**1,270.50**	(21)	854.75
Outstanding and exercisable, at end of year	**93**	**₱1,038.36**	205	₱1,157.45

The average share prices at dates of exercise of the stock options in 2017, 2016 and 2015 amounted to ₱1,014.42, ₱1,072.23 and ₱2,211.92 , respectively.

As of December 31, 2017 and 2016, the weighted average remaining contractual life of options outstanding is 1.00 year and 1.17 years, respectively.

The following assumptions were used to determine the fair value of the stock options at effective grant dates:

	October 1, 2009	August 1, 2008	May 17, 2007	March 24, 2006
Share price	₱995.00	₱1,130.00	₱1,340.00	₱895.00
Exercise price	₱993.75	₱1,064.00	₱1,270.50	₱854.75
Expected volatility	48.49%	31.73%	38.14%	26.97%
Option life	10 years	10 years	10 years	10 years
Expected dividends	6.43%	6.64%	4.93%	4.47%
Risk-free interest rate	8.08%	9.62%	7.04%	8.37%

The expected volatility measured at the standard deviation of expected share price returns was based on analysis of share prices for the past 365 days.

18.1.2 *Long-Term Incentive Plan*

In November 2014, the Globe Group obtained approval from the BOD to implement a Long-Term Incentive Plan (LTIP) also called a Performance Share Plan (PSP) covering key executives and senior management. Under the PSP, the grantees are awarded a specific number of shares at the start of the performance period which vest over a specified performance period and contingent upon the achievement of specified long-term goals.

The following are the stock grants to key executives and senior management personnel of the Globe Group under the LTIP:

Date of Grant	Number of Grants	Settlement Dates	Fair Value of Each Grants	Fair Value Measurement
January 1, 2014	106,293	100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements	₱1,630.35	Market price
January 1, 2015	114,392	100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements	1,738.30	Market price
January 1, 2016	107,365	100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements	1,904.95	Market price
January 1, 2017	158,687	100% after 3 years subject to attainment of plan targets and subject to stock ownership requirements	1,428.85	Market price

The fair value is based on the average quoted market price for the last 20 trading days preceding the approval date of the stock option grant.

Cost of share-based payments in 2017, 2016 and 2015 amounted to ₱104.83 million, ₱260.27 million and ₱153.99 million, respectively (see Note 16.6).

18.2 Pension Plan

The Globe Group has a funded, noncontributory, defined benefit pension plans covering substantially all of its regular employees. The benefits are based on years of service and compensation on the last year of employment.

The group retirement plan covering Globe Telecom, Innove and GXI employees is managed and administered by a Board of Trustees (BOT) whose members are unanimously appointed by the Globe Group acting through its BOD, while the BTI Plan is managed and administered by a different retirement committee (BTRC). The BOT and BTRC are authorized to appoint one or more fund managers to hold, invest and reinvest the assets of the Plans and execute an Investment Agreement with the said fund managers. The Plans are held and invested by the fund managers, in accordance with the guidelines set by the BOT and BTRC. In 2017, Globe Telecom's controlling interest in GXI was diluted to 45% as discussed in Note 1 resulting in derecognition of GXI's net pension obligation from the consolidated statement of financial position as of December 31, 2017.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out at December 31, 2017 by an Independent Actuary. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The components of pension expense (included in staff costs under "General, selling and administrative expenses" account) in the consolidated statements of comprehensive income are as follows:

	2017	2016	2015
	(In Thousand Pesos)		
Current service cost	**₱621,316**	₱594,557	₱543,248
Net interest expense	**145,663**	129,883	99,226
Components of defined benefit costs recognized in profit or loss	**766,979**	724,440	642,474
Remeasurement on the net defined benefit liability:			
Return on plan assets (excluding amounts included in net interest expense)	**2,337**	196,969	25,889
Actuarial gains and losses from:			
Changes in assumptions	**(420,029)**	(614,388)	14,390
Experience adjustments	**(152,597)**	137,453	338,812
Components of defined benefit costs recognized in other comprehensive income	**(570,289)**	(279,966)	379,091
	₱196,690	₱444,474	₱1,021,565

The accrued pension is as follows:

	2017	2016
	(In Thousand Pesos)	
Present value of benefit obligation	**₱6,635,721**	₱6,415,840
Fair value of plan assets	**(4,534,408)**	(3,314,288)
Liabilities recognized in the consolidated statements of financial position	**₱2,101,313**	₱3,101,552

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 Thousand Pesos)	
Balance at beginning of year	**₱6,415,840**	₱6,481,297
Current service cost	**621,316**	594,557
Interest cost	**330,289**	275,103
Benefits paid	**(158,739)**	(457,042)
Remeasurements in other comprehensive income:		
Actuarial gains and losses arising from changes in assumptions	**(420,029)**	(614,388)
Actuarial gains and losses arising from experience adjustments	**(152,597)**	137,453
Effects of business combinations	**(359)**	-
Transfer of employees	**-**	(1,140)
Balance at end of year	**₱6,635,721**	₱6,415,840

Fair value of plan assets

	2017	2016
	(In Thousand Pesos)	
Balance at beginning of year	**₱3,314,288**	₱3,263,513
Remeasurement gains:		
Return on plan assets (excluding amounts included in net interest expense)	**(2,337)**	(196,969)
Contributions from the employer	**1,190,000**	353,668
Interest income	**184,626**	145,220
Benefits paid	**(152,169)**	(253,596)
Transfer payments	**-**	2,452
Balance at end of year	**₱4,534,408**	₱3,314,288
Actual return (loss) on plan assets	**₱182,289**	(₱51,749)

The recommended contribution for the Globe Group retirement fund for the year 2018 amounts to ₱1,249.15 million. This amount is based on the Globe Group's actuarial valuation report as of December 31, 2017.

As of December 31, 2017 and 2016, the allocation of the fair value of the plan assets of the Globe Group follows:

	2017	2016
	(In Thousand Pesos)	
Cash and cash equivalents	**₱598,996**	₱257,189
Investment in debt securities	**1,464,615**	1,277,658
Investment quoted in equity shares	**1,470,507**	779,520
Investment in unquoted in equity shares	**1,000,290**	999,921
	₱4,534,408	₱3,314,288

The assumptions used to determine pension benefits for the Globe Group are as follows:

	2017	2016
Discount rate	**5.75%**	5.25%
Salary rate increase	**4.50%**	5.00%

The assumptions regarding future mortality rates which are based on the 1994 Group Annuity Mortality Table developed by the Society of Actuaries, which provides separate rate for males and females.

In 2017 and 2016, the Globe Group applied a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

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

December 31, 2017

	Increase (decrease) in basis points	**Increase (decrease) on defined benefit obligation**
Discount rates	**+0.50%**	**(₱383,590)**
	-0.50%	**420,102**
Future salary increases	**+0.50%**	**423,420**
	-0.50%	**(389,563)**
Rate of return	**+10.00%**	**1,326**
	-10.00%	**(1,326)**

December 31, 2016

	Increase (decrease) in basis points	Increase (decrease) on defined benefit obligation
Discount rates	+0.50%	(₱396,231)
	-0.50%	435,997
Future salary increases	+0.50%	436,639
	-0.50%	(400,720)
Rate of return	+10.00%	-
	-10.00%	-

There were no changes from the previous period in the methods and assumptions used in preparing sensitivity analysis.

The objective of the plan's portfolio is capital preservation by earning higher than regular deposit rates over a long period given a small degree of risk on principal and interest. Asset purchases and sales are determined by the plan's investment managers, who have been given discretionary authority to manage the distribution of assets to achieve the plan's investment objectives. The compliance with target asset allocations and composition of the investment portfolio is monitored by the BOT on a regular basis.

The plan contributions are based on the actuarial present value of accumulated plan benefits and fair value of plan assets are determined using an independent actuarial valuation.

The average duration of the defined benefit obligation at the end of the reporting period is 15.51 years and 17.69 years in 2017 and 2016, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2017 and 2016:

	2017	2016
	(In Thousand Pesos)	
Within 1 year	**₱399,664**	₱233,339
More than 1 year to 5 years	**1,540,651**	1,412,345
More than 5 years	**3,189,592**	3,012,954
	₱5,129,907	₱4,658,638

19 Interest Income

Interest income is earned from the following sources:

	Notes	2017	2016	2015
		(In Thousand Pesos)		
Short-term placements	30	**₱71,876**	₱88,946	₱181,787
Cash in banks	30	**18,007**	8,900	8,891
Loans receivable:				
GGRP	16.3	**38,244**	44,334	49,071
BHI	16.3	**7,842**	8,063	8,041
TechGlobal		**885**	242	-
BTI		**-**	-	269,945
Others		**2,727**	1,104	802
		₱139,581	₱151,589	₱518,537

20 Other Income - net

This account consists of:

	Notes	2017	2016	2015
		(In Thousand Pesos)		
Impairment loss on investment in associate	10.2	**(₱286,036)**	₱ -	₱ -
Foreign exchange gain - net	22, 28.2.1.2	**214,191**	-	-
Gain on derivative instruments - net	28.3	**53,632**	469,884	19,691
Lease income	25.1.1, 25.4	**52,511**	83,609	173,695
Loss on disposal of investment in associate		**-**	(7,891)	-
Gain on disposal of controlling interest in subsidiary	10.1	**-**	-	449,148
Gain (loss) on previously held equity interest	9.2, 10.1,10.4	**(9,103)**	(30,186)	431,115
Others		**390,422**	467,770	311,373
		₱415,617	₱983,186	₱1,385,022

The "Others" account includes items that are individually immaterial. Gain on derivative instruments include unrealized loss amounting to ₱181.34 million, ₱116.96 million and unrealized gain amounting to ₱31.01million in 2017, 2016 and 2015, respectively.

21 General, Selling and Administrative Expenses

This account consists of:

	Notes	2017	2016	2015
			(In Thousand Pesos)	
Staff costs	16.6, 18	**₱12,238,114**	₱10,109,899	₱9,761,471
Professional and other contracted services	16	**9,844,780**	9,804,632	8,878,085
Selling, advertising and promotions		**9,009,306**	9,306,788	9,594,482
Repairs and maintenance	16	**7,822,818**	6,326,581	5,166,667
Rent	15, 25.1.1	**6,471,461**	5,902,414	4,932,388
Utilities, supplies and other administrative expenses	5	**5,215,693**	5,000,691	4,785,452
Taxes and licenses		**1,951,490**	1,590,234	1,958,281
Courier, delivery and miscellaneous expenses		**1,737,609**	1,806,120	1,777,053
Insurance and security services		**1,685,518**	1,689,252	1,598,290
Others		**632,133**	934,442	685,057
		₱56,608,922	₱52,471,053	₱49,137,226

The "Others" account includes various other items that are individually immaterial.

22 Financing Costs

This account consists of:

	Notes	2017	2016	2015
			(In Thousand Pesos)	
Interest expense - net*	7, 14	**₱5,042,952**	₱3,408,899	₱2,774,078
Swap and other financing costs	28.4	**208,740**	162,903	141,551
Foreign exchange loss - net	20, 28.2.1.2	**-**	525,024	457,295
		₱5,251,692	₱4,096,826	₱3,372,924

**This account is net of the amount capitalized as borrowing costs (see Note 7).*

Interest expense - net is incurred on the following:

	Notes	2017	2016	2015
			(In Thousand Pesos)	
Long-term debt	14	**₱4,650,017**	₱3,001,792	₱2,396,605
Net interest cost on defined benefit obligation	18.2	**145,663**	129,883	99,226
Amortization of debt issuance cost	14	**126,225**	100,161	107,490
Accretion expense	15	**117,188**	167,742	161,686
Others		**3,859**	9,321	9,071
		₱5,042,952	₱3,408,899	₱2,774,078

23 Impairment Losses and Others

This account consists of:

	Notes	2017	2016	2015
		(In Thousand Pesos)		
Losses on impairment of:				
Receivables	3.2.2, 4, 6, 28.2.2	**₱4,078,977**	₱2,934,310	₱2,693,569
Property and equipment	7	**28,319**	9,416	72,751
Provisions for (reversal of):				
Inventory obsolescence and market decline	3.2.3, 5	**403,037**	341,759	384,143
Other probable losses - net		**626,997**	(14,184)	(40,943)
		₱5,137,330	₱3,271,301	₱3,109,520

24 Income Tax

The significant components of the deferred income tax assets and liabilities of the Globe Group represent the deferred income tax effects of the following:

	2017					
			Movements			
	2017	2016	Acquired from a business combination	Profit or Loss	Other Comprehensive Income	Net
Deferred tax assets						
Allowance for impairment losses on receivables	**₱2,718,940**	₱2,503,807	**₱-**	**₱215,133**	**₱ -**	**₱215,133**
Unearned revenues and advances already subjected to income tax	**1,504,476**	1,127,762	-	**376,714**	-	**376,714**
Accrued pension	**845,211**	979,943	-	**36,355**	**(171,087)**	**(134,732)**
Accrued manpower cost	**780,993**	462,183	-	**318,810**	-	**318,810**
ARO	**661,388**	622,390	-	**38,998**	-	**38,998**
Unrealized foreign exchange losses	**541,975**	642,829	-	**(100,854)**	-	**(100,854)**
Provision for claims and assessment	**314,759**	112,735	-	**202,024**	-	**202,024**
Inventory obsolescence and market decline	**184,780**	202,429	-	**(17,649)**	-	**(17,649)**
Accrued rent expense under PAS 17	**158,915**	162,920	-	**(4,005)**	-	**(4,005)**
Accumulated impairment losses on property and equipment	**141,496**	144,564	-	**(3,068)**	-	**(3,068)**
Cost of share-based payments	**120,463**	31,014	-	**89,449**	-	**89,449**
Unrealized loss on derivative transactions	-	10,402	-	**(10,402)**	-	**(10,402)**
NOLCO	**62,339**	394,763	-	**(332,424)**	-	**(332,424)**
Others	**74,686**	251,649	-	**(176,963)**	-	**(176,963)**
	8,110,421	7,649,390	-	**632,118**	**(171,087)**	**461,031**

(Forward)

	2017	2016	Acquired from a business combination	Profit or Loss	Other Comprehensive Income	Net
Deferred tax liabilities						
Excess of accumulated depreciation and amortization of Globe Telecom equipment for (a) tax reporting over (b) financial reporting	**(₱6,478,641)**	(₱5,654,854)	**₱-**	**(₱823,787)**	**₱ -**	**(₱823,787)**
Undepreciated capitalized borrowing costs already claimed as deduction for tax reporting	**(1,231,218)**	(1,041,492)	**-**	**(189,726)**	**-**	**(189,726)**
Unrealized gain on derivative transaction	**(220,602)**	(225,658)	**-**	**64,804**	**(59,748)**	**5,056**
Unrealized foreign exchange gain	**(7,329)**	(15,776)	**-**	**8,447**	**-**	**8,447**
Unamortized discount on non-interest bearing liability	**-**	(3,034)	**-**	**3,034**	**-**	**3,034**
Others	**(159,831)**	(2,796)	**-**	**(146,959)**	**(10,076)**	**(157,035)**
	(8,097,621)	(6,943,610)	**-**	**(1,084,187)**	**(69,824)**	**(1,154,011)**
Deferred income tax expense			**₱-**	**(₱452,069)**	**(₱240,911)**	**(₱692,980)**
Net deferred income tax assets	**₱12,800**	₱705,780				

[a] *Sum-of-the-years digit method*
[b] *Straight-line method*

	2016					
			Movements			
	2016	2015	Acquired from a business combination	Profit or Loss	Other Comprehensive Income	Net
Deferred tax assets						
Allowance for impairment losses on receivables	₱2,503,807	₱2,642,588	₱ -	(₱138,781)	₱ -	(₱138,781)
Unearned revenues and advances already subjected to income tax	1,127,762	791,532	-	336,230	-	336,230
Accrued pension	979,943	1,090,748	-	(28,347)	(82,458)	(110,805)
Unrealized foreign exchange losses	642,829	335,669	-	307,160	-	307,160
ARO	622,390	565,582	-	56,808	-	56,808
Accrued manpower cost	462,183	680,545	-	(218,362)	-	(218,362)
Accumulated impairment losses on property and equipment	394,763	13,759	-	381,004	-	381,004
NOLCO	202,429	239,745	-	(37,316)	-	(37,316)
Inventory obsolescence and market decline	162,920	141,135	-	21,785	-	21,785
Accrued rent expense under PAS 17 equipment	144,564	187,589	-	(43,025)	-	(43,025)
Provision for claims and assessment	112,735	96,047	-	16,688	-	16,688
Cost of share-based payments	31,014	79,787	-	(48,773)	-	(48,773)
Unrealized loss on derivative transactions	10,402	-	-	10,402	-	10,402
MCIT	-	-	-	93,555	-	93,555
Others	251,649	89,838	12,000	149,811	-	161,811
	7,649,390	6,954,564	12,000	858,839	(82,458)	788,381

(Forward)

	2016	2015	Acquired from a business combination	Profit or Loss	Other Comprehensive Income	Net
Deferred tax liabilities						
Excess of accumulated depreciation and amortization of Globe Telecom equipment for (a) tax reporting over (b) financial reporting	(₱5.654.854)	(₱4.707,930)	₱ -	(₱946.924)	₱ -	(₱946.924)
Undepreciated capitalized borrowing costs already claimed as deduction for tax reporting	(1,041,492)	(888,619)	-	(152,873)	-	(152,873)
Unrealized gain on derivative transaction	(225,658)	(13,911)	-	(252,704)	40,957	(211,747)
Unrealized foreign exchange gain	(15,776)	(4,967)	-	(10,809)	-	(10,809)
Unamortized discount on non-interest bearing liability	(3,034)	(831)	-	(2,203)	-	(2,203)
Others	(2,796)	(16,436)	-	14,736	(1,096)	13,640
	(6,943,610)	(5,632,694)	-	(1,350,777)	39,861	(1,310,916)
Deferred income tax benefit (expense)			₱12,000	(₱491,938)	(₱42,597)	(₱522,535)
Net deferred income tax assets	₱705,780	₱1,321,870				

[a] *Sum-of-the-years digit method*
[b] *Straight-line method*

Net deferred tax assets and liabilities presented in the consolidated statements of financial position on a net basis by entity are as follows:

	2017	2016
	(In Thousand Pesos)	
Net deferred income tax assets*	**₱2,761,626**	₱2,622,703
Net deferred income tax liabilities (Globe, GTI and KVI)	**2,748,826**	1,916,923
	₱12,800	₱705,780

**2017 consists of Innove, BTI, TAO, Asticom and GTI*
**2016 consists of Innove, GXI, BTI and Asticom*

The reconciliation of the provision for income tax at statutory tax rate and the actual current and deferred provision for income tax follows:

	2017	2016	2015
		(In Thousand Pesos)	
Provision at statutory income tax rate	**₱6,462,511**	₱6,581,221	₱7,040,246
Add (deduct) tax effects of:			
Equity in net losses of associates and joint ventures	**253,853**	256,559	46,054
Deferred tax on unexercised stock options and basis differences on deductible and reported stock compensation expense	**12,752**	42,209	(14,393)
Derecognized (recognized) deferred income tax asset	**61,806**	(902,205)	-
Income subjected to lower tax rates	**(489,235)**	(13,331)	(166,108)
Others	**155,802**	84,450	77,239
Actual provision for income tax	**₱6,457,489**	₱6,048,903	₱6,983,038

The current provision for income tax includes the following:

	2017	2016	2015
	(In Thousand Pesos)		
RCIT or MCIT whichever is higher	**₱5,942,221**	₱5,494,883	₱6,067,224
Final tax	**63,199**	62,082	136,601
	₱6,005,420	₱5,556,965	₱6,203,825

Deferred tax assets of BTI on the following deductible temporary differences were not recognized since Management believes that it will not be utilized for future taxable income.

	2017	2016
	(In Thousand Pesos)	
Deferred tax assets on:		
Allowance for impairment in investment	**₱1,269,283**	₱1,269,283
Difference in NBV of property and equipment for tax and accounting	**1,020,440**	1,236,752
Provision for probable loss	**993,532**	877,577
Allowance for impairment losses on receivables	**758,478**	382,342
NOLCO	**159,735**	-
Carryforward benefits of MCIT	**67,209**	-
	₱4,268,677	₱3,765,954

In 2016, NOLCO amounting to ₱1,133.36 million was recognized and applied against taxable income and the carryforward benefit of MCIT amounting to ₱93.55 million was recognized and applied against income tax payable.

In 2017, NOLCO amounting to P1,148.9 million was recognized and applied against taxable income and no application of carryforward benefit of MCIT.

Globe Telecom is entitled to certain tax and nontax incentives and have availed of incentives for tax and duty-free importation of capital equipment for the services under its franchise.

25 Agreements and Commitments

25.1 Lease Commitments

25.1.1 *Operating lease commitments*

a) Globe Group as lessee

Globe Group leases certain premises for some of its telecommunication facilities and equipment and for most of its business centers and network sites. The operating lease agreements are for periods ranging from one (1) to ten (10) years from the date of the contracts and are renewable under certain terms and conditions. The agreements generally require certain amounts of deposit and advance rentals, which are shown as part of the "Prepayment and other current assets" and "Other noncurrent assets" accounts in the consolidated statements of financial position (see Notes 6 and 11). The Globe Group also has short-term renewable leases on transmission cables and equipment. The Globe Group's rentals incurred on these various leases (included in the "General, selling and administrative expenses" account in the consolidated statements of comprehensive income) amounted to ₱6,471.46 million, ₱5,902.41 million and ₱4,932.39 million, respectively, in 2017, 2016 and 2015, respectively (See Note 21).

The future minimum lease payments under these operating leases are as follows:

	2017	2016
	(In Thousand Pesos)	
Not later than one year	**₱3,718,794**	₱4,061,049
After one year but not later than five years	**13,697,922**	14,560,820
After five years	**6,226,088**	3,600,295
	₱23,642,804	₱22,222,164

b) Globe Group as lessor

Globe Group has certain lease agreements with C2C Pte. Ltd. (C2C) on equipment (see Note 25.4). Total lease income amounted to ₱52.51 million, ₱83.61 million and ₱173.70 million in 2017, 2016 and 2015, respectively (included in "Other income" account in the consolidated statements of comprehensive income) (see Note 20).

25.1.2 *Finance lease commitments*

a) Globe Group as lessee

Globe Telecom entered into an agreement with a Huawei, for the upgrade of its billing and customer management system. The agreement covers the supply of hardware, application systems and software and software licenses including installation, as well as a managed services agreement with Amdocs Philippines Inc. and Amdocs Software Solution Limited Liability Company that covers a seven (7) year period.

The agreement includes a lease component for hardware infrastructure and information equipment valued at ₱893.48 million. The managed service engagement has terms of renewal and purchase options, among others. Total lease payments as of December 31, 2017 and 2016, which is equivalent to one year advance lease, amounted to ₱734.74 million and ₱606.64 million, respectively. The managed service engagement has terms of renewal and purchase options, among others.

Future minimum lease payments under finance leases with the present value of the net minimum lease payments are as follows:

	2017		2016	
	(In Thousand Pesos)			
	Minimum Payments	**Present Value of Payments**	Minimum Payments	Present Value of Payments
Within one year	**₱130,866**	**₱95,045**	₱130,866	₱127,168
After one year but not more than five years	-	-	112,171	76,718
More than five years	-	-	-	-
	₱130,866	**₱95,045**	₱243,037	₱203,886

In addition, total payments to service providers based on the seven-year agreement for the maintenance of servers, which includes application development and maintenance, service design, managed network services, office automation or end-user computing, service desk services and business supports systems amounted to ₱1,876.50 million and ₱1,677.14 million as of December 31, 2017 and 2016, respectively.

25.2 Agreements and Commitments with Other Carriers

Globe Telecom, Innove and BTI have existing international telecommunications service agreements with various foreign administrations and interconnection agreements with local telecommunications companies for their various services. Globe Telecom also has international roaming agreements with other foreign operators, which allow its subscribers access to foreign networks. The agreements provide for sharing of toll revenues derived from the mutual use of telecommunication networks.

25.3 Arrangements and Commitments with Suppliers

The Globe Group has entered into agreements with various suppliers for the development or construction, delivery and installation of property and equipment. Under the terms of these agreements, advance payments and downpayments are made to suppliers upon submission of required documentation. While the development or construction is in progress, project costs are accrued based on the project status. Billings are based on the progress of the development or construction and advance payments are being applied proportionately to the milestone billings. When development or construction and installation are completed and the property and equipment is ready for service, the value of unbilled but delivered goods or services from the related purchase orders is accrued.

The accrued project costs as of December 31, 2017 and 2016 included in the "Accounts payable and accrued expenses" account in the consolidated statements of financial position amounted to ₱25,785.46 million and ₱21,533.63 million, respectively (see Note 12). As of December 31, 2017 and 2016, the consolidated expected future billings on the unaccrued portion of purchase orders issued amounted to ₱50,062.36 million and ₱50,094.61 million, respectively. The settlement of these liabilities is dependent on the payment terms and project milestones agreed with the suppliers and contractors. As of December 31, 2017 and 2016, the unapplied advances made to suppliers and contractors relating to purchase orders issued amounted to ₱11,667.00 million and ₱8,215.54 million, respectively (see Note 6).

25.4 Agreements with Pacnet Cable Ltd. (Pacnet), formerly C2C

In 2001, Globe Telecom signed a cable equipment supply agreement with Pacnet as the supplier. In March 2002, Globe Telecom as a lessor entered into an equipment lease agreement for the said equipment with GB21 Hong Kong Limited (GB21).

Subsequently, GB21, in consideration of Pacnet's agreement to assume all payment obligations pursuant to the lease agreement, assigned all its rights, obligations and interest in the equipment lease agreement to Pacnet. As a result of the said assignment of payables by GB21 to Pacnet, Globe Telecom's liability arising from the cable equipment supply agreement with Pacnet was effectively converted into a non-interest bearing long-term obligation accounted for a net present value under PAS 39 starting 2005.

In January 2003, Globe Telecom received advance lease payments from Pacnet for its use of a portion of the Globe Telecom's cable landing station facilities. Based on the amortization schedule, Globe Telecom recognized lease income amounting to nil, ₱33.38 million and ₱6.39 million in 2017, 2016 and 2015, respectively (see Note 20).

On November 17, 2009, Globe Telecom and Pacnet, signed a memorandum of agreement (MOA) to terminate and unwind their Landing Party Agreement (LPA) dated August 15, 2000. The MOA further requires Globe Telecom, being duly licensed and authorized by the NTC to land the C2C Cable Network in the Philippines and operate the C2C Cable Landing Station (CLS) in Nasugbu, Batangas, Philippines, to transfer to Pacnet's designated qualified partner, the license of the C2C CLS, the CLS, a portion of the property on which the CLS is situated, certain equipment and associated facilities thereof.

In return, Pacnet will compensate Globe Telecom in cash and by way of Pacnet cable capacities deliverable upon completion of certain closing conditions. The MOA also provided for novation of abovementioned equipment supply and lease agreements and reciprocal options for Globe Telecom to purchase future capacities from Pacnet and Pacnet to purchase backhaul and ducts from Globe Telecom at agreed prices.

25.5 Construction Maintenance Agreement for South-East Asia Japan Cable System (SJC)

In April 2011, the global consortium of telecommunication companies formed to build and operate the South-East Asia Japan Cable (SJC) system officially started the construction of the project that will link Brunei, China Mainland, Hong Kong, Philippines, Japan, and Singapore with options to extend to Thailand. The SJC consortium is composed of the Globe Group and nine other international carriers. Globe Telecom's investment for this project amounts to USD63.91 million and total expenditures incurred was at 100% as of December 31, 2014.

25.6 Network Sharing Arrangement with ABS-CBN Convergence Inc.

On May 27, 2013, Globe Telecom, Innove and ABS-CBN Convergence Inc. (ABS-C) entered into a network sharing arrangement to provide capacity and coverage for new mobile telephony, data and value-added services to be offered by ABS-C nationwide to its subscribers using shared network and interconnect assets of the parties.

This arrangement will enable Globe Telecom, Innove and ABS-C to improve public service by enhancing utility, capacity, inter-operability and quality of mobile and local exchange telephone and data services to the public and allow ABS-C to modernize its existing service and expand to a retail base on top of its existing subscriber base.

On May 31, 2013, NTC approved the network sharing agreement and co-use of the number blocks assigned to Globe Telecom.

25.7 Southeast Asia - United States (SEA - US) Project

Globe Telecom has joined a consortium of seven international telecommunication companies for the construction of a new submarine cable system directly connecting Southeast Asia and the United States. Other members of the consortium include PT Telekomunikasi Indonesia International (Telin), Telkom USA, RAM Telecom International (RTI), Hawaiian Telcom, and Teleguam Holdings (GTA). The 15,000-kilometer cable system will link Manado in Indonesia, Davao in the Philippines, Piti in Guam, Oahu in Hawaii, and Los Angeles in California, providing superior latency delivering additional 20 terabits per second (Tbps), utilizing 100 gigabits per second (Gbps) transmission equipment. Globe Telecom and GTIC US is spending more than USD80 million for the SEA-US undersea cable system. SEA US cable was commercially launched on August 8, 2017.

On March 17, 2015, Globe Telecom provided a written guaranty to NEC Corporation (NEC) pursuant to the supply contract of the cable system between GTIC US and NEC. Globe Telecom unconditionally guarantees the full and punctual performance by GTIC US of its payment obligations up to an aggregate amount of USD46.23 million, less any payments made in accordance with the terms and conditions of the contract. A default by GTIC US to pay any guaranteed obligation under the contract is a condition that will render the guaranty exercisable.

As of December 31, 2017, Globe has been released from the unconditional guarantee extended to NEC on behalf of GTIC as the latter has already been settled more than the guarantee value to NEC.

25.8 Facilities-based Operations License granted to GTSG

On November 25, 2014, GTSG applied for a facilities-based operations license (FBO) with Infocommunications Development Authority (IDA) in Singapore which was subsequently granted on January 7, 2015. Under this license, GTSG was required to provide IDA with the performance bond for the aggregate amount of USD75,400 to secure its obligation to fulfill the three performance milestones of installation of equipment required to support Southeast Asia Japan cable system and activation of its capacity between Singapore, Philippines and Hongkong. GTSG has fulfilled the first two milestones. On April 28, 2015, IDA returned the two bank guarantees pertaining to the first two milestones totaling to USD0.05 million. As of December 31, 2015, the third performance milestone was completed and the remaining USD0.03 million bond was returned to GTSG on August 8, 2016.

25.9 Services-based Operator License granted to Globe Telecom HK Limited (GTHK)

On March 17, 2015, Globe Telecom HK Limited (GTHK) applied for a services-based operator license (SBO) with the Office of the Communications Authority in Hong Kong (OFCA) which was subsequently approved on May 7, 2015. GTHK is licensed to provide a public telecommunications service and establish and maintain a telecommunications system.

25.10 Agreements with Huawei International, Pte. Ltd., Huawei Technology Co. Ltd and Huawei Technology Phils.

In 2014, Globe Telecom and Innove engaged Huawei for a period of ten (10) years to perform the design, engineering, manufacture, assembly and delivery of certain equipment and all its ancillary equipment and related software and documentation, and to provide services, including subsequent training and technical support, in an end-to-end full-turn key outcome based technical solution. Globe Telecom's payments to Huawei as of December 31, 2017 totaled ₱21,642.57 million for the services and ₱1,214.57 million and USD800.80 million for the equipment.

25.11 Agreements with Premium Content Providers

The Globe Group has entered into various content and license distribution agreements with various developers for periods ranging from 2 to 5 years. Under the agreements, the developers granted Globe Group the right to market, reproduce and distribute the premium content in the form of portable music streaming, videos, movies or other forms of content to its subscribers. The agreement also provides for Globe to provide advertising and/or promotions support at certain agreed amounts.

In consideration of the agreements, Globe agreed to pay royalty or service fees based on its net revenues or active subscribers.

26 Contingencies

a. On October 10, 2011, the NTC issued Memorandum Circular No. 02-10-2011 titled Interconnection Charge for Short Messaging Service requiring all public telecommunication entities to reduce their interconnection charge to each other from ₱0.35 to ₱0.15 per text, which Globe Telecom complied as early as November 2011. On December 11, 2011, the NTC One Stop Public Assistance Center (OSPAC) filed a complaint against Globe Telecom, Smart and Digitel alleging violation of the said MC No. 02-10-2011 and asking for the reduction of SMS off-net retail price from P1.00 to P0.80 per text. Globe Telecom filed its response maintaining the position that the reduction of the SMS interconnection charges does not automatically translate to a reduction in the SMS retail charge per text.

   On November 20, 2012, the NTC rendered a decision directing Globe Telecom to:

   - Reduce its regular SMS retail rate from P1.00 to not more than ₱0.80;
   - Refund/reimburse its subscribers the excess charge of ₱0.20; and
   - Pay a fine of ₱200.00 per day from December 1, 2011 until date of compliance.

   On May 7, 2014, NTC denied the Motion for Reconsideration (MR) filed by Globe Telecom last December 5, 2012 in relation to the November 20, 2012 decision. Globe Telecom's assessment is that Globe Telecom is in compliance with the NTC Memorandum Circular No. 02-10-2011. On June 9, 2014, Globe Telecom filed petition for review of the NTC decision and resolution with the Court of Appeals (CA).

   The CA granted the petition in a resolution dated September 3, 2014 by issuing a 60-day temporary restraining order on the implementation of Memorandum Circular 02-10-2011 by the NTC. On October 15, 2014, Globe Telecom posted a surety bond to compensate for possible damages as directed by the CA.

   On June 27, 2016, the CA rendered a decision reversing the NTC's abovementioned decision and resolution requiring telecommunications companies to cut their SMS rates and return the excess amount paid by subscribers. The CA said that the NTC order was baseless as there is no showing that the reduction in the SMS rate is mandated under MC No. 02-10-2011; there is no showing, either that the present P1.00 per text rate is unreasonable and unjust, as this was not mandated under the memorandum. Moreover, under the NTC's own MC No. 02-05-2008, SMS is a value added service (VAS) whose rates are deregulated.

   Thereafter, the NTC and Bayan Muna Party List (Bayan Muna) Representatives Neri Javier Colmenares and Carlos Isagani Zarate, who, in the meantime, had intervened in the case, filed their respective motions for reconsideration, which motions were both denied by the CA.

   The NTC thus elevated the CA's ruling to the Supreme Court (SC) via a Petition for Review on Certiorari dated 15 September 2017. Globe awaits the SC's action on said petition.

For its part, Bayan Muna filed its own Petition for Review on Certiorari of the CA's Decision. On January 4, 2018, Globe received a copy of the SC's Resolution dated November 6. 2017, requiring it to comment on said petition.

Globe Telecom believes that it did not violate NTC MC No. 02-10-2011 when it did not reduce its SMS retail rate from Php 1.00 to Php 0.80 per text, and hence, would not be obligated to refund its subscribers. However, if it is ultimately decided by the Supreme Court (in case an appeal is taken thereto by the NTC from the adverse resolution of the CA) that Globe Telecom is not compliant with said circular, Globe may be contingently liable to refund to its subscribers the ₱0.20 difference (between ₱1.00 and ₱0.80 per text) reckoned from November 20, 2012 until said decision by the SC becomes final and executory. Management does not have an estimate of the potential claims currently.

b. On July 23, 2009, the NTC issued NTC Memorandum Circular (MC) No. 05-07-2009 (Guidelines on Unit of Billing of Mobile Voice Service). The MC provides that the maximum unit of billing for the CMTS whether postpaid or prepaid shall be six (6) seconds per pulse. The rate for the first two (2) pulses, or equivalent if lower period per pulse is used, may be higher than the succeeding pulses to recover the cost of the call set-up. Subscribers may still opt to be billed on a one (1) minute per pulse basis or to subscribe to unlimited service offerings or any service offerings if they actively and knowingly enroll in the scheme.

   On December 28, 2010, the Court of Appeals (CA) rendered its decision declaring null and void and reversing the decisions of the NTC in the rates applications cases for having been issued in violation of Globe Telecom and the other carriers' constitutional and statutory right to due process. However, while the decision is in Globe Telecom's favor, there is a provision in the decision that NTC did not violate the right of petitioners to due process when it declared via circular that the per pulse billing scheme shall be the default.

   Last January 21, 2011, Globe Telecom and two other telecom carriers, filed their respective Motions for Partial Reconsideration (MR) on the pronouncement that "the Per Pulse Billing Scheme shall be the default". The petitioners and the NTC filed their respective Motion for Reconsideration, which were all denied by the CA on January 19, 2012.

   On March 12, 2012, Globe and Innove elevated to the Supreme Court the questioned portions of the Decision and Resolution of the CA dated December 28, 2010 and its Resolution dated January 19, 2012. The other service providers, as well as the NTC, filed their own petitions for review. The adverse parties have filed their comments on each other's petitions, as well as their replies to each other's comments. The case is now submitted for resolution.

c. On May 22, 2006, Innove received a copy of the Complaint of Subic Telecom Company (Subictel), Inc., a subsidiary of PLDT, seeking an injunction to stop the Subic Bay Metropolitan Authority (SBMA) and Innove from taking any actions to implement the Certificate of Public Convenience (CPCN) and Necessity granted by SBMA to Innove. Subictel claimed that the grant of a CPCN allowing Innove to offer certain telecommunications services within the Subic Bay Freeport Zone would violate the Joint Venture Agreement (JVA) between PLDT and SBMA.

   The Supreme Court ordered the reinstatement of the case and has forwarded it to the NTC Olongapo for trial.

   On July 13, 2016, the Regional Trial Court (RTC) in Olongapo rendered its decision dismissing Subictel's complaint, as nothing in the JVA cited by Subictel supports its claim of exclusivity. Moreover, the Constitution clearly provides that no franchise or authorization for the operation of a public utility shall be exclusive in character. Subictel did not move for a reconsideration of the RTC's decision. On October 19, 2016, Innove received a copy of Subictel's Petition for Review to the Supreme Court dated September 13, 2016 assailing the trial court's decision.

In a Resolution dated April 25, 2017, received by Globe on July 3, 2017, the Supreme Court denied the petition for failure of the petitioner to sufficiently show that the RTC committed any reversible error in the challenged decision as to warrant the exercise of the Court's discretionary appellate jurisdiction.

d. (1) PLDT and its affiliate, Bonifacio Communications Corporation (BCC) and Innove and Globe Telecom are in litigation over the right of Innove to render services and build telecommunications infrastructure in the Bonifacio Global City (BGC). In the case filed by Innove before the NTC against BCC, PLDT and the Fort Bonifacio Development Corporation (FBDC), the NTC has issued a Cease and Desist Order preventing BCC from performing further acts to interfere with Innove's installations in the BGC.

On January 21, 2011, BCC and PLDT filed with the CA a Petition for Certiorari and Prohibition against the NTC, et al. seeking to annul the Order of the NTC dated October 28, 2008 directing BCC, PLDT and FBDC to comply with the provisions of NTC MC 05-05-02 and to cease and desist from performing further acts that will prevent Innove from implementing and providing telecommunications services in the Fort Bonifacio Global City pursuant to the authorization granted by the NTC.

On April 25, 2011, Innove Communications, filed its comment on the Petition.

On August 16, 2011, the CA ruled that the petition against Innove and the NTC lacked merit, holding that neither BCC nor PLDT could claim the exclusive right to install telecommunications infrastructure and providing telecommunications services within the BGC. Thus, the CA denied the petition and dismissed the case. PLDT and BCC filed their motions for reconsideration thereto, which the CA denied.

On July 6, 2012, PLDT and BCC assailed the CA's rulings via a petition for review on certiorari with the Supreme Court. Innove and Globe filed their comment on said petition on January 14, 2013, to which said petitioners filed their reply on May 21, 2013. The case remains pending with the Supreme Court.

(2) In a case filed by PLDT against the NTC in Branch 96 of the RTC of Quezon City (QC), where PLDT sought to obtain an injunction to prevent the NTC from hearing the case filed by Innove, the RTC denied the prayer for a preliminary injunction and the case has been set for further hearings. PLDT has filed a Motion for Reconsideration and Globe Telecom has intervened in this case. In a resolution dated October 28, 2008, the RTC QC denied BCC's motion for the issuance of a temporary restraining order (TRO) on the ground that the NTC has primary administrative jurisdiction over the case. On October 14, 2013, the RTC issued an order dismissing the case. On November 12, 2013, PLDT elevated the case to the CA. On July 25, 2016, the CA granted PLDT's petition, holding that the trial court had jurisdiction, since the issues raised by PLDT were supposedly purely legal in character. On August 17, 2016, the NTC through the Office of the Solicitor General (OSG) moved for a reconsideration of the CA's decision. On January 10, 2017, the CA issued a resolution denying NTC's motion for reconsideration.

On March 10, 2017, the NTC elevated the case to the SC via a Petition for Review on Certiorari dated March 6, 2017. PLDT subsequently filed its Comment thereon dated July 10, 2017. The NTC thereafter filed its Reply to said Comment dated December 5, 2017.

(3) In a case filed by BCC against FBDC, Globe Telecom, and Innove before the Regional Trial Court of Pasig, which case sought to enjoin Innove from making any further installations in the BGC and claimed damages from all the parties for the breach of the exclusivity of BCC in the area, the court did not issue a TRO and has instead scheduled several hearings on the case. The defendants filed their respective motions to dismiss the complaint on the grounds of forum shopping and lack of jurisdiction, among others. On March 30, 2012, the RTC of Pasig, as prayed for, dismissed the complaint on the aforesaid grounds.

The motion for reconsideration filed by BCC on July 20, 2012 remains pending with the trial court.

e. In a letter dated June 7, 2016 issued by PCC to Globe Telecom, PLDT, SMC and VTI regarding the Joint Notice filed by the aforementioned parties on May 30, 2016, disclosing the acquisition by Globe Telecom and PLDT of the entire issued and outstanding shares of VTI, the PCC claims that the Notice was deficient in form and substance and concludes that the acquisition cannot be claimed to be deemed approved.

On June 10, 2016, Globe Telecom formally responded to the letter reiterating that the Notice, which sets forth the salient terms and conditions of the transaction, was filed pursuant to and in accordance with Memorandum Circular No. 16-002 (MC No. 16-002) issued by the PCC. MC No. 16-002 provides that before the implementing rules and regulations for Republic Act No. 10667 (the Philippine Competition Act of 2015) come into full force and effect, upon filing with the PCC of a notice in which the salient terms and conditions of an acquisition are set forth, the transaction is deemed approved by the PCC and as such, it may no longer be challenged. Further, Globe Telecom clarified in its letter that the supposed deficiency in form and substance of the Notice is not a ground to prevent the transaction from being deemed approved. The only exception to the rule that a transaction is deemed approved is when a notice contains false material information. In this regard, Globe Telecom stated that the Notice does not contain any false information.

On June 17, 2016, Globe Telecom received a copy of the second letter issued by PCC stating that notwithstanding the position of Globe Telecom, it was ruling that the transaction was still subject for review.

On July 12, 2016, Globe Telecom asked the CA to stop the government's anti-trust body from reviewing the acquisition of SMC's telecommunications business. Globe Telecom maintains the position that the deal was approved after Globe Telecom notified the PCC of the transaction and that the anti-trust body violated its own rules by insisting on a review. On the same day, Globe Telecom filed a Petition for Mandamus, Certiorari and Prohibition against the PCC, docketed as CA-G.R. SP No. 146538. On July 25, 2016, the CA, through its 6th Division issued a resolution denying Globe Telecom's application for TRO and injunction against PCC's review of the transaction. In the same resolution, however, the CA required the PCC to comment on Globe Telecom's petition for certiorari and mandamus within 10 days from receipt thereof. The PCC filed said comment on August 8, 2016. In said comment, the PCC prayed that the ₱70 billion deal between PLDT-Globe Telecom and San Miguel be declared void for PLDT and Globe Telecom's alleged failure to comply with the requirements of the Philippine Competition Act of 2015. The PCC also prayed that the CA direct Globe Telecom to: cease and desist from further implementing its co-acquisition of the San Miguel telecommunications assets; undo all acts consummated pursuant to said acquisition; and pay the appropriate administrative penalties that may be imposed by the PCC under the Philippine Competition Act for the illegal consummation of the subject acquisition. The case remains pending with the CA.

Meanwhile, PLDT filed a similar petition with the CA, docketed as CA G.R. SP No. 146528, which was raffled off to its 12th Division. On August 26, 2016, PLDT secured a TRO from said court. Thereafter, Globe Telecom's petition was consolidated with that of PLDT, before the 12th Division. The consolidation effectively extended the benefit of PLDT's TRO to Globe Telecom. The parties were required to submit their respective Memoranda, after which, the case shall be deemed submitted for resolution.

On February 17, 2017, the CA issued a Resolution denying PCC's Motion for Reconsideration dated September 14, 2016 for lack of merit. In the same Resolution, the Court granted PLDT's Urgent Motion for the Issuance of a Gag Order and ordered the PCC to remove the offending publication from its website and also to obey the *sub judice* rule and refrain from making any further public pronouncements regarding the transaction while the case remains pending.

The Court also reminded the other parties, PLDT and Globe, to likewise observe the *sub judice* rule. For this purpose, the Court issued its gag order admonishing all the parties "to refrain, cease and desist from issuing public comments and statements that would violate the sub judice rule and subject them to indirect contempt of court. The parties were also required to comment within ten days from receipt of the Resolution, on the Motion for Leave to Intervene, and Admit the Petition-in Intervention dated February 7, 2017 filed by Citizenwatch, a non-stock and non-profit association.

On April 18, 2017, PCC filed a petition before the Supreme Court docketed as G.R. No. 230798, to lift the CA's order that has prevented the review of the sale of San Miguel Corp.'s telecommunications unit to PLDT Inc. and Globe Telecom. On April 25, 2017, Globe filed before the Supreme Court a Motion for Intervention with Motion to Dismiss the petition filed by the PCC.

As of June 30, 2017, the Supreme Court did not issue any TRO on the PCC's petition to lift the injunction issued by the CA. Hence, the PCC remains barred from reviewing the SMC deal.

On July 26, 2017, Globe received the Supreme Court's en banc Resolution granting Globe's Extremely Urgent Motion to Intervene. In the same Resolution, the Supreme Court treated as Comment, Globe's Motion to Dismiss with Opposition Ad Cautelam to PCC's Application for the Issuance of a Writ of Preliminary Injunction and/or TRO.

On August 31, 2017, Globe received another Resolution of the Supreme Court en banc, requiring the PCC to file a Consolidated Reply to the Comments respectively filed by Globe and PLDT, within ten (10) days from notice. Globe has yet to receive the Consolidated Reply of PCC since the latter requested for extension of time to file the same.

In the meantime, in a Decision dated October 18, 2017, the Court of Appeals, in CA-G.R. SP No. 146528 and CA-G.R. SP No. 146538, granted Globe and PLDTs Petition to permanently enjoin and prohibiting PCC from reviewing the acquisition and compelling the PCC to recognize the same as deemed approved. PCC elevated the case to the Supreme Court via Petition for Review on Certiorari.

The Globe Group is contingently liable for various claims arising in the ordinary conduct of business and certain tax assessments which are either pending decision by the courts or are being contested, the outcome of which are not presently determinable. In the opinion of management and legal counsel, the possibility of outflow of economic resources to settle the contingent liability is remote.

27 Earnings Per Share

The Globe Group's earnings per share amounts were computed as follows:

	2017	2016	2015
	(In Thousand Pesos and Number of Shares Except per Share Figures)		
Net income attributable to common shareholders	**₱15,065,779**	₱15,878,415	₱16,496,644
Less dividends on preferred shares:			
Non-voting preferred shares	**(520,060)**	(520,060)	(520,060)
Convertible voting preferred shares	**(33,731)**	(32,027)	(33,150)
Net income attributable to common shareholders for basic earnings per share (a)	**14,511,988**	15,326,328	15,943,434
Add dividends on convertible voting preferred shares	**33,731**	32,027	33,150
Net income attributable to common shareholders for diluted earnings per share (b)	**14,545,719**	15,358,355	15,976,584
Common shares outstanding, beginning	**132,759**	132,743	132,733
Weighted average number of exercised shares for stock options	**105**	13	6
Weighted average number of shares for basic earnings per share (c)	**132,864**	132,756	132,739
Dilutive shares arising from:			
Convertible preferred shares	**400**	399	358
Share based compensation plans	**103**	-	-
Stock options	**67**	88	128
Adjusted weighted average number of common shares for diluted earnings per share (d)	**133,434**	133,243	133,225
Basic earnings per share (a/c)	**₱109.22**	₱115.45	₱120.11
Diluted earnings per share (b/d)	**₱109.01**	₱115.27	₱119.92

28 Capital and Financial Risk Management and Financial Instruments

28.1 General

The Globe Group adopts an expanded corporate governance approach in managing its business risks. An Enterprise Risk Management Policy was developed to systematically view the risks and to provide a better understanding of the different risks that could threaten the achievement of the Globe Group's mission, vision, strategies, and goals, and to provide emphasis on how management and employees play a vital role in achieving the Globe Group's mission of transforming and enriching lives through communications.

The policies are not intended to eliminate risk but to manage it in such a way that opportunities to create value for the stakeholders are achieved. Globe Group risk management takes place in the context of the normal business processes such as strategic planning, business planning, operational and support processes.

The application of these policies is the responsibility of the BOD through the Chief Executive Officer. The Chief Finance Officer and concurrent Chief Risk Officer champion and oversee the entire risk management function. Risk owners have been identified for each risk and they are responsible for coordinating and continuously improving risk strategies, processes and measures on an enterprise-wide basis in accordance with established business objectives.

The risks are managed through the delegation of management and financial authority and individual accountability as documented in employment contracts, consultancy contracts, letters of authority, letters of appointment, performance planning and evaluation forms, key result areas, terms of reference and other policies that provide guidelines for managing specific risks arising from the Globe Group's business operations and environment.

The Globe Group continues to monitor and manage its financial risk exposures according to its BOD approved policies.

The succeeding discussion focuses on Globe Group's capital and financial risk management.

28.2 Capital and Financial Risk Management Objectives and Policies

Capital represents equity attributable to equity holders of the Parent.

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

The Globe Group monitors its use of capital using leverage ratios, such as debt to total capitalization and makes adjustments to it in light of changes in economic conditions and its financial position. The ratio of debt to total capitalization for the years ended December 31, 2017 and 2016 was at 66% and 62%, respectively.

The Globe Group is not subject to regulatory imposed capital requirements.

The main purpose of the Globe Group's financial risk management is to fund its operations and capital expenditures. The main risks arising from the use of financial instruments are market risk, credit risk and liquidity risk. The Globe Group also enters into derivative transactions, the purpose of which is to manage the currency and interest rate risk arising from its financial instruments.

Globe Telecom's BOD reviews and approves the policies for managing each of these risks. The Globe Group monitors market price risk arising from all financial instruments and regularly reports financial management activities and the results of these activities to the BOD.

The Globe Group's risk management policies are summarized below:

28.2.1 *Market Risk*

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Globe Group is mainly exposed to two types of market risk: interest rate risk and currency risk.

Financial instruments affected by market risk include loans and borrowings, AFS investments, and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as of December 31, 2017 and 2016. The analyses exclude the impact of movements in market variables on the carrying value of pension, provisions and on the non-financial assets and liabilities of foreign operations.

The following assumptions have been made in calculating the sensitivity analyses:

- The consolidated statement of financial position sensitivity relates to derivatives.
- The sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held as of December 31, 2017 and 2016 including the effect of hedge accounting.
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges for the effects of the assumed changes in the underlying.

28.2.1.1 *Interest Rate Risk*

The Globe Group's exposure to market risk from changes in interest rates relates primarily to the Globe Group's long-term debt obligations. Please refer to table presented under 28.2.3 Liquidity Risk.

Globe Group's policy is to manage its interest cost using a mix of fixed and variable rate debt, targeting a ratio of between 31%-62% fixed rate USD debt to total USD debt, and between 44%-88% fixed rate PHP debt to total PHP debt. To manage this mix in a cost-efficient manner, Globe Group enters into interest rate swaps, in which Globe Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount.

After taking into account the effect of currency and interest rate swaps, 41% and 83% and 48% and 87% of the Globe Group's USD and PHP borrowings as of December 31, 2017 and 2016, respectively, are at a fixed rate of interest.

The following tables demonstrate the sensitivity of income before tax to a reasonably possible change in interest rates after the impact of hedge accounting, with all other variables held constant.

	Increase/ Decrease in basis Points	Effect on income before income tax Increase (Decrease)	Effect on equity Increase (Decrease)
		(In Thousand Pesos)	
2017			
USD	+55bps	**(₱8,759)**	**(₱565)**
	-55bps	**8,759**	**565**
PHP	+200bps	**(30,808)**	**14,758**
	-200bps	**30,808**	**(14,780)**
2016			
USD	+50bps	(₱28,275)	(₱433)
	-50bps	28,275	433
PHP	+200bps	(12,991)	4,578
	-200bps	11,128	(4,423)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period does not reflect the exposure during the year.

28.2.1.2 *Foreign Exchange Risk*

The Globe Group's foreign exchange risk results primarily from movements of the PHP against the USD with respect to USD-denominated financial assets, USD-denominated financial liabilities and certain USD-denominated revenues. Majority of revenues are generated in PHP, while substantially all of capital expenditures are in USD. In addition, 15% and 12% of debt as of December 31, 2017 and 2016, respectively, are denominated in USD before taking into account any swap and hedges.

Information on the Globe Group's foreign currency-denominated monetary assets and liabilities and their PHP equivalents are as follows:

	2017		2016	
	US Dollar	**Peso Eqnivalent**	US Dollar	Peso Equivalent
	(In Thousand Pesos)			
Assets				
Cash and cash equivalents	**$148,412**	**₱7,414,343**	$73,640	₱3,664,977
Receivables	**87,696**	**4,381,132**	90,047	4,481,535
	236,108	**11,795,475**	163,687	8,146,512
Liabilities				
Accounts payable and accrued expenses	**466,510**	**23,305,881**	347,053	17,272,500
Long-term debt	**399,944**	**19,980,423**	255,055	12,693,809
	866,454	**43,286,304**	602,108	29,966,309
Net foreign currency - denominated liabilities	**$630,346**	**₱31,490,829**	$438,421	₱21,819,797

The following tables demonstrate the sensitivity to a reasonably possible change in the PHP to USD exchange rate, with all other variables held constant, of the Globe Group's income before tax (due to changes in the fair value of foreign currency-denominated assets and liabilities).

Increase/Decrease in Peso to US Dollar exchange rate	**Effect on income before income tax Increase (Decrease)**	**Effect on equity Increase (Decrease)**
	(In Thousand Pesos)	
2017		
+.45	**(₱283,656)**	**₱152,812**
-.45	**283,656**	**(152,812)**
2016		
+.40	(₱147,223)	₱65,173
-.40	147,223	(65,173)

The movement in equity arises from changes in the fair values of derivative financial instruments designated as cash flow hedges.

In addition, the consolidated expected future payments on foreign currency-denominated purchase orders related to capital projects amounted to USD1,284.70 million and USD1,274.14 million as of December 31, 2017 and 2016, respectively (see Note 25.3). The settlement of these liabilities is dependent on the achievement of project milestones and payment terms agreed with the suppliers and contractors. Foreign exchange exposure assuming a +/-45 centavos in 2017 and +/-40 centavos in 2016 movement in PHP to USD rate on commitments amounted to ₱578.11 million and ₱509.66 million gain or loss, respectively.

The Globe Group's foreign exchange risk management policy is to maintain a hedged financial position, after taking into account expected USD flows from operations and financing transactions. Globe Telecom enters into short-term foreign currency forwards and long-term foreign currency swap contracts in order to achieve this target.

28.2.2 *Credit Risk*

Applications for postpaid service are subjected to standard credit evaluation and verification procedures. The Credit and Billing Management of the Globe Group continuously reviews credit policies and processes and implements various credit actions, depending on assessed risks, to minimize credit exposure. Receivable balances of postpaid subscribers are being monitored on a regular basis and appropriate credit treatments are applied at various stages of delinquency. Likewise, net receivable balances from carriers of traffic are also being monitored and subjected to appropriate actions to manage credit risk. The maximum credit exposure relates to receivables net of any allowances provided.

With respect to credit risk arising from other financial assets of the Globe Group, which comprise cash and cash equivalents, short-term investments, AFS financial investments and certain derivative instruments, the Globe Group's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Globe Group's investments comprise short-term bank deposits. Credit risk from these investments is managed on a Globe Group basis. For its investments with banks, the Globe Group has a counterparty risk management policy which allocates investment limits based on counterparty credit rating and credit risk profile.

The Globe Group makes a quarterly assessment of the credit standing of its investment counterparties, and allocates investment limits based on size, liquidity, profitability, and asset quality. For investments in government securities, these are denominated in local currency and are considered to be relatively risk-free. The usage of limits is regularly monitored. For its derivative counterparties, the Globe Group deals only with counterparty banks with investment grade ratings and large local banks. Credit ratings of derivative counterparties are reviewed quarterly.

Following are the Globe Group exposures with its investment counterparties for time deposits as of December 31:

	2017	2016	2015
Local bank deposits	**43%**	52%	51%
Onshore foreign bank	**47%**	40%	49%
Offshore bank deposit	**10%**	8%	-

The Globe Group has not executed any credit guarantees in favor of other parties. There is also minimal concentration of credit risk within the Globe Group. Credit exposures from subscribers and carrier partners continue to be managed closely for possible deterioration. When necessary, credit management measures are proactively implemented and identified collection risks are being provided for accordingly. Outstanding credit exposures from financial instruments are monitored daily and allowable exposures are reviewed quarterly.

The tables below show the aging analysis of the Globe Group's receivables as of December 31.

		Past Due But Not Impaired					
	Neither Past Due Nor Impaired	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Individually Impaired Financial Assets	Total
				(In Thousand Pesos)			
2017							
Wireless receivables:							
Consumer	₱864,514	₱1,292,975	₱431,734	₱281,336	₱7,653,190	₱2,016,130	₱12,539,879
Key corporate accounts	23,599	84,288	154,539	196,119	1,927,452	638,926	3,024,923
Other corporations and Small and Medium Enterprises (SME)	109,533	157,433	57,348	40,519	1,140,087	101,954	1,606,874
	997,646	1,534,696	643,621	517,974	10,720,729	2,757,010	17,171,676
Wireline receivables:							
Consumer	479,124	439,673	149,616	84,894	503,897	4,010,811	5,668,015
Key corporate accounts	155,399	351,638	653,354	780,439	3,292,290	945,688	6,178,808
Other corporations and SME	119,633	109,511	68,445	45,173	351,923	708,891	1,403,576
	754,156	900,822	871,415	910,506	4,148,110	5,665,390	13,250,399
Traffic receivables:							
Foreign	2,265,459	-	-	-	-	309,654	2,575,113
Local	121,851	-	14,310	96	24,235	83,251	243,743
	2,387,310	-	14,310	96	24,235	392,905	2,818,856
Other receivables	2,881,118	18,747	42,532	26,038	226,533	-	3,194,968
Total	₱7,020,230	₱2,454,265	₱1,571,878	₱1,454,614	₱15,119,607	₱8,815,305	₱36,435,899

	Neither Past Due Nor Impaired	Past Due But Not Impaired				Individually Impaired Financial Assets	Total
		Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days		
	(In Thousand Pesos)						
2016							
Wireless receivables:							
Consumer	₱1,151,907	₱597,739	₱591,809	₱353,190	₱7,146,334	₱2,712,548	₱12,553,527
Key corporate accounts	56,065	100,468	178,867	179,935	2,111,378	439,123	3,065,836
Other corporations and SME	236,945	92,940	96,655	59,518	1,291,470	362,720	2,140,248
	1,444,917	791,147	867,331	592,643	10,549,182	3,514,391	17,759,611
Wireline receivables:							
Consumer	734,193	319,697	176,490	109,843	1,397,681	3,634,115	6,372,019
Key corporate accounts	320,294	440,932	708,345	613,400	2,863,094	524,815	5,470,880
Other corporations and SME	129,798	94,323	84,918	50,721	172,305	645,175	1,177,240
	1,184,285	854,952	969,753	773,964	4,433,080	4,804,105	13,020,139
Traffic receivables:							
Foreign	1,525,630	-	-	-	-	160,245	1,685,875
Local	215,356	7,500	2,314	1,116	1,122	18,267	245,675
	1,740,986	7,500	2,314	1,116	1,122	178,512	1,931,550
Other receivables	2,059,319	64,998	54,479	24,335	30,209	165,607	2,398,947
Total	₱6,429,507	₱1,718,597	₱1,893,877	₱1,392,058	₱15,013,593	₱8,662,615	₱35,110,247

The individually impaired financial assets presented above does not include impairment losses arising from collective assessment.

The table below provides information regarding the credit risk exposure of the Globe Group by classifying assets according to the Globe Group's credit ratings of receivables as of December 31, 2017 and 2016. The Globe Group's credit rating is based on individual borrower characteristics and their relationship to credit event experiences.

	Neither Past Due Nor Impaired			
	High Quality	Medium Quality	Low Quality	Total
	(In Thousand Pesos)			
2017				
Wireless receivables:				
Consumer	**₱15,062**	**₱266,238**	**₱583,214**	**₱864,514**
Key corporate accounts	**462**	**17,465**	**5,672**	**23,599**
Other corporations and SME	**39,156**	**9,572**	**60,805**	**109,533**
	54,680	**293,275**	**649,691**	**997,646**
Wireline receivables:				
Consumer	**331,655**	**43,226**	**104,243**	**479,124**
Key corporate accounts	**135,488**	**7,148**	**12,763**	**155,399**
Other corporations and SME	**86,284**	**6,799**	**26,550**	**119,633**
	553,427	**57,173**	**143,556**	**754,156**
Total	**₱608,107**	**₱350,448**	**₱793,247**	**₱1,751,802**
2016				
Wireless receivables:				
Consumer	₱606,012	₱525,850	₱20,045	₱1,151,907
Key corporate accounts	14,887	40,265	913	56,065
Other corporations and SME	125,725	44,314	66,906	236,945
	746,624	610,429	87,864	1,444,917
Wireline receivables:				
Consumer	515,863	153,988	64,342	734,193
Key corporate accounts	185,876	134,382	36	320,294
Other corporations and SME	75,255	54,147	396	129,798
	776,994	342,517	64,774	1,184,285
Total	₱1,523,618	₱952,946	₱152,638	₱2,629,202

High quality accounts are accounts considered to be high value and have consistently exhibited good paying habits. Medium quality accounts are active accounts with propensity of deteriorating to mid-range age buckets. These accounts do not flow through to permanent disconnection status as they generally respond to credit actions and update their payments accordingly. Low quality accounts are accounts which have probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up actions and extended payment terms. Impairment losses are also provided for these accounts based on net flow rate.

Other trade receivables that are neither past due nor impaired are considered to be high quality since these are transacted with counterparties who consistently pay on time.

Traffic receivables that are neither past due nor impaired are considered to be high quality given the reciprocal nature of the Globe Group's interconnect and roaming partner agreements with the carriers and the Globe Group's historical collection experience.

Other receivables that are neither past due nor impaired are considered high quality accounts as these are substantially from credit card companies and Globe Group dealers.

The following is a reconciliation of the changes in the allowance for impairment losses for receivables as of December 31 (see Notes 4, 6 and 23):

	Subscribers					
	Consumer	Key Corporate Accounts	Other Corporations and SME	Traffic Settlements and Others	Non-trade (Note 6)	Total
			(In Thousand Pesos)			
2017						
At beginning of the year	**₱6,129,729**	**₱1,062,078**	**₱406,313**	**₱567,482**	**₱140,128**	**₱8,305,730**
Charges for the period	**3,465,499**	**287,024**	**283,687**	**5,300**	**37,467**	**4,078,977**
Reversals/ write-offs/ adjustments	**(2,704,182)**	**(96,837)**	**(327,990)**	**53,508**	**(46,277)**	**(3,121,778)**
At end of year	**₱6,891,046**	**₱1,252,265**	**₱362,010**	**₱626,290**	**₱131,318**	**₱9,262,929**
2016						
At beginning of the year	₱7,123,653	₱816,369	₱392,518	₱629,717	₱66,653	₱9,028,910
Charges for the period	2,349,881	598,137	(18,946)	(68,834)	74,072	2,934,310
Reversals/ write-offs/ adjustments	(3,343,805)	(352,428)	32,741	6,599	(597)	(3,657,490)
At end of year	₱6,129,729	₱1,062,078	₱406,313	₱567,482	₱140,128	₱8,305,730

28.2.3 *Liquidity Risk*

The Globe Group seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Globe Group intends to use internally generated funds and available long-term and short-term credit facilities. As of December 31, 2017 and 2016, the Globe Group has available uncommitted short-term credit facilities of USD118.90 million and ₱19,500 million, and USD80.40 million and ₱13,445 million, respectively. As of December 31, 2017 and 2016, the Globe Group has available committed short-term credit facilities of ₱3,000 million and ₱1,200 million, respectively.

As of December 31, 2017 and 2016, the Globe Group has ₱5,000 million and ₱4,500 million, respectively, in committed long-term facilities.

As part of its liquidity risk management, the Globe 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, in case any requirements arise. Fund raising activities may include bank loans, export credit agency facilities and capital market issues.

The following tables show comparative information about the Globe Group's financial instruments as of December 31 that are exposed to liquidity risk and interest rate risk and presented by maturity profile including forecasted interest payments for the next five years from December 31 figures (in thousands).

Long-term Liabilities

2017

	2018	2019	2020	2021	2022 and thereafter
Liabilities:					
Long-term debt					
Fixed Rate					
USD notes	$400	$413	$457	$507	$767
Philippine peso	₱805,000	₱11,110,000	₱4,957,500	₱6,330,000	₱68,062,500
Floating rate					
USD notes	$9,600	$11,150	$125,150	$9,950	$241,550
Philippine peso	₱6,980,000	₱5,040,000	₱160,000	₱160,000	₱8,470,000
Interest payable*					
PHP debt	₱5,126,322	₱4,714,353	₱4,401,407	₱3,909,239	₱17,917,015
USD debt	$9,737	$9,492	$7,805	$6,096	$15,062

**Used month-end USD LIBOR and Philippine Dealing and Exchange Corporation (PDEX) rates.*

2016

	2017	2018	2019	2020	2021 and thereafter
Liabilities:					
Long-term debt					
Fixed Rate					
USD notes	$441	$557	$574	$635	$1,771
Philippine peso	₱5,225,000	₱760,000	₱10,995,000	₱4,762,500	₱55,292,500
Floating rate					
USD notes	$9,600	$9,600	$9,600	$123,600	$99,600
Philippine peso	₱120,000	₱6,910,000	₱4,900,000		
Interest payable*					
PHP debt	₱4,144,314	₱3,736,685	₱3,354,827	₱3,049,838	₱14,244,244
USD debt	$5,259	$6,208	$5,486	$3,993	$3,754

**Used month-end USD LIBOR and Philippine Dealing and Exchange Corporation (PDEX) rates.*

The following tables present the maturity profile of the Globe Group's other liabilities and derivative instruments (undiscounted cash flows including swap costs payments/receipts except for other long-term liabilities) as of December 31, 2017 and 2016.

2017

Other Financial Liabilities

	On Demand	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
				(In Thousand Pesos)				
Accounts payable and accrued expenses*	₱-	₱56,910,439	₱-	₱-	₱-	₱-	₱ -	₱56,910,439
Notes Payable	-	-	-	-	-	-	-	-
Other long-term liabilities (Note 15)	-	-	-	-	-	-	1,230,674	1,230,674
	₱-	₱56,910,439	₱-	₱-	₱-	₱-	₱1,230,674	₱58,141,113

**Excludes taxes payable which is not a financial instrument (see Note 12).*

Derivative Instruments

	2018		2019		2020		2021		2022 and beyond	
	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay
Projected Swap Coupons:										
Interest Rate Swaps-USD	₱56,352	₱52,126	₱63,962	₱51,468	₱41,127	₱33,353	₱17,216	₱15,456	₱8,806	₱7,813
Cross Currency Swaps	₱323,194	₱508,771	₱341,868	₱505,346	₱291,229	₱427,222	₱224,654	₱347,680	₱981,314	₱1,455,755
Principal Only Swaps	₱ -	₱80,900	₱ -	₱73,732	₱ -	₱50,975	₱ -	₱28,582	₱ -	₱14,425

	2018		2019		2020		2021		2022 and beyond	
	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay
Projected Principal Exchanges*:										
Cross Currency Swaps- PHP	₱ -	₱ -	₱ -	₱ 79,211	₱ -	₱3,728,021	₱ -	₱79,221	₱ -	₱7,684,389
Cross Currency Swaps- USD	$ -	$ -	$1,550	$-	$86,550	$ -	$1,550	$ -	$150,350	$ -
Principal Only Swaps- PHP	₱ -	₱410,241	₱ -	₱410,241	₱ -	₱1,795,721	₱ -	₱353,067	₱ -	₱1,593,442
Principal Only Swaps- USD	$8,700	$ -	$8,700	$-	$37,700	$ -	$7,500	$ -	$32,500	$ -

**Projected principal exchanges represent commitments to purchase USD for payment of USD debts with the same maturities.*

2016

Other Financial Liabilities

	On Demand	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
				(In Thousand Pesos)				
Accounts payable and accrued expenses*	₱861,204	₱53,469,470	₱-	₱-	₱-	₱-	₱ -	₱54,330,674
Notes Payable	-	4,500,000	-	-	-	-	-	4,500,000
Other long-term liabilities (Note 15)	-	-	-	-	-	-	1,329,057	1,329,057
	₱861,204	₱57,969,470	₱-	₱-	₱-	₱-	₱1,329,057	₱60,159,731

**Excludes taxes payable which is not a financial instrument (see Note 12).*

Derivative Instruments

	2017		2018		2019		2020		2021 and beyond	
	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay
Projected Swap Coupons:										
Interest Rate Swaps-USD	₱24,450	₱22,015	₱23,556	₱21,219	₱27,736	₱20,478	₱16,935	₱10,068	₱-	₱ -
Cross Currency Swaps	₱104,977	₱151,122	₱104,532	₱151,122	₱119,117	₱151,537	₱68,875	₱75,976	₱-	₱ -
Principal Only Swaps	₱ -	₱71,549	₱ -	₱64,425	₱ -	₱57,258	₱ -	₱34,455	₱-	₱18,227

	2017		2018		2019		2020		2021 and beyond	
	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay	Receive	Pay
Projected Principal Exchanges*:										
Forward Purchase of USD**	$15,000	₱727,170	$ -	₱ -	$ -	₱ -	$ -	₱ -	$ -	₱ -
FX Swap, Buys USD Forward**	$70,000	₱3,496,100	$ -	₱ -	$ -	₱ -	$ -	₱ -	$ -	₱ -
Cross Currency Swaps- PHP	₱ -	₱ -	₱ -	₱ -	₱ -	₱ -	₱ -	₱3,648,800	₱ -	₱ -
Cross Currency Swaps- USD	$ -	$ -	$ -	$ -	$ -	$ -	$85,000	$ -	$ -	$ -
Principal Only Swaps- PHP	₱ -	₱410,241	₱ -	₱410,241	₱ -	₱410,241	₱ -	₱1,795,721	₱ -	₱706,133
Principal Only Swaps- USD	$8,700	$ -	$8,700	$ -	$8,700	$ -	$37,700	$ -	$15,000	$ -

**Projected principal exchanges represent commitments to purchase USD for payment of USD debts with the same maturities.*
***Deliverable and non-deliverables*

28.2.4 *Hedging Objectives and Policies*

The Globe Group uses a combination of natural hedges and derivative hedging to manage its foreign exchange exposure. It uses interest rate derivatives to reduce earnings volatility related to interest rate movements, and principal only swaps to hedge the foreign exchange risk exposure to principal repayments on USD debt.

It is the Globe Group's policy to ensure that capabilities exist for active but conservative management of its foreign exchange and interest rate risks. The Globe Group does not engage in any speculative derivative transactions. Authorized derivative instruments include currency forward contracts, currency swap contracts, interest rate swap contracts and currency option contracts.

28.3 Derivative Financial Instruments

The Globe Group's freestanding and embedded derivative financial instruments are accounted for as hedges or transactions not designated as hedges. The table below sets out information about the Globe Group's derivative financial instruments and the related fair values as of December 31:

2017

	USD Notional Amount	PHP Notional Amount	Derivative Assets	Derivative Liabilities
		(In Thousands)		
Derivative instruments designated as hedges				
Cash flow hedges				
Cross currency swaps	**$240,000**	**₱ -**	**₱713,951**	**₱153,370**
Principal only swaps	**95,100**	**-**	**177,641**	**36,384**
Interest rate swaps	**62,600**	**-**	**28,553**	**1,306**
Derivative instruments not designated as hedges				
Embedded				
Currency forwards*	**6,345**	**-**	**6,256**	**-**
Net			**₱926,401**	**₱191,060**

**The embedded currency forwards are at a net buy position.*

2016

	USD Notional Amount	PHP Notional Amount	Derivative Assets	Derivative Liabilities
		(In Thousands)		
Derivative instruments designated as hedges				
Cash flow hedges				
Cross currency swaps	$85,000	₱-	₱612,712	₱31,170
Principal only swaps	78,800	-	123,877	30,621
Interest rate swaps	33,800	-	18,548	-
Derivative instruments not designated as hedges				
Freestanding				
Deliverable forwards	70,000	-	-	9,463
Non-deliverable forwards	15,000	-	19,364	-
Embedded				
Currency forwards*	32,626	-	48,947	34,674
Net			₱823,448	₱105,928

**The embedded currency forwards are at a net buy position.*

The table below also sets out information about the maturities of Globe Group's derivative instruments as of December 31 that were entered into to manage interest and foreign exchange risks related to the long-term debt (in thousands).

2017

	<1 Year	>1-<2 Years	>2-<3 Years	>3-<4 Years	>4-<5 Years	>5-<6 Years	>6-<7 Years	>7-<8 Years	>8-<9 Years	>9-<10 Years	Total
Derivatives											
Interest Rate Swaps											
Floating-Fixed											
Notional PHP	₱ -	₱ -	₱ -	₱ -	₱ -	₱ -	₱ -	₱ -	₱ -	₱ -	₱ -
Notional USD	$1,200	$8,700	$37,700	$7,500	$7,500	$ -	$ -	$ -	$ -	$ -	$62,600
Cross Currency Swaps											
Floating-Fixed											
Notional PHP	₱ -	₱79,221	₱3,728,021	₱79,221	₱79,221	₱79,221	₱3,802,584	₱39,610	₱39,610	₱3,644,143	₱11,570,852
Notional USD	$ -	$1,550	$86,550	$1,550	$1,550	$1,550	$74,400	$775	$775	$71,300	$240,000
Pay-fixed rate											4.12%-4.69%
Receive-floating rate											USD LIBOR + (0.60%-1.0%)
Principal Only Swaps											
Fixed-Fixed											
Notional PHP	₱410,241	₱410,241	₱1,795,721	₱353,067	₱1,593,442	₱ -	₱ -	₱ -	₱ -	₱ -	₱4,562,712
Notional USD	$8,700	$8,700	$37,700	$7,500	$32,500	$ -	$ -	$ -	$ -	$ -	$95,100
Pay-fixed rate											1.31%-2.3%

2016

	<1 Year	>1-<2 Years	>2-<3 Years	>3-<4 Years	>4-<5 Years	>5-<6 Years	>6-<7 Years	Total
Derivatives								
Interest Rate Swaps								
Floating-Fixed								
Notional PHP	₱ -	₱ -	₱ -	₱ -	₱ -	₱ -	₱-	₱ -
Notional USD	$1,200	$1,200	$1,200	$30,200	$ -	$ -	$-	$33,800
Cross Currency Swaps								
Floating-Fixed								
Notional PHP	₱ -	₱ -	₱ -	₱3,648.800	₱ -	₱ -	₱-	₱3,648,800
Notional USD	$ -	$ -	$ -	$85,000	$ -	$ -	$-	$85,000
Pay-fixed rate								4.12%4.28%
Receive-floating rate								USD LIBOR +1.0%
Principal Only Swaps								
Fixed-Fixed								
Notional PHP	₱410,241	₱410,241	₱410,241	₱1,795,721	₱353,067	₱353,067	₱-	₱3,732,578
Notional USD	$8,700	$8,700	$8,700	$37,700	$7,500	$7,500	$-	$78,800
Pay-fixed rate								1.585%-2.3%

The Globe Group's other financial instruments that are exposed to interest rate risk are cash and cash equivalents. These mature in less than a year and are subject to market interest rate fluctuations.

The Globe Group's other financial instruments which are non-interest bearing and therefore not subject to interest rate risk are trade and other receivables, accounts payable and accrued expenses and long-term liabilities. Loans receivable are also not subject to interest rate risk due to fixed interest rates.

The subsequent sections will discuss the Globe Group's derivative financial instruments according to the type of financial risk being managed and the details of derivative financial instruments that are categorized into those accounted for as hedges and those that are not designated as hedges.

28.4 Derivative Instruments Accounted for as Hedges

The following sections discuss in detail the derivative instruments accounted for as cash flow hedges.

- *Currency Swaps and Cross Currency Swaps*

  The Globe Group entered into cross currency swap contracts with maturities on April 2020, August 2024 and August 2027 and principal only swaps contracts with maturities on April 2020, April 2022 and October 2022 to hedge the foreign exchange and interest rate risk on dollar loans. The cross currency swaps have a notional amount of USD240.00 million and USD85.00 million as of December 31, 2017 and 2016, respectively. Principal only swaps have a notional amount of USD95.10 million and USD78.80 million as of December 31, 2017 and 2016, respectively. The fair values of the currency swaps as of December 31, 2017 and 2016 amounted to net asset of ₱701.84 million and ₱674.80 million, of which ₱66.13 million and ₱67.19 million (net of tax) is reported in the equity section of the consolidated statements of financial position (see Note 17.6).

- *Interest Rate Swaps*

  As of December 31, 2017 and 2016, the Globe Group has USD62.60 million and USD 33.80 million in notional amount of USD interest rate swap that have been designated as cash flow hedge of interest rate risk from USD loans. The interest rate swap effectively fixed the benchmark rate of the hedged USD loan at 1.7% over the duration of the agreement, which involves quarterly and semi-annual payment intervals up to October 2022 and April 2020, respectively.

  As of December 31, 2017 and 2016, the fair value of the outstanding swap amounted to a net asset of ₱27.25 million and ₱18.55 million, respectively, of which ₱19.07 million and ₱12.98 million (net of tax), respectively, is reported as "Other reserves" in the equity section of the consolidated statements of financial position (see Note 17.6).

  Accumulated swap cost for the years ended December 31, 2017, 2016 and 2015 amounted to ₱7.04 million, ₱0.40 million and nil, respectively (see Note 22).

- *Deliverable and Non-deliverable Forwards*

  The Globe Group has no outstanding deliverable and non-deliverable forwards as of December 31, 2017 and 2016.

  Hedging gains/losses on derivatives intended to manage foreign currency fluctuations on dollar based revenues amounted to nil in 2017 and 2016 and ₱32.06 million loss in 2015. These hedging gains/losses are reflected under "Service revenues" in the consolidated statements of comprehensive income.

28.5 Other Derivative Instruments Not Designated as Hedges

The Globe Group enters into certain derivatives as economic hedges of certain underlying exposures. Such derivatives, which include embedded and freestanding currency forwards, embedded call options, and certain currency and interest rate swaps with option combination or structured provisions, are not designated as accounting hedges. The gains or losses on these instruments are accounted for directly in profit or loss in the consolidated statements of comprehensive income. This section consists of freestanding derivatives and embedded derivatives found in both financial and nonfinancial contracts.

28.6 Freestanding Derivatives

Freestanding derivatives that are not designated as hedges consist of currency forwards entered into by the Globe Group. Fair value changes on these instruments are accounted for directly in profit or loss in the consolidated statements of comprehensive income.

- *Deliverable and Non-deliverable Forwards*

  As of December 31, 2017 and 2016, the Globe Group has nil and USD85.00 million deliverable and non-deliverable currency forward contracts not designated as hedges, respectively.

28.7 Embedded Derivatives and Other Financial Instruments

The Globe Group has instituted a process to identify any derivatives embedded in its financial or nonfinancial contracts. Based on PAS 39, the Globe Group assesses whether these derivatives are required to be bifurcated or are exempted based on the qualifications provided by the said standard. The Globe Group's embedded derivatives include embedded currency derivatives noted in non-financial contracts.

- *Embedded Currency Forwards*

  As of December 31, 2017 and 2016, the total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to USD6.35 million and USD32.63 million, respectively. The non-financial contracts consist mainly of foreign currency-denominated maintenance and lease agreements and unbilled leased lines receivables denominated in foreign currency with domestic counterparties. The net fair value of the embedded currency forwards as of December 31, 2017 and 2016 amounted to ₱6.26 million gain and ₱14.27 million gain, respectively.

28.8 Fair Value Changes on Derivatives

The net movements in fair value changes of all derivative instruments are as follows:

	2017	2016
	(In Thousand Pesos)	
At beginning of year	**₱717,520**	₱971,003
Net changes in fair value of derivatives:		
Designated as cash flow hedges	**(141,891)**	98,308
Not designated as cash flow hedges	**4,603**	59,155
	580,232	1,128,466
Fair value of settled instruments	**155,109**	(410,946)
At end of year	**₱735,341**	₱717,520

28.9 Hedge Effectiveness Results

As of December 31, 2017 and 2016, the effective fair value changes on the Globe Group's cash flow hedges that were deferred in equity amounted to ₱85.20 million gains and ₱54.21 million gain, net of tax, respectively. Total ineffectiveness for the years ended December 31, 2017 and 2016 is immaterial.

The distinction of the results of hedge accounting into "Effective" or "Ineffective" represent designations based on PAS 39 and are not necessarily reflective of the economic effectiveness of the instruments.

28.10 Categories of Financial Assets and Financial Liabilities

The table below presents the carrying value of the Globe Group's financial instruments by category as of December 31:

	2017	2016
	(In Thousand Pesos)	
Financial Assets		
Financial assets at FVPL:		
Derivative assets designated as cash flow hedges	**₱920,145**	₱755,137
Derivative assets not designated as hedges	**6,256**	68,311
AFS investment in equity securities (Note 11)	**1,201,187**	794,087
Loans and receivables - net*	**39,881,252**	36,029,700
	₱42,008,840	₱37,647,235
Financial Liabilities		
Financial liabilities at FVPL:		
Derivative liabilities designated as cash flow hedges	**₱191,060**	₱61,792
Derivative liabilities not designated as hedges	**-**	44,136
Financial liabilities at amortized cost**	**189,669,818**	161,388,322
	₱189,860,878	₱161,494,250

**This consists of cash and cash equivalents, receivables, other nontrade receivables and loans receivables.*
***This consists of accounts payable, accrued expenses, accrued project cost, traffic settlement-net, dividends payable, notes payable, long-term debt (including current portion) and other long-term liabilities (including current portion).*

As of December 31, 2017 and 2016, the Globe Group has no investments in foreign securities.

28.11 Offsetting Financial Assets and Financial Liabilities

The Globe Group has derivative financial instruments that have offsetting arrangements. Upon adoption of the amendment to PFRS 7, the Globe Group has determined that there is no impact on financial position or on profit or loss, but resulted to additional disclosures about such offsetting arrangements. Accordingly, these additional disclosures are set forth below.

	Gross amounts	Amounts offset under PAS 32	Reported amounts in the consolidated statements of financial position	Amounts offset under master netting arrangements or other similar contracts	Net exposure
			(In Thousand Pesos)		
December 31, 2017					
Derivative assets	**₱926,401**	**₱-**	**₱926,401**	**(₱162,713)**	**₱763,688**
Derivative liabilities	**191,060**	**-**	**191,060**	**(162,713)**	**28,347**
Traffic settlements receivable	**5,953,035**	**(3,134,179)**	**2,818,856**	**-**	**2,818,856**
Traffic settlements payable	**4,208,655**	**(3,134,179)**	**1,074,476**	**-**	**1,074,476**
December 31, 2016					
Derivative assets	823,448	-	823,448	(99,747)	723,701
Derivative liabilities	105,928	-	105,928	(99,747)	6,181
Traffic settlements receivable	4,559,398	(2,627,848)	1,931,550	-	1,931,550
Traffic settlements payable	3,473,922	(2,627,848)	846,074	-	846,074

The Globe Group makes use of master netting agreements with counterparties with whom a significant volume of transactions are undertaken. Such arrangements provide for single net settlement of all financial instruments covered by the agreements in the event of default on any one contract. Master netting arrangements do not normally result in an offset of balance sheet assets and liabilities unless certain conditions for offsetting under PAS 32 apply.

Although master netting arrangements may significantly reduce credit risk, it should be noted that:

a) Credit risk is eliminated only to the extent that amounts due to the same counterparty will be settled after the assets are realized; and

b) The extent to which overall credit risk is reduced may change substantially within a short period because the exposure is affected by each transaction subject to the arrangement and fluctuations in market factors.

28.12 Fair Values of Financial Assets and Financial Liabilities

The table below presents a comparison of carrying amounts and estimated fair values of all the Globe Group's financial instruments as of December 31:

	2017		2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
	(In Thousand Pesos)			
Financial Assets				
Derivative assets	**₱926,401**	**₱926,401**	₱823,448	₱823,448
AFS investment in equity securities (Note 11)	**1,201,187**	**1,201,187**	794,087	794,087
	₱2,127,588	**₱2,127,588**	₱1,617,535	₱1,617,535
Financial Liabilities				
Derivative liabilities	**₱191,060**	**₱191,060**	₱105,928	₱105,928
Long-term debt (including current portion)	**131,528,705**	**138,812,508**	101,228,591	110,051,351
	₱131,719,765	**₱139,003,568**	₱101,334,519	₱110,157,279

The following discussions are methods and assumptions used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value.

28.12.1 *Non-Derivative Financial Instrument*

The fair values of cash and cash equivalents, subscriber receivables, traffic settlements receivable, loan receivable, miscellaneous receivables, accrued interest receivables, accounts payable, traffic settlement payable, accrued expenses and notes payable are approximately equal to their carrying amounts considering the short-term maturities of these financial instruments.

The fair value of AFS investments is based on quoted and unquoted prices. Unquoted AFS equity securities are carried at cost, subject to impairment.

The fair value of loans receivables approximates carrying value. The fair value was estimated as the present value of all future cash flows discounted using the prevailing market rate of interest for a similar instrument.

For variable rate financial instruments that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For variable rate financial instruments that reprice every six months, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate for the period up to the next repricing date. The discount rates used range from 1.6974% to 2.0735% for USD floating loans.

For non-interest bearing obligations, the fair value was estimated as the present value of all future cash flows discounted using the prevailing market rate of interest for a similar instrument.

28.12.2 *Derivative Instrument*

The fair value of freestanding and embedded forward exchange contracts is calculated by using the interest rate parity concept.

The fair values of interest rate swaps and cross currency swap transactions are determined using valuation techniques with inputs and assumptions that are based on market observable data and conditions and reflect appropriate risk adjustments that market participants would make for credit and liquidity risks existing at the end of each reporting period. The fair value of interest rate swap transactions is the net present value of the estimated future cash flows. The fair values of currency and cross currency swap transactions are determined based on changes in the term structure of interest rates of each currency and the spot rate.

The fair values were tested to determine the impact of credit valuation adjustments. However, the impact is immaterial given that the Globe Group deals its derivatives with large foreign and local banks with very minimal risk of default.

Embedded currency options are valued using the simple option pricing model of third party provider.

28.12.3 *Fair Value Hierarchy*

The following tables provide the fair value measurement hierarchy of the Globe Group's assets and liabilities:

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
		(In Thousand Pesos)		
2017				
Assets measured at fair value:				
Derivative assets:				
Cross currency swaps	**₱-**	**₱713,951**	**₱-**	**₱713,951**
Principal only swaps	**-**	**177,641**	**-**	**177,641**
Interest rate swaps	**-**	**28,553**	**-**	**28,553**
Embedded currency forwards	**-**	**6,256**	**-**	**6,256**
AFS investment in equity securities	**249,200**	**951,987**	**-**	**1,201,187**
Liabilities measured at fair value:				
Derivative liabilities:				
Cross currency swaps	**-**	**153,370**	**-**	**153,370**
Principal only swaps	**-**	**36,384**	**-**	**36,384**
Interest rate swaps	**-**	**1,306**	**-**	**1,306**
Long-term debt (including current portion)	**-**	**138,812,508**	**-**	**138,812,508**
2016				
Assets measured at fair value:				
Derivative assets:				
Cross currency swaps	-	612,712	-	612,712
Principal only swaps	-	123,877	-	123,877
Interest rate swaps	-	18,548	-	18,548
Embedded currency forwards	-	48,947	-	48,947
Nondeliverable forwards	-	19,364	-	19,364
AFS investment in equity securities	228,200	565,887	-	794,087
Liabilities measured at fair value:				
Derivative liabilities:			-	
Cross currency swaps	-	31,170	-	31,170
Principal only swaps	-	30,621	-	30,621
Embedded currency forwards	-	34,674	-	34,674
Deliverable forwards	-	9,463	-	9,463
Long-term debt (including current portion)	-	110,051,351	-	110,051,351

There were no transfers from Level 1 and Level 2 fair value measurements for the years ended December 31, 2017 and 2016. The Globe Group has no financial instruments classified under Level 3.

29 Operating Segment Information

The Globe Group's reportable segments consist of: (1) mobile communications services; and (2) wireline communication services; which the Globe Group operates and manages as strategic business units and organize by products and services. The Globe Group presents its various operating segments based on segment net income.

The mobile value added data content and application development services coming from various revenue streams are reported under mobile communication services segment to conform to the current presentation of internal management reports.

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 result include transfers between business segments. Those transfers are eliminated in consolidation.

Most of the Globe Group's revenues are derived from operations within the Philippines, hence, the Globe Group does not present geographical information required by PFRS 8, *Operating Segments*. The Globe Group does not have a single customer that will meet the 10% reporting criteria.

The Globe Group also presents the different product types that are included in the report that is regularly reviewed by the chief operating decision maker in assessing the operating segments performance.

Segment assets and liabilities are not measures used by the chief operating decision maker since the assets and liabilities are managed on a group basis.

The Globe Group's segment information is as follows:

	2017		
	Mobile Communications Services	Wireline Communications Services	Consolidated
	(In Thousand Pesos)		
REVENUES:			
Service revenues:			
External customers:			
Data	₱43,058,894	₱10,287,868	₱53,346,762
Voice	32,274,474	3,490,350	35,764,824
SMS	23,149,293	-	23,149,293
Broadband	-	15,644,974	15,644,974
Nonservice revenues:			
External customers	7,103,490	271,388	7,374,878
Segment revenues	105,586,151	29,694,580	135,280,731
EBITDA	46,412,954	6,912,717	53,325,671
Depreciation and amortization	(14,719,797)	(12,792,892)	(27,512,689)
EBIT	31,693,157	(5,880,175)	25,812,982
NET INCOME (LOSS) BEFORE TAX[2]	27,495,220	(5,953,518)	21,541,702
Provision for income tax	(4,965,817)	(1,491,672)	(6,457,489)
NET INCOME (LOSS)	₱22,529,403	(₱7,445,190)	₱15,084,213

(Forward)

	2017		
	Mobile Communications Services	**Wireline Communications Services**	**Consolidated**
	(In Thousand Pesos)		
Other segment information			
Intersegment revenues	**(₱2,880,641)**	**(₱1,470,841)**	**(₱4,351,482)**
Subsidy[1]	**(5,522,391)**	**(116,168)**	**(5,638,559)**
Interest income[2]	**112,222**	**27,359**	**139,581**
Interest expense	**(5,025,778)**	**(17,174)**	**(5,042,952)**
Equity in net losses of associates and joint ventures	**(846,177)**	**-**	**(846,177)**
Impairment losses and others	**(5,040,327)**	**(97,003)**	**(5,137,330)**
Total additions to property and equipment and intangible assets	**39,553,734**	**11,878,600**	**51,432,334**
Cost of sales	**(12,625,881)**	**(387,556)**	**(13,013,437)**
Operating expenses	**(46,567,834)**	**(22,373,725)**	**(68,941,559)**
Cash Flows			
Net cash from (used in):			
Operating activities	**₱34,396,520**	**₱15,907,742**	**₱50,304,262**
Investing activities	**(55,344,717)**	**(77,298)**	**(55,422,015)**
Financing activities	**7,814,350**	**-**	**7,814,350**

[1]*Computed as non-service revenues less cost of sales*
[2]*Net of final tax*

	2016		
	Mobile Communications Services	Wireline Communications Services	Consolidated
	(In Thousand Pesos)		
REVENUES:			
Service revenues:			
External customers:			
Data	₱34,991,091	₱9,873,417	₱44,864,508
Voice	34,065,300	3,779,820	37,845,120
SMS	23,198,924	-	23,198,924
Broadband	-	14,679,451	14,679,451
Non-service revenues:			
External customers	5,670,249	523,408	6,193,657
Segment revenues	97,925,564	28,856,096	126,781,660
EBITDA	41,260,570	8,717,826	49,978,396
Depreciation and amortization	(10,978,984)	(12,869,662)	(23,848,646)
EBIT	30,281,586	(4,151,836)	26,129,750
NET INCOME (LOSS) BEFORE TAX[2]	26,090,530	(4,153,128)	21,937,402
Provision for income tax	(5,359,344)	(689,559)	(6,048,903)
NET INCOME (LOSS)	₱20,731,186	(₱4,842,687)	₱15,888,499
Other segment information			
Intersegment revenues	(₱2,573,816)	(₱1,511,959)	(₱4,085,775)
Subsidy[1]	(5,476,822)	(243,635)	(5,720,457)
Interest income[2]	105,834	45,755	151,589
Interest expense	(3,388,476)	(20,423)	(3,408,899)
Equity in net losses of associates and joint ventures[3]	(855,198)	-	(855,198)
Impairment losses and others	(2,420,759)	(850,542)	(3,271,301)
Total additions to property and equipment and intangible assets	32,328,400	6,762,791	39,091,191
Cost of sales	(11,147,071)	(767,043)	(11,914,114)
Operating expenses	(45,544,108)	(19,345,118)	(64,889,226)

(Forward)

	2016		
	Mobile Communications Services	Wireline Communications Services	Consolidated
	(In Thousand Pesos)		
Cash Flows			
Net cash from (used in):			
Operating activities	₱31,140,895	₱6,321,702	₱37,462,597
Investing activities	(51,644,709)	(6,016,878)	(57,661,587)
Financing activities	16,988,326	(23,696)	16,964,630

[1]Computed as non-service revenues less cost of sales
[2]Net of final tax
[3]Starting June 2016, Globe Group presented equity in net losses as a non-operating income and expense below EBITDA, previously under other income above EBITDA. This change resulted to retroactive adjustments of 2015 and 2014 reported figures.

	2015		
	Mobile Communications Services	Wireline Communications Services	Consolidated
	(In Thousand Pesos)		
REVENUES:			
Service revenues:			
External customers:			
Voice	₱37,128,125	₱3,418,142	₱40,546,267
SMS	26,397,857	-	26,397,857
Data	27,978,228	7,697,774	35,676,002
Broadband	-	11,429,364	11,429,364
Nonservice revenues:			
External customers	6,002,767	287,201	6,289,968
Segment revenues	97,506,977	22,832,481	120,339,458
EBITDA[3]	39,998,632	5,962,223	45,960,855
Depreciation and amortization	(10,344,191)	(10,788,507)	(21,132,698)
EBIT	29,654,441	(4,826,284)	24,828,157
NET INCOME (LOSS) BEFORE TAX[2]	28,470,093	(5,002,605)	23,467,488
Provision for income tax	(5,721,726)	(1,261,312)	(6,983,038)
NET INCOME (LOSS)	₱22,748,367	(₱6,263,917)	₱16,484,450
Other segment information			
Intersegment revenues	(₱1,495,254)	(₱753,845)	(₱2,249,099)
Subsidy[1]	(7,300,116)	(75,119)	(7,375,235)
Interest income[2]	425,717	92,820	518,537
Interest expense	(2,438,341)	(335,737)	(2,774,078)
Equity in net losses of associates and joint ventures[3]	(153,512)	-	(153,512)
Impairment losses and others	2,168,778	940,742	3,109,520
Total additions to property and equipment and intangible assets	24,712,694	5,604,486	30,317,180
Cost of sales	(13,302,883)	(362,320)	(13,665,203)
Operating expenses	(44,052,436)	(16,444,210)	(60,496,646)
Cash Flows			
Net cash from (used in):			
Operating activities	28,332,095	7,620,108	35,952,203
Investing activities	(27,952,500)	(4,607,585)	(32,560,085)
Financing activities	(7,991,180)	(415,097)	(8,406,277)

[1]Computed as non-service revenues less cost of sales
[2]Net of final tax
[3]Starting June 2016, Globe Group presented equity in net losses as a non-operating income and expense below EBITDA, previously under other income above EBITDA. This change resulted to retroactive adjustments of 2015 and 2014 reported figures.

A breakdown of gross revenues to net revenues and a reconciliation of segment revenues to the total revenues presented in the consolidated statements of comprehensive income are shown below:

	2017	2016	2015
		(In Thousand Pesos)	
Gross service revenues	**₱127,905,853**	₱120,588,003	₱114,049,490
Interconnection charges	**(7,852,336)**	(9,623,127)	(9,007,919)
Net service revenues	**120,053,517**	110,964,876	105,041,571
Nonservice revenues	**7,374,878**	6,193,657	6,289,968
Segment revenues	**127,428,395**	117,158,533	111,331,539
Interest income	**139,581**	151,589	518,537
Gain on fair value of retained interest	**1,889,901**	-	745,831
Other income - net	**415,617**	983,186	1,385,022
Total revenues	**₱129,873,494**	₱118,293,308	₱113,980,929

The reconciliation of the EBITDA to income before income tax presented in the consolidated statements of comprehensive income is shown below:

	2017	2016	2015
		(In Thousand Pesos)	
EBITDA	**₱53,325,671**	₱49,978,396	₱45,960,855
Depreciation and amortization	**(27,512,689)**	(23,848,646)	(21,132,698)
Financing costs	**(5,251,692)**	(4,096,826)	(3,372,924)
Gain on fair value of retained interest	**1,889,901**	-	745,831
Equity in net losses of associates and joint ventures	**(846,177)**	(855,198)	(153,512)
Interest income	**139,581**	151,589	518,537
Gain on derivative instruments	**53,632**	469,884	19,691
Gain on disposal of property and equipment - net	**38,455**	101,232	57,642
Gain (loss) on previously held equity interest	**(9,103)**	(30,186)	431,115
Gain on disposal of controlling interest in subsidiary	**-**	-	449,148
Other items	**(285,877)**	67,157	(56,197)
Income before income tax	**₱21,541,702**	₱21,937,402	₱23,467,488

The reconciliation of core net income after tax (core NIAT) to NIAT is shown below:

	2017	2016	2015
		(In Thousand Pesos)	
Core NIAT	**₱13,546,018**	₱16,013,946	₱15,126,221
Foreign exchange gains (losses)	**149,934**	(367,517)	(320,106)
Mark-to-market gains	**(89,396)**	328,919	13,784
Non-recurring items	**(307,477)**	(56,663)	178,304
Gain on previously held equity interest	**(9,103)**	(30,186)	431,115
Gain on fair value of retained interest	**1,794,237**	-	666,876
Gain on disposal of controlling interest in subsidiary	**-**	-	388,256
NIAT	**₱15,084,213**	₱15,888,499	₱16,484,450

29.1 Mobile Communications Services

This reporting segment is made up of digital cellular telecommunications services that allow subscribers to make and receive local, domestic long distance and international long distance calls, international roaming calls and other value added services (VAS) in any place within the coverage areas.

29.1.1 *Mobile communication voice net service revenues include the following:*

a) Pro-rated monthly service fees on postpaid plans;

b) Charges for intra-network and outbound calls in excess of the consumable minutes for various Globe Postpaid plans, including currency exchange rate adjustments (CERA) net of loyalty discounts credited to subscriber billings;

c) Airtime fees for intra-network and outbound calls recognized upon the earlier of actual usage of the airtime value or expiration of the unused value of the prepaid reload denomination (for Globe Prepaid and TM) which occurs between 3 and 120 days after activation depending on the prepaid value reloaded by the subscriber net of (i) bonus credits and (ii) prepaid reload discounts;

d) Revenues generated from inbound international and national long distance calls and international roaming calls; and

e) Mobile service revenues of GTI.

29.1.2 *Mobile SMS service revenues* consist of local and international revenues from value-added services such as inbound and outbound SMS and MMS, and infotext, subscription fees on unlimited and bucket prepaid SMS services, net of any payouts to content providers.

29.1.3 *Mobile communication data net service revenues* consist of local and international revenues from value-added services such as mobile internet browsing and content downloading, mobile commerce services, other add-on VAS and service revenues of GXI and Yondu, net of payouts to content providers.

29.1.4 Globe Telecom offers its wireless communications services to consumers, corporate and small and medium enterprise (SME) clients through the following three (3) brands: Globe Postpaid, Globe Prepaid and Touch Mobile.

The Globe Group also provides its subscribers with mobile payment and remittance services under the GCash brand.

29.2 Wireline Communications Services

This reporting segment is made up of fixed line telecommunications services which offer subscribers local, domestic long distance and international long distance voice services in addition to broadband and a number of VAS in various areas covered by the Certificate of Public Convenience and Necessity (CPCN) granted by the NTC.

29.2.1 *Wireline voice service revenues* consist of the following:

a) Monthly service fees including CERA of voice-only subscriptions;

b) Revenues from local, international and national long distance calls made by postpaid and prepaid wireline subscribers, as well as broadband customers who have subscribed to data packages bundled with a voice service. Revenues are net of prepaid call card discounts;

c) Revenues from inbound local, international and national long distance calls from other carriers terminating on Globe's network;

d) Revenues from additional landline features such as caller ID, call waiting, call forwarding, multi-calling, voice mail, duplex and hotline numbers and other value-added features;

e) Installation charges and other one-time fees associated with the establishment of the service; and

f) Revenues from DUO and SUPERDUO (fixed line portion) service consisting of monthly service fees for postpaid and subscription fees for prepaid.

29.2.2 *Wireline data service revenues* consist of the following:

a) Monthly service fees from international and domestic leased lines;

b) Other wholesale transport services;

c) Revenues from value-added services; and

d) One-time connection charges associated with the establishment of service.

29.2.3 *Broadband service revenues* consist of the following:

a) Monthly service fees of wired, fixed wireless and bundled voice and data subscriptions;

b) Browsing revenues from all postpaid and prepaid wired, fixed wireless in excess of allocated free browsing minutes and expiration of unused value of prepaid load credits;

c) Value-added services such as games; and

d) Installation charges and other one-time fees associated with the service.

29.2.4 The Globe Group provides wireline voice communications (local, national and international long distance), data and broadband and data services to consumers, corporate and SME clients in the Philippines.

- *Consumers* - the Globe Group's postpaid voice service provides basic landline services including toll-free NDD calls to other Globe landline subscribers for a fixed monthly fee. For wired broadband, consumers can choose between broadband services bundled with a voice line, or a broadband data-only service. The Globe Group offers broadband packages bundled with voice, or broadband data-only service. For subscribers who require full mobility, Globe Broadband service comes in postpaid and prepaid packages and allow them to access the internet via LTE, 3G with HSDPA, Enhanced Datarate for GSM Evolution (EDGE), General Packet Radio Service (GPRS) or WiFi at hotspots located nationwide.

- *Corporate/SME clients* - for corporate and SME enterprise clients wireline voice communication needs, the Globe Group offers postpaid service bundles which come with a business landline and unlimited dial-up internet access. The Globe Group also provides a *full* suite of telephony services from basic direct lines to Integrated Services Digital Network (ISDN) services, 1-800 numbers, International Direct Dialing (IDD) and National Direct Dialing (NDD) access as well as managed voice solutions such as Voice Over Internet Protocol (VOIP) and managed Internet Protocol (IP) communications. Value-priced, high speed data services, wholesale and corporate internet access, data center services and segment-specific solutions customized to the needs of vertical industries.

30 Notes to Consolidated Statements of Cash Flows

The principal noncash transactions are as follows:

	Notes	2017	2016	2015
		(In Thousand Pesos)		
Unpaid investments and advances	10.3, 10.7	**₱97,426**	₱11,997,228	₱-
Increase in liabilities related to the acquisition of property and equipment	7	**8,076,049**	1,780,201	6,827,342
Unpaid dividends on preferred shares	17.3	**260,030**	260,030	260,030
Capitalized ARO	15	**97,079**	23,210	39,269
Reversal of project accruals	12	-	-	(8,748,893)

Cash flows from financing activities include non-cash change arising from foreign exchange gains or losses and amortization of debt issue cost and others amounting to ₱491.61 million.

The cash and cash equivalents account consists of the following as of December 31:

	2017	2016	2015
	(In Thousand Pesos)		
Cash on hand and in banks	**₱1,930,219**	₱1,915,935	₱5,355,055
Short-term money market placements	**9,292,001**	6,716,917	6,459,324
	₱11,222,220	₱8,632,852	₱11,814,379

Cash in banks earn interest at respective bank deposit rates.

The ranges of interest rates of the above placements are as follows:

	2017	2016	2015
Placements:			
PHP	**0.10% to 3.70%**	0.05% to 1.75%	0.25% to 2.25%
USD	**0.05% to 1.75%**	0.25% to 2.70%	0.02% to 2.00%

31 Events After Reporting Period

On February 5, 2018, the BOD approved the declaration of the first quarter cash dividend of ₱22.75 per common share, payable to common stockholders of record as of February 20, 2018. Total dividends amounting to ₱3.00 billion will be payable on March 5, 2018.

Effective January 5, 2018, all prepaid load with denomination of ₱300 and above will carry a one-year expiration period as mandated by the joint Memorandum Circular No. 05-12-2017 issued by the NTC, Department of Information and Communication Technology and Department of Trade and Industry.

IV. 2017 Original BIR/Bank Stamp "Received"

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

FS FOR FILING WITH SEC

AFTER THE BIR HAS DULY STAMPED "RECEIVED."

SEC Registration Number

3	4	2	1	8						

COMPANY NAME

AYALA CORPORATION

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

32F-35F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
acquery@ayala.com.ph	908-3000	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
	April 21, 2018	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Josephine G. De Asis	deasis.jg@ayala.com.ph	908-3000	

CONTACT PERSON's ADDRESS

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
Date APR 12 2018
RECEIVED
ELMER B. TANAY

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

Report on the Audit of the Parent Company Financial Statements

Opinion

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

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

Basis for Opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS
Date APR 12 2018
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ELMER B.

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

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 30 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic parent company financial statements. Such information is the responsibility of the management of Ayala Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic parent company financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic parent company financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Lucy L. Chan

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

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 20 and 23)	**₱3,812,835**	₱6,308,389
Short-term investments (Notes 4, 20 and 23)	**28,708**	–
Accounts and notes receivable (Notes 5, 20 and 23)	**1,518,381**	1,520,926
Other current assets (Note 6)	**263,401**	240,746
Total Current Assets	**5,623,325**	8,070,061
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 5 and 23)	**154,410**	161,926
Investments in subsidiaries, associates and joint ventures (Note 7)	**157,057,531**	150,012,387
Investment properties (Note 8)	**1,145,892**	1,117,198
Available-for-sale financial assets (Notes 9 and 23)	**438,054**	548,022
Service concession assets (Note 10)	**1,936,533**	2,040,247
Property and equipment (Note 11)	**444,660**	566,732
Deferred tax assets - net (Note 18)	**–**	184,218
Other noncurrent assets (Note 6)	**404,523**	389,438
Total Noncurrent Assets	**161,581,603**	155,020,168
	₱167,204,928	₱163,090,229
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 13, 20 and 23)	**₱3,604,319**	₱2,476,175
Dividends payable (Notes 16 and 20)	**3,256,309**	3,071,262
Current portion of:		
Long-term debt (Notes 15, 20 and 23)	**1,875,500**	11,942,500
Provision for maintenance obligation (Note 12)	**2,935**	2,598
Income tax payable (Note 18)	**11,342**	10,151
Other current liabilities (Notes 14, 20 and 23)	**2,400,776**	731,608
Total Current Liabilities	**11,151,181**	18,234,294
Noncurrent Liabilities		
Long-term debt (Notes 15, 20 and 23)	**47,042,981**	38,673,874
Pension liability (Note 21)	**161,292**	292,053
Deferred tax liabilities (Note 18)	**3,000**	–
Provision for maintenance obligation - net of current portion (Note 12)	**27,014**	11,504
Total Noncurrent Liabilities	**47,234,287**	38,977,431
	58,385,468	57,211,725
Equity		
Paid-in capital (Note 16)	**75,001,174**	74,379,760
Share-based payments (Note 22)	**248,212**	495,759
Remeasurement gains and losses arising on defined benefit pension plan (Note 21)	**36,883**	(54,440)
Net unrealized gain on available-for-sale financial assets (Note 9)	**353,973**	355,174
Retained earnings (Note 16)	**35,479,218**	33,002,251
Treasury stock (Note 16)	**(2,300,000)**	(2,300,000)
Total Equity	**108,819,460**	105,878,504
	₱167,204,928	₱163,090,229

See accompanying Notes to Parent Company Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS
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AYALA CORPORATION

PARENT COMPANY STATEMENTS OF INCOME
(Amounts in Thousands)

	Years Ended December 31	
	2017	2016
REVENUE		
Dividends (Note 20)	**₱12,078,444**	₱11,688,500
Management fees (Note 20)	**707,368**	599,257
Toll revenue (Notes 10 and 20)	**178,464**	148,972
	12,964,276	12,436,729
COSTS AND EXPENSES		
General and administrative (Note 17)	**2,746,824**	3,708,253
Depreciation and amortization (Notes 8, 10 and 11)	**316,702**	323,766
	3,063,526	4,032,019
OTHER INCOME (EXPENSE)		
Other income (Note 17)	**1,098,181**	1,075,425
Interest income (Notes 4, 5, 17 and 20)	**157,934**	269,783
Interest and other financing charges (Notes 12, 15, 17 and 20)	**(2,887,605)**	(3,352,590)
Other expense (Notes 7, 10 and 17)	**(48,838)**	(110,383)
	(1,680,328)	(2,117,765)
INCOME BEFORE INCOME TAX	**8,220,422**	6,286,945
PROVISION FOR (BENEFITS FROM) INCOME TAX (Note 18)	**159,331**	(1,463)
NET INCOME	**₱8,061,091**	₱6,288,408
EARNINGS PER SHARE (Note 19)		
Basic	**₱10.91**	₱8.07
Diluted	**₱10.87**	₱8.04

See accompanying Notes to Parent Company Financial Statements.

AYALA CORPORATION
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31	
	2017	2016
NET INCOME	**₱8,061,091**	₱6,288,408
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to profit or loss:		
Remeasurement gain (loss) arising on defined benefit pension plans (Note 21)	**155,688**	(110,840)
Income tax relating to items that will not be reclassified (Note 18)	**(64,365)**	33,252
	91,323	(77,588)
Items that will be reclassified to profit or loss:		
Unrealized fair value gains on available-for-sale financial assets (Note 9)	**172,283**	83,743
Realized fair value gain on available-for-sale financial assets transferred to profit or loss (Note 17)	**(173,484)**	(49,706)
Income tax relating to items that will be reclassified (Note 18)	**–**	(6,495)
	(1,201)	27,542
Total other comprehensive gain (loss)	**90,122**	(50,046)
TOTAL COMPREHENSIVE INCOME	**₱8,151,213**	₱6,238,362

See accompanying Notes to Parent Company Financial Statements.

AYALA CORPORATION

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

	Paid-in Capital (Note 16)	Share-based Payments (Note 22)	Remeasurement Gains and Losses Arising on Defined Benefit Pension Plans (Note 21)	Net Unrealized Gain on Available-for-Sale Financial Assets (Note 9)	Retained Earnings (Note 16)	Treasury Stock (Note 16)	Total
			For the year ended December 31, 2017				
At January 1, 2017	₱74,379,760	₱495,759	(₱54,440)	₱355,174	₱33,002,251	(₱2,300,000)	₱105,878,504
Net income	–	–	–	–	8,061,091	–	8,061,091
Other comprehensive income	–	–	91,323	(1,201)	–	–	90,122
Total comprehensive income	–	–	91,323	(1,201)	8,061,091	–	8,151,213
Exercise/cancellation of ESOP/ESOWN	621,414	(247,043)	–	–	–	–	374,371
Cost of share-based payments	–	(504)	–	–	–	–	(504)
Cash dividends	–	–	–	–	(5,584,124)	–	(5,584,124)
At December 31, 2017	₱75,001,174	₱248,212	₱36,883	₱353,973	₱35,479,218	(₱2,300,000)	₱108,819,460

	Paid-in Capital (Note 16)	Share-based Payments (Note 22)	Remeasurement Gains and Losses Arising on Defined Benefit Pension Plans (Note 21)	Net Unrealized Gain on Available-for-Sale Financial Assets (Note 9)	Retained Earnings (Note 16)	Treasury Stock (Note 16)	Total
			For the year ended December 31, 2016				
At January 1, 2016	₱73,919,322	₱568,847	₱23,148	₱327,632	₱31,571,259	(₱2,300,000)	₱104,110,208
Net income	–	–	–	–	6,288,408	–	6,288,408
Other comprehensive income	–	–	(77,588)	27,542	–	–	(50,046)
Total comprehensive income	–	–	(77,588)	27,542	6,288,408	–	6,238,362
Exercise/cancellation of ESOP/ESOWN	460,438	(321,094)	–	–	–	–	139,344
Cost of share-based payments	–	248,006	–	–	–	–	248,006
Cash dividends	–	–	–	–	(4,857,416)	–	(4,857,416)
At December 31, 2016	₱74,379,760	₱495,759	(₱54,440)	₱355,174	₱33,002,251	(₱2,300,000)	₱105,878,504

See accompanying Notes to Parent Company Financial Statements.

AYALA CORPORATION
PARENT COMPANY STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31	
	2017	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱8,220,422**	₱6,286,945
Adjustments for:		
Interest expense (Note 17)	**2,866,079**	3,295,953
Depreciation and amortization (Notes 8, 10 and 11)	**316,702**	323,767
Pension expense (Note 21)	**219,349**	200,339
Provision for impairment of other assets (Note 6)	**53,146**	5,450
Expected maintenance expense on service concession (Note 12)	**14,876**	13,911
Dividend income (Note 20)	**(12,078,444)**	(11,688,500)
Provision for (reversal of) impairment losses on subsidiaries, associates and joint ventures (Notes 7 and 17)	**(586,000)**	878,991
Interest income (Note 17)	**(157,934)**	(269,783)
Loss (gain) on sale/return of:		
Investments in subsidiaries, associates and joint venture - net (Notes 7 and 17)	**11,894**	(660,437)
Investment in available for sale financial assets (Notes 9 and 17)	**(173,484)**	(49,705)
Investment properties (Notes 8 and 17)	**(4,863)**	–
Property and equipment (Notes 11 and 17)	**(1,012)**	(2,725)
Share-based payments (Notes 17, 20 and 22)	**(504)**	248,006
Loss on derivative liability (Note 23)	**–**	1,927
Operating loss before changes in working capital	**(1,299,773)**	(1,415,861)
Changes in working capital:		
Decrease (increase) in:		
Accounts receivable	**(299,137)**	(185)
Other current and noncurrent assets	**(90,886)**	(35,367)
Increase in accounts and other payables	**97,087**	7,745
Net cash used in operations	**(1,592,709)**	(1,443,668)
Interest received	**166,295**	284,103
Interest paid	**(2,868,850)**	(3,166,863)
Income tax paid	**(35,286)**	(66,754)
Contribution to pension fund (Note 21)	**(155,318)**	(392,973)
Net cash used in operating activities	**(4,485,868)**	(4,786,155)
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from subsidiaries, associates and joint ventures	**12,118,835**	11,794,504
Proceeds from:		
Partial return of capital from subsidiaries (Note 7)	**8,444,303**	988,890
Deposits for exchangeable bonds	**1,049,894**	–
Disposal of available-for-sale financial assets (Note 9)	**282,852**	126,060
Sale of property and equipment (Note 11)	**19,319**	17,642
Disposal of shares of subsidiaries (Note 7)	**10,846**	722,195

(Forward)

	Years Ended December 31	
	2017	2016
Sale of investment properties (Note 8)	**₱4,883**	₱–
Short-term investments (Note 4)	**–**	1,126,000
Additions to:		
Investments in subsidiaries, associates and joint ventures (Note 7)	**(12,995,789)**	(8,290,567)
Property and equipment (Note 11)	**(67,004)**	(105,828)
Investment properties (Note 8)	**(44,643)**	–
Short-term investments	**(28,708)**	–
Service concession assets (Notes 10 and 27)	**(26,290)**	(110,383)
Investments in available-for-sale financial assets (Note 9)	**(601)**	(1,168)
Net cash provided by investing activities	**8,767,897**	6,267,345
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Availment of long-term debt (Note 15)	**10,189,623**	9,893,613
Collections of subscription receivable	**374,485**	139,344
Payment of short-term and long-term debt	**(11,942,500)**	(18,242,500)
Cash dividends paid	**(5,399,077)**	(4,852,008)
Costs of issuance of shares	**(114)**	–
Net cash used in financing activities	**(6,777,583)**	(13,061,551)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(2,495,554)**	(11,580,361)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**6,308,389**	17,888,750
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱3,812,835**	₱6,308,389

See accompanying Notes to Parent Company Financial Statements.

V. 2017 Ayala Corporation and Subsidiaries Special Form for Financial Statements (SFFS)

Ayala

Ayala Corporation
34F Tower One Ayala Triangle
Ayala Avenue Makati City 1226
Philippines

Tel +632 908 3000
Fax +632 848 5768
www.ayala.com.ph

CERTIFICATION

This certifies that Ayala Corporation, with principal office at 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City, and with Securities and Exchange Commission (SEC) Registration Number 34218, hereby submits to SEC the Ayala Corporation and Subsidiaries' Special Form for Financial Statements of Publicly-Held and Investment Companies in diskette form (SFFS Form) in compliance with Section 27 of RA 8792 otherwise known as the "Electronic Commerce Act" and Sec. 37 of its Implementing Rules and Regulations. The SFFS Form in the diskette contains the basic and material data in the financial statements submitted to the SEC for the calendar year 2017.

AYALA CORPORATION

By:

Jose Teodoro K. Limcaoco
Chief Finance Officer

Josephine G. de Asis
Comptroller

SUBSCRIBED AND SWORN to before me this APR 05 2018 at Makati City, affiants exhibiting to me their respective passports/driver's license, to wit:

Name	Passport No.	Date and Place of Issue
Jose Teodoro K. Limcaoco	EC0985685	May 2, 2014 – DFA, NCR South
Josephine G. De Asis	EC2074520	September 12, 2014 – DFA, NCR East

Doc. No. 422
Page No. 86
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 ROLL NO. 58335 MAKATI CITY, PHILS.

MARIA PAULA G. ROMERO-BAUTISTA
Notary Public - Makati City
Appt. No. 153 until December 31, 2019
Roll of Attorneys No. 58335
IBP No. 026373 - 01/11/2018 - Makati City
PTR No. 6628678MD - 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 and Subsidiaries
Registration No. 34218
Special Form for Financial Statements of
Publicly-held and Investment Companies
For the Year 2017 and 2016
SONY
CD-R
COMPACT disc Recordable
SUPREMAS
700MB
Ayala Corporation and Subsidiaries
Registration No. 34218
Special Form for Financial Statements of
Publicly-held and Investment Companies
For the Year 2017 and 2016

Control No.:
Form Type: *PHFS (rev 2006)*

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES
CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City
TEL. NO.: (632) 908-3000 **FAX NO.:** (632) 848-5846
COMPANY TYPE : Holding Company **PSIC:**

If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Balance Sheet

FINANCIAL DATA	2017 (in P'000)	2016 (in P'000)
A. ASSETS (A.1 + A.2 + A.3 + A.4 + A.5 + A.6 + A.7 + A.8 + A.9 + A.10)	**1,021,545,752**	**911,704,503**
A.1 Current Assets (A.1.1 + A.1.2 + A.1.3 + A.1.4 + A.1.5)	315,635,874	288,465,350
A.1.1 Cash and cash equivalents (A.1.1.1 + A.1.1.2 + A.1.1.3)	64,259,279	60,223,324
A.1.1.1 On hand	120,822	86,017
A.1.1.2 In domestic entities	56,011,375	52,677,752
A.1.1.3 In foreign banks/entities	8,127,082	7,459,555
A.1.2 Trade and Other Receivables (A.1.2.1 + A.1.2.2)	124,109,122	116,841,963
A.1.2.1 Due from domestic entities (A.1.2.1.1 + A.1.2.1.2 + A.1.2.1.3 + A.1.2.1.4)	110,676,603	106,668,874
A.1.2.1.1 Due from customers (trade)	65,445,165	68,334,829
A.1.2.1.2 Due from related parties	3,016,309	2,246,544
A.1.2.1.3 Others	44,255,054	37,955,255
A.1.2.1.3. Notes, Advances and Others	43,101,848	36,727,122
A.1.2.1.3. Dividend Receivable	1,153,206	1,228,133
A.1.2.1.4 Allowance for doubtful accounts (negative entry)	(2,039,925)	(1,867,754)
A.1.2.2 Due from foreign entities, specify (A.1.2.2.1 + A.1.2.2.2 + A.1.2.2.3 + A.1.2.2.4)	13,432,519	10,173,089
A.1.2.2.1 Due from related parties	53,946	93,094
A.1.2.2.2 Advances and Others	677,828	460,797
A.1.2.2.3 Due from customers (trade)	12,804,532	9,710,273
A.1.2.2.4 Allowance for doubtful accounts (negative entry)	(103,787)	(91,075)
A.1.3 Inventories (A.1.3.1 + A.1.3.2 + A.1.3.3 + A.1.3.4 + A.1.3.5 + A.1.3.6)	76,542,538	76,752,875
A.1.3.1 Raw materials and supplies	7,441,182	4,134,635
A.1.3.2 Goods in process (including unfinished goods, growing crops, unfinished seeds)	1,367,598	633,015
A.1.3.3 Finished goods	1,891,097	991,769
A.1.3.4 Merchandise/Goods in transit	-	-
A.1.3.5 Unbilled Services (in case of service providers)	-	-
A.1.3.6 Others, specify (A.1.3.6.1 + A.1.3.6.2 + A.A.3.6.3)	65,842,661	70,993,456
A.1.3.6.1 Real Estate (Residential, commercial lots, condominium units and offices)	61,780,352	66,495,133
A.1.3.6.2 Vehicles, Parts and Accessories	4,062,309	4,498,323
A.1.3.6.3 Club shares - at cost	-	-
A.1.4 Financial Assets other than Cash/Receivables/Equity investments (A.1.4.1 + A.1.4.2 + A.1.4.3 + A.1.4.4 + A.1.4.5 + A.1.4.6)	5,400,239	1,008,705
A.1.4.1 Financial Assets at Fair Value through Profit or Loss - issued by domestic entities:	-	-
A.1.4.1.1 National Government		
A.1.4.1.2 Public Financial Institutions		
A.1.4.1.3 Public Non-Financial Institutions		
A.1.4.1.4 Private Financial Institutions	-	-
A.1.4.1.5 Private Non-Financial Institutions		
A.1.4.2 Held to Maturity Investments - issued by domestic entities: (A.1.4.2.1 + A.1.4.2.2 + A.1.4.2.3 + A.1.4.2.4 + A.1.4.2.5)	-	-
A.1.4.2.1 National Government	-	-
A.1.4.2.2 Public Financial Institutions		
A.1.4.2.3 Public Non-Financial Institutions		
A.1.4.2.4 Private Financial Institutions		
A.1.4.2.5 Private Non-Financial Institutions		

NOTE:

This special form is applicable to Investment Companies and Publicly-held Companies (enumerated in Section 17.2 of the Securities Regulation Code (SRC), except banks and insurance companies). As a supplemental form to PHFS, it shall be used for reporting Consolidated Financial Statements of Parent corporations and their subsidiaries.

Domestic corporations are those which are incorporated under Philippine laws or branches/subsidiaries of foreign corporations that are licensed to do business in the Philippines where the center of economic interest or activity is within the Philippines. On the other hand, foreign corporations are those that are incorporated abroad, including branches of Philippine corporations operating abroad.

Financial Institutions are corporations principally engaged in financial intermediation, facilitating financial intermediation, or auxiliary financial services. Non-Financial institutions refer to corporations that are primarily engaged in the production of market goods and non-financial services.

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES
CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City
TEL. NO.: (632) 908-3000 **FAX NO.:** (632) 848-5846
COMPANY TYPE : Holding Company **PSIC:**
If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Balance Sheet

FINANCIAL DATA	2017 (in P'000)	2016 (in P'000)
A.1.4.3 Loans and Receivables - issued by domestic entities: (A.1.4.3.1 + A.1.4.3.2 + A.1.4.3.3 + A.1.4.3.4 + A.1.4.3.5)	5,400,239	1,008,705
A.1.4.3.1 National Government		
A.1.4.3.2 Public Financial Institutions		
A.1.4.3.3 Public Non-Financial Institutions		
A.1.4.3.4 Private Financial Institutions	5,400,239	1,008,705
A.1.4.3.5 Private Non-Financial Institutions		
A.1.4.4 Available-for-sale financial assets - issued by domestic entities: (A.1.4.4.1 + A.1.4.4.2 + A.1.4.4.3 + A.1.4.4.4 + A.1.4.4.5)		
A.1.4.4.1 National Government		
A.1.4.4.2 Public Financial Institutions		
A.1.4.4.3 Public Non-Financial Institutions		
A.1.4.4.4 Private Financial Institutions		
A.1.4.4.5 Private Non-Financial Institutions		
A.1.4.5 Financial Assets issued by foreign entities:	-	-
A.1.4.5.1 Financial Assets at fair value through profit or loss	-	-
A.1.4.5.2 Held-to-maturity investments		
A.1.4.5.3 Loans and Receivables		
A.1.4.5.4 Available-for-sale financial assets	-	-
A.1.4.6 Allowance for decline in market value (negative entry)		
A.1.5 Other Current Assets (state separately material items) (A.1.5.1 + A.1.5.2 + A.1.5.3)	45,324,696	33,638,483
A.1.5.1 Financial assets at FVPL	6,063,585	6,664,015
A.1.5.2 Prepaid expenses	12,480,978	11,798,740
A.1.5.3 Value-added input tax	20,403,191	11,822,618
A.1.5.4 Derivative assets	85,347	245,887
A.1.5.5 Creditable withholding tax	3,671,713	2,234,594
A.1.5.6 Deposits in escrow	259,898	104,163
A.1.5.7 Concession financial receivable	197,044	200,253
A.1.5.8 Others (including Noncurrent assets held for sale)	2,162,940	568,213
A.2 Property, plant, and equipment (A.2.1 + A.2.2 + A.2.3 + A.2.4 + A.2.5 + A.2.6 + A.2.7+ A.2.8)	85,430,631	64,074,471
A.2.1 Land	-	-
A.2.2 Land, buildings and improvements including leasehold improvement	17,578,981	16,409,853
A.2.3 Machinery and equipment (on hand and in transit)	27,105,172	24,282,520
A.2.4 Transportation/motor vehicles, automotive equipment, autos and trucks, and	6,062,370	4,191,564
A.2.5 Others, specify (A.2.5.1 + A.2.5.2 + A.2.5.3 + A.2.5.4 + A.2.5.5)	62,206,844	44,642,527
A..2.5.1 Construction in progress	36,707,006	21,924,238
A..2.5.2 Hotel property and equipment	14,093,725	12,017,829
A..2.5.3 Furniture and fixtures	11,406,113	10,700,460
A..2.5.4		
A..2.5.5		
A.2.6 Appraisal increase, specify (A.2.6.1 + A.2.6.2 + A.2.6.3 + A.2.6.4 + A.2.6.5)		
A..2.6.1		
A..2.6.2		
A..2.6.3		
A..2.6.4		
A..2.6.5		
A.2.7 Accumulated Depreciation (negative entry)	(27,522,736)	(25,451,993)
A.2.8 Impairment Loss or Reversal (if loss, negative entry)		
A.3 Investments accounted for using the equity method (A.3.1 + A.3.2 + A.3.3 + A.3.4)	202,649,300	180,313,743
A.3.1 Equity in domestic subsidiaries/affiliates	177,691,859	166,870,544
A.3.2 Equity in foreign subsidiaries/affiliates	24,957,441	13,443,199
A.3.3 Others, specify (A.3.3.1 + A.3.3.2 + A.3.3.3 + A.3.3.4 + A.3.3.5)		
A.3.3.1 Bonds and other securities		
A.3.3.2		
A.3.3.3		
A.3.3.4		
A.3.3.5		
A.4 Investment in bonds and other securities	4,466,367	4,565,079
A.5 Investment Property and Land and Improvements	231,526,641	211,965,815
A.6 Intangible Assets	16,705,000	9,716,403
A.6.1 Major item/s, specify (A.6.1.1 + A.6.1.2)	15,576,418	9,140,559
A.6.1.1 Goodwill	10,695,762	5,339,272
A.6.1.2 Customer relationship	56,656	57,908
A.6.1.3 Developed Software	67,687	67,687
A.6.1.4 Licenses	232,384	142,402
A.6.1.5 Leasehold rights	4,523,929	3,533,290
A.6.2 Others, specify (A.6.2.1 + A.6.2.2)	1,128,582	575,844
A.6.2.1 Unpatented technology	334,093	19,854
A.6.2.2 Trademarks & Project Development Cost	794,489	555,990
A.7 Service Concession Assets	91,049,570	82,422,249
A.8 Assets included in Disposal Groups Classified as Held for Sale	-	-

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR CONSOLIDATED FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT
NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES
CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City
TEL. NO.: (632) 908-3000 FAX NO.: (632) 848-5846
COMPANY TYPE : Holding Company PSIC:
If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Balance Sheet

FINANCIAL DATA	2017 (in P'000)	2016 (in P'000)
A.9 Long-term receivables (net of current portion) (A.9.1 + A.9.2 + A.9.3)	45,774,058	36,484,347
A.9.1 From domestic/foreign entities, specify (A.9.1.1 + A.9.1.2 + A.9.1.3)	45,820,539	36,760,221
A.9.1.1 Trade Receivables	44,891,544	28,087,481
A.9.1.2 Related Parties	-	-
A.9.1.3 Notes, Advances and Others	928,995	8,672,740
A.9.2 From foreign entities, specify (A.9.2.1 + A.9.2.2 + A.9.2.3)	488,568	469,653
A.9.2.1 Account receivable from directors and officers / Others	488,568	469,653
A.9.2.2		
A.9.2.3		
A.9.3 Allowance for doubtful accounts, net of current portion (negative entry)	(535,049)	(745,527)
A.10 Other Assets (A.10.1 + A.10.2 + A.10.3 + A.10.4 + A.10.5)	28,308,311	33,697,046
A.10.1 Deferred charges - net of amortization	7,757,572	10,655,977
A.10.2 Deferred Tax Assets	12,720,910	12,414,647
A.10.3 Advance/Miscellaneous deposits	4,239,797	6,578,972
A.10.4 Others, specify (A.10.4.1 + A.10.4.2 + A.10.4.3 + A.10.4.4+A.10.4.5)	3,590,032	4,047,450
A.10.4.1 Concession financial receivable	1,187,508	1,005,561
A.10.4.2 Leasehold rights	168,120	86,791
A.10.4.3 Deferred FCDA	1,329,351	1,414,370
A.10.4.4 Pension assets	97,952	236,879
A.10.4.5 Others (including CWT)	807,101	1,303,849
A.10.5 Allowance for write-down of deferred charges/bad accounts (negative entry)		
B. LIABILITIES (B.1 + B.2 + B.3 + B.4 + B.5)	**610,453,364**	**540,708,625**
B.1 Current Liabilities (B.1.1 + B.1.2 + B.1.3 + B.1.4 + B.1.5 + B.1.6 + B.1.7)	241,787,169	235,799,202
B.1.1 Trade and Other Payables to Domestic/Foreign Entities (B.1.1.1 + B.1.1.2 + B.1.1.3 + B.1.1.4 + B.1.1.5 + B.1.1.6)	154,229,359	153,715,381
B.1.1.1 Loans/Notes Payables		
B.1.1.2 Trade Payables	90,750,983	90,791,680
B.1.1.3 Payables to Related Parties	1,873,861	3,441,971
B.1.1.4 Advances from Directors, Officers, Employees and Principal Stockholders		
B.1.1.5 Accruals, specify material items (B.1.1.5.1 + B.1.1.5.2 + B.1.1.5.3)	32,290,510	35,718,633
B.1.1.5.1 Accrued expenses	28,349,945	29,238,135
B.1.1.5.2 Liability for purchase of land	3,710,462	6,257,097
B.1.1.5.3 DRP obligation	230,103	223,401
B.1.1.6 Others, specify (B.1.1.6.1 + B.1.1.6.2 + B.1.1.6.3)	29,314,005	23,763,097
B.1.1.6.1 Interest payable	3,682,835	2,615,731
B.1.1.6.2 Taxes payable	20,706,997	16,841,094
B.1.1.6.3 Retention payable	4,924,173	4,306,272
B.1.2 Trade and Other Payables to Foreign Entities (specify) (B.1.2.1 + B.1.2.2 + B.1.2.3)	11,804,562	7,381,792
B.1.2.1 Accounts payable and accrued expenses	11,804,562	7,381,792
B.1.2.2		
B.1.2.3		
B.1.3 Provisions		
B.1.4 Financial Liabilities (excluding Trade and Other Payables and Provisions) (B.1.4.1 + B.1.4.2 + B.1.4.3 + B.1.4.4 + B.1.4.5)	29,904,723	30,858,137
B.1.4.1 Short-term debt	29,904,723	30,858,137
B.1.4.2 Estimated liabilities for land and property development		
B.1.4.3 Cumulative redeembale preferred shares-current		
B.1.4.4 Unealized gain on real estate sales		
B.1.4.5		
B.1.5 Income tax payable	1,710,260	2,270,315
B.1.6 Service concession obligation	803,898	754,519
B.1.7 Others, specify (If material, state separately; indicate if the item is payable to public/private or financial/non-financial institutions) (B.1.7.1 + B.1.7.2 +	43,334,367	40,819,058
B.1.7.1 Dividends declared and not paid at balance sheet date	3,618,606	3,503,405
B.1.7.2 Acceptances Payable	-	-
B.1.7.3 Liabilities under Trust Receipts	-	-
B.1.7.4 Portion of Long-term Debt Due within one year	13,731,967	19,792,669
B.1.7.5 Deferred Income	-	-
B.1.7.6 Any other current liability in excess of 5% of Total Current Liabilities,	25,983,794	17,522,984
B.1.7.6.1 Customers' deposits	23,722,969	16,849,188
B.1.7.6.2 Financial liabilities on put option	1,094,079	563,541
B.1.7.6.3 Other liabilities	1,166,746	110,255

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES
CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City
TEL. NO.: (632) 908-3000 **FAX NO.:** (632) 848-5846
COMPANY TYPE : Holding Company **PSIC:**
If these are based on consolidated financial statements, please so indicate in the caption.

Table 1. Balance Sheet

FINANCIAL DATA		2017 (in P'000)	2016 (in P'000)
B.2 Long-term Debt - Non-current Interest-bearing Liabilities (B.2.1 + B.2.2 + B.2.3 + B.2.4 + B.2.5)		306,975,262	245,203,145
B.2.1 Domestic Public Financial Institutions			
B.2.2 Domestic Public Non-Financial Institutions (Cumulative Redeemable Preferred Shares)			
B.2.3 Domestic/Foreign Private/Public Financial/Non-Financial Institutions		287,776,411	233,178,443
B.2.4 Domestic Private Non-Financial Institutions			
B.2.5 Foreign Financial Institutions		19,198,851	12,024,702
B.3 Indebtedness to Affiliates and Related Parties (Non-Current)			
B.4 Liabilities Included in the Disposal Groups Classified as Held for Sale			
B.5 Service concession obligation - net of current portion		7,748,056	6,822,862
B.6 Other Liabilities (B.5.1 + B.5.2)		53,942,877	52,883,416
B.6.1 Deferred Tax Liabilities		8,108,305	9,543,754
B.6.2 Others, specify (B.5.2.1 + B.5.2.2 + B.5.2.3 + B.5.2.4 + B.5.2.5)		45,834,572	43,339,662
B.6.2.1 Contractors payable		7,955,096	9,266,399
B.6.2.2 Retention payable		8,374,661	6,485,226
B.6.2.3 Pension liabilities		2,600,756	2,469,140
B.6.2.4 Deposits and deferred credits, provisions, liability for purchase of land		24,054,904	23,543,907
B.6.2.5 Other liabilities (including DRP obligation and Subscription payable)		2,849,155	1,574,990
EQUITY (C.3 + C.4 + C.5 + C.6 + C.7 + C.8 + C.9+C.10)		**411,092,388**	**370,995,878**
C.1 Authorized Capital Stock (no. of shares, par value and total value; show details) (C.1.1+C.1.2+C.1.3)			
C.1.1 Common shares	(900,000,000 x P50 par value in 2017 and 2016)	45,000,000	45,000,000
C.1.2 Preferred Shares A	(12,000,000 x P100 par value in 2017 and 2016)	1,200,000	1,200,000
C.1.3 Preferred Shares B	(58,000,000 x P100 par value in 2017 and 2016)	5,800,000	5,800,000
C.1.4 Preferred Shares C	(40,000,000 x P100 par value in 2017 and 2016)	4,000,000	4,000,000
C.1.5 Voting Preferred Shares	(200,000,000 x P1 par value in 2017 and 2016)	200,000	200,000
C.2 Subscribed Capital Stock (no. of shares, par value and total value) (C.2.1 + C.2.2 + C.2.3)		35,964,601	35,911,230
C.2.1 Common shares	(621,292,010 x P50 par value in 2017); (620,224,590 x P50 par value in 2016)	31,064,601	31,011,230
C.2.2 Preferred Shares A		-	-
C.2.3 Preferred Shares B	(47,000,000 x P100 par value in 2017 and 2016)	4,700,000	4,700,000
C.2.4 Voting Preferred Shares	(200,000,000 x P1 par value in 2017 and 2016)	200,000	200,000
C.3 Paid-up Capital Stock (C.3.1 + C.3.2 + C.3.3 + C.3.4)		37,071,247	37,451,434
C.3.1 Common shares		29,871,247	30,251,434
C.3.2 Preferred Shares A		1,200,000	1,200,000
C.3.3 Preferred Shares B		5,800,000	5,800,000
C.3.4 Voting Preferred Shares		200,000	200,000
C.4 Additional Paid-in Capital / Capital in excess of par value / Paid-in Surplus		37,929,927	36,928,326
C.5 Minority Interest		154,744,637	140,073,346
C.6 Others, specify (C.6.1 + C.6.2 + C.6.3)		13,344,549	13,220,461
C.6.1 Cumulative translation adjustments		2,794,303	1,414,550
C.6.2 Share-based payments		248,212	495,759
C.6.3 Net Unrealized gain on available-for-sale financial assets and Remeasurement gains/(losses) on		(2,411,250)	(2,014,868)
C.6.4 Equity reserve / Equity conversion option		12,713,284	13,325,020
C.7 Appraisal Surplus/Revaluation Increment in Property/Revaluation Surplus		-	-
C.8 Retained Earnings (C.8.1 + C.8.2)		170,302,028	145,622,311
C.8.1 Appropriated		-	-
C.8.2 Unappropriated		170,302,028	145,622,311
C.9 Head / Home Office Account (for Foreign Branches only)		-	-
C.10 Cost of Stocks Held in Treasury/Preferred shares held by a subsdiary (negative entry)		(2,300,000)	(2,300,000)
TOTAL LIABILITIES AND EQUITY (B + C)		**1,021,545,752**	**911,704,503**

Control No.: ______
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES

CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City

TEL. NO.: (632) 908-3000 FAX NO.: (632) 848-5846

COMPANY TYPE : Holding Company PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 2. Income Statement

FINANCIAL DATA	2017 (in P'000)	2016 (in P'000)	2015 (in P'000)
A. REVENUE / INCOME (A.1 + A.2 + A.3)	289,127,574	237,285,789	207,666,742
A.1 Net Sales or Revenue / Receipts from Operations (manufacturing, mining,utilities, trade, services, etc.) (from Primary Activity)	242,227,640	199,208,899	174,034,991
A.2 Share in the Profit or Loss of Associates and Joint Ventures	18,494,458	18,153,893	15,038,015
A.3 Other Revenue (A.3.1 + A.3.2 + A.3.3 + A.3.4 + A.3.5)	6,063,665	5,581,448	5,402,106
A.3.1 Rental Income from Land and Buildings	-	-	-
A.3.2 Receipts from Sale of Merchandise (trading) (from Secondary Activity)	-	-	-
A.3.3 Sale of Real Estate or other Property and Equipment	-	-	-
A.3.4 Royalties, Franchise Fees, Copyrights (books, films,	-	-	-
A.3.5 Others, specify (A.3.5.1 + A.3.5.2 + A.3.5.3 + A.3.5.4 + A.3.5.5 + A.3.5.6 + A.3.5.7 + A.3.5.8)	6,063,665	5,581,448	5,402,106
A.3.5.1 Interest income from real estate	5,409,944	5,010,993	5,172,744
A.3.5.2 Dividend income	653,721	570,455	229,362
A.3.5.3			
A.3.5.4			
A.3.5.5			
A.3.5.6			
A.3.5.7			
A.3.5.8			
A.4 Other Income (non-operating) (A.4.1 + A.4.2 + A.4.3 + A.4.4)	22,341,811	14,341,549	13,191,630
A.4.1 Interest Income	1,403,537	1,765,943	2,124,055
A.4.2 Dividend Income			
A.4.3 Gain / (**Loss**) from selling of Assets, specify (A.4.3.1 + A.4.3.2 + A.4.3.3 + A.4.3.4)	1,520,897	2,143,802	2,454,269
A.4.3.1 Gain on sale of investments	1,394,560	2,138,620	2,377,381
A.4.3.2 Gain on sale of other assets	126,337	5,182	76,888
A.4.3.3			
A.4.3.4			
A.4.4 Others, specify (A.4.4.1 + A.4.4.2 + A.4.4.3 + A.4.4.4)	19,417,377	10,431,804	8,613,306
A.4.4.1 Gain / (**Loss**) on Foreign Exchange	(126,365)	(56,035)	97,424
A.4.4.2 Revenue from rehabilitation works	11,672,137	6,804,908	5,085,532
A.4.4.3 Revenue from management contracts	960,851	224,818	437,442
A.4.4.4 Others	6,910,754	3,458,113	2,992,908
B. COST OF GOODS SOLD (B.1 + B.2 + B.3)			
B.1 Cost of Goods Manufactured (B.1.1 + B.1.2 + B.1.3 + B.1.4 + B.1.5)			
B.1.1 Direct Material Used	-	-	-
B.1.2 Direct Labor	-	-	-
B.1.3 Other Manufacturing Cost / Overhead	-	-	-
B.1.4 Goods in Process, Beginning	-	-	-
B.1.5 Goods in Process, End (**negative entry**)	-	-	-
B.2 Finished Goods, Beginning	-	-	-
B.3 Finished Goods, End (**negative entry**)	-	-	-
C. COST OF SALES (C.1 + C.2 + C.3)	175,674,469	141,350,400	123,061,115
C.1 Purchases/ Cost of sales and rendering of services	175,674,469	141,350,400	123,061,115
C.2 Merchandise Inventory, Beginning	-	-	-
C.3 Merchandise Inventory, End (**negative entry**)	-	-	-
D. GROSS PROFIT (A - B - C)	113,453,105	95,935,389	84,605,627

Control No.: ___

Form Type: *PHFS (rev 2006)*

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES

CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City

TEL. NO.: (632) 908-3000 FAX NO.: (632) 848-5846

COMPANY TYPE : Holding Company PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 2. Income Statement

FINANCIAL DATA	2017 (in P'000)	2016 (in P'000)	2015 (in P'000)
E. OPERATING EXPENSES (E.1 + E.2 + E.3 + E.4)	**36,885,237**	**27,737,617**	**24,022,715**
E.1 Selling or Marketing Expenses			
E.2 Administrative Expenses			
E.3 General Expenses	25,213,100	20,932,709	18,937,183
E.4 Other Expenses, specify (E.4.1 + E.4.2 + E.4.3 + E.4.4 + E.4.5 + E.4.6 + E.4.7 + E.4.8 + E.4.9 + E.4.10)	11,672,137	6,804,908	5,085,532
E.4.1 Cost of rehabilitation works	11,672,137	6,804,908	5,085,532
E.4.2			
E.4.3			
E.4.4			
E.4.5			
E.4.6			
E.4.7			
E.4.8			
E.4.9			
E.4.10			
F. FINANCE COSTS (F.1 + F.2 + F.3 + F.4 + F.5)	**14,441,334**	**14,258,189**	**13,276,414**
F.1 Interest on Short-term Promissory Notes/Short-term debt	659,044	1,039,030	882,759
F.2 Interest on Long-term Promissory Notes/Long-term debt	12,575,158	11,337,401	11,247,615
F.3 Interest on bonds, mortgages and other long-term loans	-	-	-
F.4 Amortization of discount on long-term debt	511,623	592,811	267,540
F.5 Other interests, specify (F.5.1 + F.5.2 + F.5.3 + F.5.4 + F.5.5)	695,509	1,288,947	878,500
F.5.1 Amortization of service concession obligations and deposits	614,717	613,044	558,434
F.5.2 Others	80,792	675,903	320,066
F.5.3			
F.5.4			
G. NET INCOME (LOSS) BEFORE TAX (D - E - F)	**62,126,534**	**53,939,583**	**47,306,498**
H. INCOME TAX EXPENSE (negative entry)	**(12,259,759)**	**(10,506,974)**	**(9,011,444)**
I. INCOME(LOSS) AFTER TAX	**49,866,775**	**43,432,609**	**38,295,054**
J. Amount of (i) Post-Tax Profit or Loss of Discontinued Operations; and (ii) Post-Tax Gain or Loss Recognized on theMeasurement of Fair Value less Cost to Sell or on the Disposal of the Assets or Disposal Group(s) constituting the	**-**	**-**	**-**
J.1			
J.2			
K. PROFIT OR LOSS ATTRIBUTABLE TO MINORITY INTEREST	**19,602,933**	**17,421,346**	**16,016,099**
L PROFIT OR LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**30,263,842**	**26,011,263**	**22,278,955**
M. EARNINGS (LOSS) PER SHARE			
M.1 Basic	46.67	39.88	33.89
M.2 Diluted	45.99	39.31	33.38

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES

CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City

TEL. NO.: (632) 908-3000 FAX NO.: (632) 848-5846

COMPANY TYPE Holding Company PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 3. Cash Flow Statements

FINANCIAL DATA	2017 (in P'000)	2016 (in P'000)	2015 (in P'000)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income (Loss) Before Tax and Extraordinary Items	62,126,534	53,939,583	47,306,498
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Depreciation and Amortization	12,297,860	11,560,471	9,443,089
Amortization, specify: Amortization of discount on long-term debt-net	-	-	-
Others, specify: Cost of share-based payments	(504)	248,006	373,161
Interest & other financing charges-net of amount capitalized	14,441,334	14,258,189	13,276,414
Provision for impairment/losses	973,626	1,482,591	1,120,328
Mark to market gain on financial assets at fair value through profit or loss (FVPL) and derivatives	(779,553)	(473,855)	(243,452)
Dividend income	(653,721)	(570,455)	(229,362)
Other investment income	18,528	(712,735)	(124,039)
Gain on sale of investments	(1,394,560)	(2,128,522)	(1,508,987)
Gain on sale of 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	(18,494,458)	(18,153,893)	(15,038,015)
Write-down of Property, Plant, and Equipment			
Changes in Assets and Liabilities:			
Decrease (Increase) in:			
Receivables	(16,037,362)	(14,509,112)	(17,139,767)
Inventories	10,027,708	(5,676,226)	(4,267,408)
Other Current Assets & Service Concession Asset	(19,696,110)	(11,811,632)	(4,069,095)
Others, specify: 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)
Increase (Decrease) in:			
Accounts payable and accrued expenses	4,510,461	20,002,946	16,638,678
Income and Other Taxes Payable			
Others, specify: Estimated liability for land & property development			
Other current liabilities	7,857,053	12,834,529	(3,827,639)
Net pension liabilities	462,117	(1,143,247)	342,193
Net cash provided by operating activities associated with noncurrent assets held for sale			
A. Net Cash Provided by (Used in) Operating Activities (sum of above rows)	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 FVPL	3,408,555	2,948,650	28,117,351
Sale/redemptions of investments in associates and joint ventures and Sale of a subsidiary	944,104	3,782,496	5,782,807
Disposal of property and equipment	1,016,548	363,849	434,084
Disposal of investment properties and land and improvements	165	777,105	706,362
Maturities of (additions to) short-term investments	(4,391,533)	1,043,583	(949,250)
Additions to:			
Investments in associates and joint ventures	(11,779,429)	(13,422,670)	(8,767,207)
Property, plant and equipment	(25,189,980)	(24,344,093)	(15,753,861)
Investment properties	(28,233,052)	(28,449,015)	(12,706,724)
Land and improvements	(6,591,910)	(5,128,862)	(22,475,160)
Accounts and notes receivable - nontrade	(1,336,144)	(11,274,562)	(979,350)
Financial assets at FVPL	(1,555,243)	(2,742,790)	(22,357,315)
Investments in bonds and other securities	(799,529)	(52,642)	(1,079,053)
Service concession assets and Intangible assets	(518,347)	(643,759)	102,003
Dividends received from associates and joint ventures	8,953,251	8,560,393	8,309,970
Acquisitions through business combinations - net of cash acquired	(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 provided by (used in) investing activities associated with noncurrent assets held for sale, including cash balance			
B. Net Cash Provided by (Used in) Investing Activities (sum of above rows)	(63,785,810)	(76,183,421)	(38,821,446)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Loans			
Long-term Debt/Short-term debt	225,841,869	97,216,392	75,097,645
Issuance of preferred shares	-	-	-
Issuance of common shares	-	-	-
Others, specify: Collections of (additions to) subscriptions receivable	374,371	139,344	166,127
Payments of:			
Dividends paid	(10,864,490)	(10,104,138)	(9,130,756)
Long-term Debt & Short-term debt	(172,070,751)	(68,047,835)	(71,223,956)
Redemption of preferred shares	-	-	-
Service concession obligation paid	(778,819)	(858,230)	(646,815)
Increase in:			
Other noncurrent liabilities	1,181,105	1,368,605	5,135,008
Non-controlling interests in consolidated subsidiaries	(1,362,580)	(679,238)	12,223,836
Net cash used in financing activities assoicated with noncurrent assets held for sale			
C. Net Cash Provided by (Used in) Financing Activities (sum of above rows)	42,320,705	19,034,900	11,621,089
NET INCREASE IN CASH AND CASH EQUIVALENTS (A + B + C)	4,035,955	(21,931,218)	(8,614,983)
Cash and Cash Equivalents			
Beginning of year	60,223,324	82,154,542	90,769,525
End of year	64,259,279	60,223,324	82,154,542

Control No.:
Form Type: GFFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES

NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES
CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City
TEL. NO.: (632) 908-3000 FAX NO.: (632) 848-5846
COMPANY TYPE : Holding Company PSIC:
If these are based on consolidated financial statements, please so indicate in the caption.

Table 4. Statement of Changes in Equity

(Amount in P'000)

FINANCIAL DATA	Capital Stock	Subscribed	Additional Paid-in Capital	Subscriptions receivable	Share-based Payments	Cumulative Translation Adj	Retained Earnings	Remeasurement Gain (Loss) on Defined Benefit Plans/Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets	Other Reserves	Parent Company Preferred Shares Held by Subsidiary	Treasury Stock	Minority Interest	TOTAL
A. Balance, *At January 1, 2015*	37,999,997	171,918	38,115,565	(716,867)	377,376	(603,765)	187,839,814	(1,812,783)	9,592,004	-	(2,300,000)	101,202,334	286,866,485
A.1 Correction of Error(s)	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Effect of adoption of new and revised accounting standards	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Effect of adoption of Philippine interpretation IFRIC 12	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Restated Balance	37,999,997	171,810	36,115,565	(715,867)	377,376	(603,765)	107,839,814	(1,812,783)	8,592,004	-	(2,300,000)	181,202,334	286,866,485
C. Surplus	-	-	-	-	-	-	-	-	-	-	-	-	-
C.1 Surplus (Deficit) on Revaluation of Properties	-	-	-	-	-	-	-	-	-	-	-	-	-
C.2 Surplus (Deficit) on Revaluation of Investments	-	-	-	-	-	-	-	-	-	-	-	-	-
C.3 Currency Translation Differences	-	-	-	-	-	-	-	-	-	-	-	-	-
C.4 Other Surplus (specify)	-	-	-	-	-	-	-	-	-	-	-	-	-
C.4.1 Net unrealized gains for the year recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-
C.4.2 Net Income	-	-	-	-	-	-	22,278,955	-	-	-	-	16,016,099	38,295,054
C.4.3 Other comprehensive income (loss)	-	-	-	-	-	892,448	-	(791,230)	-	-	-	232,158	333,376
C.4.4 Increase in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-
C.4.5 Changes in fair value of available-for-sale financial	-	-	-	-	-	-	-	-	-	-	-	-	-
C.4.6 Cost of share-based payments of Ayala Cororation	-	-	-	-	191,471	-	-	-	-	-	-	-	191,471
C.4.7 Equity-conversion option	-	-	-	-	-	-	-	-	-	-	-	-	-
C.4.8 Change in non-controlling interests	-	-	-	-	-	-	-	-	4,924,052	-	-	7,272,303	12,196,355
D. Dividends (negative entry)	-	-	-	-	-	-	(4,850,305)	-	-	-	-	(4,836,270)	(9,686,575)
E. Appropriation for (specify) others	-	-	-	-	-	-	-	-		-	-	-	-
E.1	-	-	-	-	-	-	-	-		-	-	-	-
E.2	-	-	-	-	-	-	-	-		-	-	-	-
E.3	-	-	-	-	-	-	-	-		-	-	-	-
E.4	-	-	-	-	-	-	-	-		-	-	-	-
E.5	-	-	-	-	-	-	-	-		-	-	-	-
F. Issuance of Capital Stock	-	-	-	-	-	-	-	-		-	-	-	-
F.1 Common Stock	-	-	-	-	-	-	-	-	-	-	-	-	-
F.2 Preferred Stock-Voting	-	-	-	-	-	-	-	-	-	-	-	-	-
F.3 Exercise/cancellation of ESOP/ESOWN	6,750	-	281,144	137,923	-	-	-	-	-	-	-	-	347,817
F.4 Sale of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	-
F.5 Redemption of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-
G. Balance, *At December 31, 2015*	38,008,747	171,910	36,316,709	(577,944)	568,847	268,683	124,468,464	(1,804,013)	15,516,056	-	(2,300,000)	119,886,624	328,543,983
G.1 Correction of Error (s)	-	-	-	-	-	-	-	-	-	-	-	-	-
G.2 Effect of adoption of Pre-need Rule 31	-	-	-	-	-	-	-	-	-	-	-	-	-
G.3 Effect of adoption of Philippine interpretation IFRIC 12	-	-	-	-	-	-	-	-	-	-	-	-	-
H. Restated Balance	38,008,747	171,81s	36,316,709	(577,944)	568,847	286,683	124,468,464	(1,804,813)	13,518,056	-	(2,300,000)	119,886,624	328,543,983
I. Surplus	-	-	-	-	-	-	-	-	-	-	-	-	-
I.1 Surplus (Deficit) on Revaluation of Properties	-	-	-	-	-	-	-	-	-	-	-	-	-
I.2 Surplus (Deficit) on Revaluation of Investments	-	-	-	-	-	-	-	-	-	-	-	-	-
I.3 Currency Translation Differences	-	-	-	-	-	-	-	-	-	-	-	-	-
I.4 Other Surplus (specify)	-	-	-	-	-	-	-	-	-	-	-	-	-
I.4.1 Net unrealized gains for the year recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-
I.4.2 Net Income	-	-	-	-	-	-	26,811,263	-	-	-	-	17,421,346	43,432,609
I.4.3 Other comprehensive income	-	-	-	-	-	1,125,867	-	(218,855)	-	-	-	624,140	1,539,152
I.4.4 Increase in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-
I.4.5 Changes in fair value of available-for-sale finanatal	-	-	-	-	-	-	-	-	-	-	-	-	-
I.4.6 Cost of share-based payments of Ayala Cororation	-	-	-	-	248,006	-	-	-	-	-	-	-	248,006
I.4.7 Equity-conversion option	-	-	-	-	-	-	-	-	-	-	-	-	-
I.4.6 Changa in non-controlling interests	-	-	-	-	-	-	-	-	(181,036)	-	-	7,477,008	7,285,972
J. Dividends (negative entry)	-	-	-	-	-	-	(4,857,416)	-	-	-	-	(5,335,772)	(10,193,188)
K. Appropriation for (specify)	-	-	-	-	-	-	-	-		-	-	-	-
K.1	-	-	-	-	-	-	-	-		-	-	-	-
K.2	-	-	-	-	-	-	-	-		-	-	-	-
K.3	-	-	-	-	-	-	-	-		-	-	-	-
K.4	-	-	-	-	-	-	-	-		-	-	-	-
K.5	-	-	-	-	-	-	-	-		-	-	-	-
L. Issuance of Capital Stock		-	-	-	-	-	-	-		-	-	-	-
L.1 Common Stock	-	-	-	-	-	-	-	-	-	-	-	-	-
L.2 Preferred Stock	-	-	-	-	-	-	-	-	-	-	-	-	-
L.3 Collection of subscription receivables	25,158	(26,158)	-	139,344	-	-	-	-	-	-	-	-	139,344
L.4 Exercise/cancellation of ESOP/ESOWN	4,116	26,557	611,617	(321,196)	(321,094)	-	-	-	-	-	-	-	-
L.5 Redemption of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-
M. Balance, *At December 31, 2015*	38,039,021	172,209	36,928,326	(759,796)	495,759	1,414,550	145,622,311	(2,014,868)	13,326,020	-	(2,300,000)	140,073,346	370,995,878
M.1 Correction of Error (s)	-	-	-	-	-	-	-	-	-	-	-	-	-
M.2 Effect of adoption of Pre-need Rule 31	-	-	-	-	-	-	-	-	-	-	-	-	-
M.3 Effect of adoption of Philippine interpretation IFRIC 12	-	-	-	-	-	-	-	-	-	-	-	-	-
N. Restated Balance	38,039,021	172,209	36,926,326	(759,796)	495,759	1,414,550	145,622,311	(2,014,868)	13,326,020	-	(2,300,000)	140,073,348	370,995,878
O. Surplus	-	-	-	-	-	-	-	-	-	-	-	-	-
O.1 Surplus (Deficit) on Revaluation of Properties	-	-	-	-	-	-	-	-	-	-	-	-	-
O.2 Surplus (Deficit) on Revaluation of Investments	-	-	-	-	-	-	-	-	-	-	-	-	-
O.3 Currency Translation Differences	-	-	-	-	-	-	-	-	-	-	-	-	-
O.4 Other Surplus (specify)	-	-	-	-	-	-	-	-	-	-	-	-	-
O.5 O.4.1 Net unrealized gains for the year recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-
O.4.3 Net Income	-	-	-	-	-	-	30,263,842	-	-	-	-	19,602,933	49,866,775
O.4.4 Other comprehensive income	-	-	-	-	-	1,379,753	-	(396,382)	-	-	-	1,194,857	2,179,226
O.4.5 Increase in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-
O.4.6 Changes in fair value of available-for-sale financial	-	-	-	-	-	-	-	-	-	-	-	-	-
O.4.7 Cost of share-based payments	-	-	-	-	(504)	-	-	-	-	-	-	-	(504)
O.4.8 Equity-conversion option	-	-	-	-	-	-	-	-	7,864	-	-	2,048	9,912
O.4.9 Changa in non-controlling interests	-	-	-	-	-	-	-	-	(619,600)	-	-	(732,980)	(1,352,580)
P. Dividends (negative entry)	-	-	-	-	-	-	(5,584,125)	-	-	-	-	(5,395,567)	(10,979,692)
Q. Appropriation for (specify)	-	-	-	-	-	-	-	-	-	-	-	-	-
Q.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Q.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Q.3	-	-	-	-	-	-	-	-	-	-	-	-	-
Q.4	-	-	-	-	-	-	-	-	-	-	-	-	-
Q.5	-	-	-	-	-	-	-	-	-	-	-	-	-
R. Issuance of Capital Stock	-	-	-	-	-	-	-	-	-	-	-	-	-
R.1 Issuance of common shares	-	-	-	-	-	-	-	-	-	-	-	-	-
R.2 Preferred Stock	-	-	-	-	-	-	-	-	-	-	-	-	-
R.3 Collection of subscription receivables	55,377	(55,377)	-	374,485	-	-	-	-	-	-	-	-	374,485
R.4 Exercise/cancellation of ESOP/ESOWN	5,478	47,893	1,001,601	(808,044)	(247,043)	-	-	-	-	-	-	-	(114)
R.5 Sale of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	-
R.6 Redemption of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-
S. Balance, *At December 31, 2017*	38,099,877	164,725	37,929,927	(1,193,355)	248,212	2,794,303	170,302,028	(2,411,250)	12,713,284	-	(2,300,000)	154,744,637	411,092,388

Control No.:
Form Type: PHFS (rev 2006)

SPECIAL FORM FOR FINANCIAL STATEMENTS OF PUBLICLY-HELD AND INVESTMENT COMPANIES
NAME OF CORPORATION: AYALA CORPORATION AND SUBSIDIARIES
CURRENT ADDRESS: 32/F to 35/F Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City
TEL. NO.: (632) 908-3000 FAX NO.: (632) 848-5846
COMPANY TYPE : Holding Compnay PSIC:

If these are based on consolidated financial statements, please so indicate in the caption.

Table 5. Details of Income and Expenses, by source
(applicable to corporations transacting with foreign corporations/entities)

FINANCIAL DATA	2017 (in P'000)	2016 (in P'000)	2015 (in P'000)
A. REVENUE / INCOME (A.1 + A.2)	**289,127,574**	**237,285,789**	**207,666,742**
A.1 Net Sales or Revenue / Receipts from Operations (manufacturing, mining,utilities, trade, services, etc.) (from	242,227,640	199,208,899	174,034,991
A.1.1 Domestic	183,212,838	159,577,817	138,099,473
A.1.2 Foreign	59,014,802	39,631,082	35,935,518
A.2 Other Revenue (A.2.1 +A.2.2)	46,899,934	38,076,890	33,631,751
A.2.1 Domestic	44,358,736	36,591,972	32,528,269
A.2.2 Foreign, specify (A.2.2.1+A.2.2.2+ A.2.2.3+ A.2.2.4+ A.2.2.5+ A.2.2.6+ A.2.2.7+ A.2.2.8+A.2.2.9+A.2.2.10)	2,541,198	1,484,918	1,103,482
A.2.2.1 Gain on sale of shares/assets	1,009,542	(7,928)	31,794
A.2.2.2 Share of profit (loss) of associates and joint ventures	457,208	413,335	(134,306)
A.2.2.3 Other income	372,432	151,066	328,632
A.2.2.4 Interest income	31,523	83,605	108,510
A.2.2.5 Mark to market gain on financial assets at FVPL	379,154	-	-
A.2.2.6 Gain on marked to market financial assets	316,435	997,706	842,675
A.2.2.7 Forex gain (loss)	(25,097)	(152,866)	(73,824)
A.2.2.8			
A.2.2.9			
A.2.2.1			
B. EXPENSES (B.1 + B.2)	**227,001,040**	**183,346,206**	**160,360,244**
B.1 Domestic	172,406,804	140,486,573	121,129,905
B.2 Foreign, specify (B.2.1+B.2.2+B.2.3+B.2.4+B.2.5+B.2.6+B.2.7+B.2.8+B.2.9+B.2.1	54,594,236	42,859,633	39,230,339
B.2.1 Others	347,074	309,675	302,799
B.2.2 Cost of Sales	48,965,034	37,855,881	35,253,252
B.2.3 Selling/Marketing/Operating expenses	5,282,128	4,694,078	3,674,289
B.2.1			