

2016

ANNUAL REPORT



A. SORIANO CORPORATION



1	CHAIRMAN'S MESSAGE
9	FINANCIAL HIGHLIGHTS
10	THE SORIANO GROUP'S KEY FINANCIAL DATA
11	FIVE-YEAR REVIEW
13	STATEMENT OF MANAGEMENT'S RESPONSIBILITY
14	AUDITED CONSOLIDATED FINANCIAL STATEMENTS
118	BOARD OF DIRECTORS
INSIDE BACK COVER	OFFICERS & CORPORATE DIRECTORY

CONCURRENT RESOLUTION OF THE BOARD OF DIRECTORS

The Board of Directors of A. Soriano Corporation by unanimous concurrence, submits herewith the Statement and Annual Report of the Chairman of the Board and President of the Corporation as its own Report to the Stockholders for the year ended December 31, 2016.

CHAIRMAN'S MESSAGE

THE ECONOMIC PICTURE AND ANSCOR'S INVESTMENT STRATEGY

In 2016, Philippine Domestic Product grew by 6.8%, an improvement from the previous year's 5.9%. The service sector was steady at 7.5%, government spending increased from 7.8% to 8.3% and household expenditures were up from 6.3% to 6.9%.

In contrast, current account surpluses were smaller due to weaker exports and rising imports. Inflation increased modestly to 1.8% from 1.4% in 2015. The agriculture sector deteriorated from 0.1% to negative 1.3% because key agricultural provinces were affected by typhoons and by the delayed implementation of Government-pledged support for the Sector.

The Philippines stands to benefit from several large public infrastructure projects, which, when completed, can ease current bottlenecks and increasing urban congestion, and boost private investment.

The healthy economy and the new administration's ambitious economic agenda to increase infrastructure spending and boost tourism offer opportunities for our investments in Phelps Dodge International Philippines, Inc., Seven Seas Resorts and Leisure, Inc., KSA Realty Corporation and AG&P International Holdings Ltd.

Furthermore, our core investments in Philippine Stock Exchange (PSE)-traded shares are concentrated in power, construction, education, food and beverage, and retail; all sectors that stand to benefit from the economic expansion.

Having a balanced mix of financial and operating assets has traditionally worked well for your Company, so while gains from sale of equities have moderated in recent years, many of the operating holdings experienced record profitability in 2016. We will continue to actively manage our operating and financial assets portfolio with prudence to maximize shareholder value.



ANDRES SORIANO III



Diversification through the years, has strengthened our risk tolerance and has enabled your Company to withstand difficulties in the business climate. It protects us from extreme market swings, limits negative impact on the portfolio and allows exposure to different assets. This approach helps shield us from some of the impact of volatility and is a solid foundation for an investment strategy over time.

2016 FINANCIAL PERFORMANCE

Highlights

Your Company's consolidated net income of ₱1.5 billion was an improvement over the ₱1.3 billion net profit achieved in the previous year. Consolidated revenues were ₱11.9 billion against ₱10.7 billion in 2015.

On April 20, 2016, your Company paid a cash dividend of ₱0.20 per share or a total of ₱500.0 million.

In June 2016, Anscor increased from 11.3% to 14.28%, its existing shareholdings in KSA, owner of The Enterprise Center located in Ayala Avenue, Makati City.

In December 2016, after extensive review, Anscor took advantage of the buoyant property market in the Cebu Business District and sold its long-held lot in the Cebu Business Park, for a gain of ₱343.2 million.

Your Company paid down ₱340.0 million of principal to end the year with ₱1.6 billion of debt against ₱1.9 billion at the end of 2015.

Your Company's book value per share increased from ₱10.99 to ₱13.17 as of December 31, 2016, due mainly to a recovery in value of our traded equities.

The results and contributions of our operating companies and financial assets are discussed in the ensuing paragraphs.

The Soriano Group Operating Companies

MAJORITY-OWNED SUBSIDIARIES:

PHELPS DODGE INTERNATIONAL PHILIPPINES, INC. (PDP, a wholly-owned subsidiary of Anscor)

The continued buoyant construction activity pushed PDP's performance to new highs, leading to a 13% increase in sales tonnage and a 31% increase in profits over last year. Despite lower copper prices, PDP revenues increased to ₱6.6 billion from ₱6.1 billion and generated a record profit of ₱750.6 million.

During the year, PDP paid Anscor a cash dividend and management fees of ₱250.0 million and ₱82.0 million, respectively.

The robust performance was due to a multitude of factors that included: value engineering studies to reduce product costs, increased operating efficiencies through lean manufacturing systems, strong partnership with our dealers, management of market price, efficient sales coverage and cost controls. Recent investments in expanded plant capacity have been justified by this year's strong demand.

PDP's continued focus on customer solutions helped it make significant inroads with new customers. New products and services secured for the company significantly large projects.

Highlights included supplying cables to large projects such as the Manila Bay Resort, Kinpo Electronics, Balfour NLEX Project, Solar Philippines Calatagan Solar Farm and Epson Precision; and new products like the space aerial cable for Meralco and the Metal Clad cable for Lancaster Estates.

A solid partnership with dealers significantly increased volume from our dealer network in the mature Greater Manila Area market and in the provinces.

A major accomplishment is PDP's safety record of no incident for the year.

PDP will continue to seek opportunities to offer improved services and products and to explore new markets and product lines.

PDP's continued focus on customer solutions helped it make significant inroads with new customers. New products and services secured for PDP significantly large projects.

Cirrus joined the ranks of the Top 50 Largest Travel Nursing Companies and the Top 100 Fastest Growing Staffing companies. Both citations testify to the hard work and dedication of Cirrus teams in the US and in the Philippines.

CIRRUS MEDICAL STAFFING, INC. (93.6% owned by Anscor)

Demand for temporary health-care staffing in the United States grew by 13% in 2016, driven by a steady decline in the US national jobless rate and continued increase in hospital admissions. Increased patient volumes drove robust demand across all areas of health-care staffing and demand for nurses continued to outpace supply.

The national unemployment rate for registered nurses remains below 2%. In the medium term, demand will be underpinned by an ageing US and clinical population.

In 2016, Cirrus' consolidated revenue exceeded the growth of the industry and reached an all-time high of ₱2.6 billion, a 39% increase over 2015. The Travel Nursing and Travel Allied business units grew by 44% and 42%, respectively. With the increased demand, Cirrus selectively added throughout the year to its sales, finance and back office capabilities.

Consolidated operating income was ₱293.4 million, a 67% increase over that of 2015. Improved profitability was driven by top line growth, steady gross margins and the control of sales and general administration expenses.

For the year 2016, Cirrus paid Anscor ₱315.5 million through the redemption of preferred stock and cash dividends.

Cirrus also joined the ranks of the Top 50 Largest Travel Nursing Companies and the Top 100 Fastest Growing Staffing companies. Both citations testify to the hard work and dedication of Cirrus teams in the US and in the Philippines.

SEVEN SEAS RESORTS AND LEISURE, INC. (Owner of Amanpulo Resort, 62.3% owned by Anscor)

Amanpulo generated 6,503 room nights and total revenue of ₱678.9 million, a 5.3% improvement over last year. Lower occupancy was offset by an increase in the average room rate due to the depreciation of the Peso against the US dollar. Room nights from local tourists continued to increase while bookings from foreign visitors fell.

The number of villas in the rental pool increased as new villas became operational last December and total villa nights sold increased by 29%. The Resort's share in the villa revenue increased by 25.6% to ₱94.3 million.

Higher revenues from the casitas and villas raised gross operating profit from 30.6% to 35.5%, an increase of ₱43.7 million. Two villas sold in 2016 generated a one-time gain of ₱331.0 million. Total consolidated net income of the Group rose from ₱166.0 million in 2015 to ₱379.5 million in 2016, of which ₱236.4 million accrued to Anscor.

Capital improvements have focused on enhancing the cost structure and environment preservation. A new desalination plant is operating, all golf carts are solar-powered and an energy-efficient new power-generating unit will be installed in the second quarter of 2017.

MINORITY-OWNED COMPANIES:

AG&P INTERNATIONAL HOLDINGS LTD. (27.07% owned by Anscor)

In 2016, as a result of the recovery of all costs accrued in the preceding years, AG&P Group delivered US\$148.5 million of revenue and a net income of US\$30.5 million. Further accomplishments included a significant reduction of corporate overhead from US\$40.0 million in 2015 to US\$19.3 million in 2016, paying down approximately one-third of outstanding debt and extending the term of the remaining loans.

AG&P had its first major win in the Philippine power space in the last two decades and was awarded the site erection work for the boiler, the most critical package of the Masinloc power plant expansion. This emphasizes its re-emergence as an important contractor in the domestic market.

Other project awards for AG&P were a signed contract with Fluor for the first package of the Tesoro Refinery Upgrade in Washington State, USA, and the structural steel fabrication for Lycopodium Minerals.

AG&P also acquired a stake in Gas Entec, giving the company a strong Liquefied Natural Gas (LNG) design capability and full Engineering, Procurement and Construction (EPC) credentials across the LNG supply chain, including case studies. AG&P also entered into a joint venture with Risco Energy to develop the LNG supply chain across Indonesia.

Old equipment in its Bauan Yard were replaced with state-of-the-art automated manufacturing systems, increasing theoretical module assembly to 125,000 tons per year.

While modularization will remain a key pillar, AG&P will focus on being a full integrator of LNG supply chains, aiming to become a leading tolled gas company.

ENDERUN COLLEGES, INC. (20% owned by Anscor)

For the fiscal year June 1, 2015 to May 31, 2016, Enderun Colleges posted a consolidated income before tax of ₱109.4 million. Enderun's adjusted EBITDA for the fiscal year was ₱160.9 million, 15.6% higher than the previous year.

Enderun's student population has grown close to 1,200 full-time college and certificate students, spread evenly across the school's three main degree offerings, Hospitality Management, Business Administration and Entrepreneurship.

School years 2016-17 and 2017-18 are expected to be challenging with the implementation of the Government's K to 12 program which added two years of senior high school, delaying typical university enrolment patterns for those years. Enderun has partially mitigated the impact by growing its ancillary educational offerings outside the College.

One such offering, Enderun Extension, its continuing education unit, saw its revenues rise 27.5% year-on-year to ₱89.5 million. A key driver has been the College's language training and tutorial business, as well as its language training camps offered to Korean and Japanese students. The College now hosts several yearly conferences with topics ranging from data analytics to restaurant entrepreneurship.

Another area of growth is the College's hotel management and consultancy arm, Enderun Hospitality Management (EHM), which operates over a dozen boutique hotel properties. EHM grew by 155.9% year-on-year and is expected to deliver double-digit growth rates in the years to come.

Enderun continues to strengthen its brand across the education, hospitality management, and food and beverage sectors as well.

For the calendar year 2016, Enderun paid cash dividends of ₱106.8 million, of which ₱21.9 million accrued to Anscor.



KSA REALTY CORPORATION (14.28% owned by Ancor)

Despite new office spaces opening up in the Makati Central Business District and the nearby Bonifacio Global City, KSA continues to enjoy positive occupancy and rental rates.

KSA began 2016 with more than 34,000 sq.m. or 40% of its leasable spaces up for renewal. However, 89% of existing tenants eventually committed to stay in the building and most of the remaining vacant spaces were leased to new tenants. Occupancy at end of 2016 was at 97%.

Average rental yields are among the highest in Makati and by the end of the year, stood at ₱1,190 per sq.m. compared with ₱1,110 at the end of the previous year.

The higher occupancy and rental yield translated into a 10% increase in rental income of ₱1.1 billion and a net income of ₱877.0 million, 11% higher than last year's net income, before gain on revaluation. KSA declared and remitted cash dividends of ₱800.0 million, of which ₱114.2 million was paid to Ancor.

Financial Assets

The slowdown in the stock market in the second half of 2016 contributed to the lower gain on the sale of traded shares, from ₱1.09 billion in 2015 to ₱0.56 billion in 2016. Similarly, the significant decline in market price of International Container Terminal Services, Inc., (ICTSI) as compared to our cost resulted in the take-up of the impairment provision in 2016 amounting to ₱590.9 million which was mandated by the accounting rules.

On the other hand, the value of our unsold investments in other traded shares, bonds and equity funds increased by ₱1.2 billion which was reflected in the balance sheet and comprehensive income. The gains will be recognized upon the sale of these investments.

Our core investments in traded shares generated a dividend income of ₱82.7 million, lower than the ₱125.4 million dividends in 2015, due to the reduced size of the equity portfolio. These investments include ICTSI, Aboitiz Power Corporation, Megawide Construction Corporation, and iPeople (which operates the Mapua Institute of Technology).

Interest income of ₱95.3 million was slightly higher than the results of the previous year. The loss reported in 2015 on our FVPL investments reversed to a gain of ₱20.6 million in 2016.

With the depreciation of the Philippine peso against the US dollar, the value of Anscor's foreign currency-denominated investments improved and net of a foreign exchange loss on its dollar loans, the Company posted a consolidated foreign exchange gain of ₱5.4 million in 2016 against a loss of ₱28.9 million last year.

STARTUP VENTURES

A small portion of your Company's assets are dedicated to early stage opportunities with the potential for large upside.

In 2015 and 2016, Anscor, through its wholly-owned subsidiary, invested in **Y-mAbs Therapeutics, Inc.** YmAbs is a US-based clinical stage biopharmaceutical company focused on developing new cancer treatments through immunotherapies. Its treatments could potentially reduce longer-term toxicities associated with current chemotherapeutics and provide the potential for curative therapy even for patients with widespread disease.

YmAbs' goal is to drive multiple product candidates to US Food and Drug Administration licensure. Each candidate has the potential to treat a variety of high-risk cancers.

BehaviorMatrix, LLC is a US-based data analytics firm focused on developing and bringing to market its first commercial product called "Active Insight," which will analyze consumer emotion towards specific consumer segment and brands, based on predefined analytics.

In 2014, Anscor entered into a convertible loan to explore multiple geothermal concessions owned by the **Red Core Group**. To date, potential geothermal energy resources have been identified within the Tiaong-Dolores, Tayabas-Lucban and San Juan, Batangas contract areas. The group is currently seeking financing for production well drilling and eventually EPC.

CORPORATE SOCIAL RESPONSIBILITY

The Andres Soriano Foundation (ASF) would like to thank its partners, donors and stakeholders for their continued support of ASF's social development efforts. Their continued trust enables the Foundation to reach out to more people for an improved quality of life.

Highlights of the Foundation's 2016 activities follow:

Small Island Sustainable Development Program

✓ **Economic/Livelihood Component**

ASF is now a staunch advocate of creating community enterprises that bridge island communities to supply chains that fuel inclusive growth in island communities. This year, a total of ₱6.2 million sales transactions between Amanpulo Resort and the Manamoc Livelihood Association were consummated.

Further, pandan weavers from seven island communities were formed and trained to handcraft products made of pandan and buri leaves that abound in the islands. Amanpulo remains the number one buyer of these products.

✓ **Environment Protection Program**

The Foundation sustained the protection of 11 marine sanctuaries including a mangrove forest where 34,000 more seedlings were planted compared to only 4,600 last year. ASF in partnership with the San Carlos Fisher's Association in Cuyo agreed to leverage the latter's 116-hectare Marine Sanctuary for a 25-year protection in exchange for a ₱920,000 grant from Seacology-US to build a community learning center.

✓ **Health**

This year's medical mission served 3,586 patients and within six months, provided daily supplemental meals to 374 children compared to last year's 710 children. Malnutrition in the assisted islands has gone down with the education of parents and the establishment of sustainable management of bio-intensive organic backyard vegetable production.



Creating livelihood opportunities and market access are key steps to improve the quality of life in island communities.

✓ Education

Of the 15 technical vocational Scholars, 12 graduated in December 2016 and eight of the 12 graduates are now fully employed. ASF turned over another two-classroom building at the Algeciras Elementary School in Agutaya, Palawan.

✓ Other Services

The Manamoc Level 2 Water System Project was completed resulting in 66% of households in Manamoc now with access to a potable water supply.

Cancer Care Program

✓ ASF was identified as a fund conduit by Pascual Pharma Corporation, United Laboratories and Good Fellow Pharma Corporation of their Oncology Fellowship Program whose beneficiaries are resident doctors at the Cancer Institute and Section of Medical Oncology of the University of the Philippines-Philippine General Hospital (UP-PGH).

✓ Twenty two registered nurses completed the specialized oncology nursing course with the commencement activity in October 2015.

ACKNOWLEDGMENT

And if each year, we are able to report to you, our shareholders, the progress made in the businesses, it is because of the unwavering work rendered by the men and women of Anscor and all our companies for which we are grateful.

To our customers, thank you for loyally patronizing our products and services. To our partners, our appreciation for working side by side with us in achieving our corporate goals. And to our valued shareholders, our sincere thanks for the trust and confidence.

On behalf of the Board of Directors, thank you.

FINANCIAL HIGHLIGHTS

(In Million Pesos Except for Ratios and Per Share Data)

CONSOLIDATED FOR THE YEAR	2016	2015	2014
REVENUES	11,886.3	10,655.3	3,834.8
Sale of goods (Note 1)	6,608.2	6,102.3	–
Services	3,483.5	2,747.5	1,983.9
Gain on sale of available-for-sale investments, investments in associates and long-term investments	898.8	1,091.2	1,718.0
Sale of real estate	633.9	293.0	–
Dividend income	218.8	209.7	260.9
Interest income	95.3	83.3	96.4
Gain (loss) on increase (decrease) in market values of fair value through profit or loss investments	20.6	(25.7)	(9.5)
Equity in net earnings (losses) of associates	(72.8)	154.0	(293.3)
Management fee (Note 1)	–	–	78.3
NET INCOME*	1,522.8	1,282.8	2,041.1
EARNINGS PER SHARE**	1.24	1.03	1.63
CONSOLIDATED AT YEAR-END	2016	2015	2014
Total Assets	21,527.5	19,552.4	21,426.4
Equity Attributable to Equity Holders of the Parent	16,234.7	13,556.7	14,835.2
Investment Portfolio	13,196.6	11,859.4	14,310.0
Current Ratio	3.00	2.13	1.27
Debt to Equity Ratio	0.29	0.41	0.41
Book Value Per Share***	13.17	10.99	11.94

Note 1 PDP Group's revenues, costs and expenses were not included in 2014 since PDP was still an associate then. In 2015, PDP Group was consolidated when Anscor increased its holding from 40% to 100%. Management fee from PDP Group was eliminated in the line by line consolidation in 2015 and 2016.

* Attributable to equity holders of the parent.

** Based on weighted average number of shares of 1,232.7 million in 2016, 1,244.6 million in 2015 and 1,254.0 million in 2014.

*** Based on outstanding shares of 1,232.6 million, 1,233.7 million and 1,242.1 million as of December 31, 2016, 2015 and 2014, respectively.

THE SORIANO GROUP'S KEY FINANCIAL DATA

(In Million Pesos)

	2016	2015
PHELPS DODGE PHILIPPINES ENERGY PRODUCTS CORPORATION (NOTE 1)		
Revenues	6,608	6,102
Net Income	751	574
Total Assets	3,905	3,489
Equity	2,379	1,872
CIRRUS MEDICAL STAFFING, INC. AND SUBSIDIARIES		
Revenues	2,573	1,851
Net Income	185	109
Total Assets	1,151	1,041
Equity	515	912
SEVEN SEAS RESORTS AND LEISURE, INC.		
Revenues (resort and villa development operations)	1,322	994
Net Income (Note 2)	380	167
Total Assets	1,631	1,799
Equity	1,113	732
REVENUES – OTHER AFFILIATES		
KSA Realty Corporation	1,092	992
Prople Limited	270	442
Enderun Colleges, Inc.	560	493
Island Aviation, Inc.	174	177
Cirrus Global, Inc. (consolidated; formerly IQMAN)	108	64

Available figures as of March 3, 2017.

Note 1: Inclusive of PD Energy International Corporation's financial information.

Note 2: Including villa development division's net gain on sale of villas of P331.0 million in 2016 and P113.0 million in 2015.

FIVE-YEAR REVIEW

Consolidated Financial Information

(In Million Pesos Except Per Share Data)

YEAR	NET INCOME	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	EARNINGS PER *SHARE	BOOK VALUE PER **SHARE
2016	1,522.8	16,234.7	1,232.7	1.24	13.17
2015	1,282.8	13,556.7	1,244.6	1.03	10.99
2014	2,041.1	14,835.2	1,254.0	1.63	11.94
2013	1,358.0	13,637.9	1,261.0	1.08	10.82
2012	1,467.9	12,211.7	1,374.3	1.07	9.71

YEAR	GROSS ***REVENUE	TOTAL ASSETS	INVESTMENT PORTFOLIO
2016	11,886.3	21,527.5	13,196.6
2015	10,655.3	19,552.4	11,859.4
2014	3,834.8	21,426.4	14,310.0
2013	3,525.1	17,326.5	14,721.3
2012	3,716.5	13,949.9	11,551.6

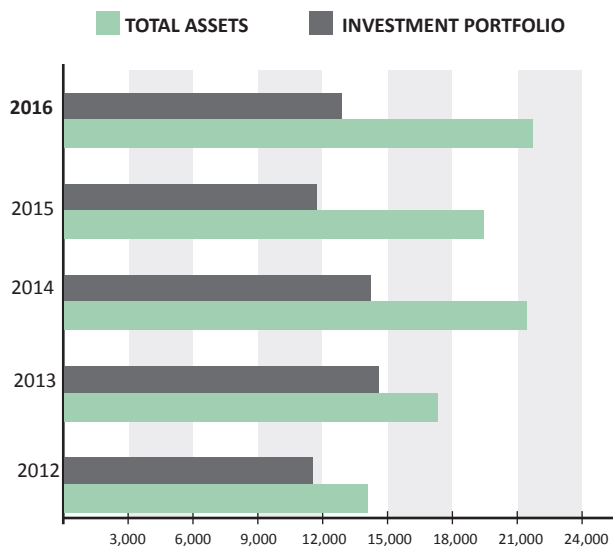
* Ratio of net income attributable to equity holders of the parent to weighted average number of shares outstanding during the year.

** Ratio of equity attributable to equity holders of the parent to outstanding number of shares as of end-December.

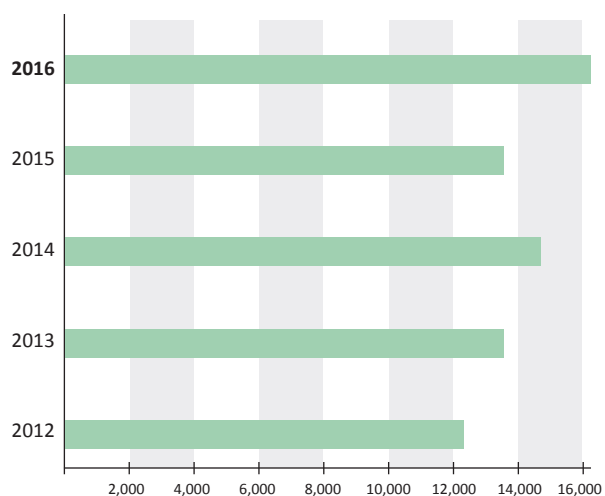
*** 2015 and 2016 included PDP Group's gross revenues.

(In Million Pesos)

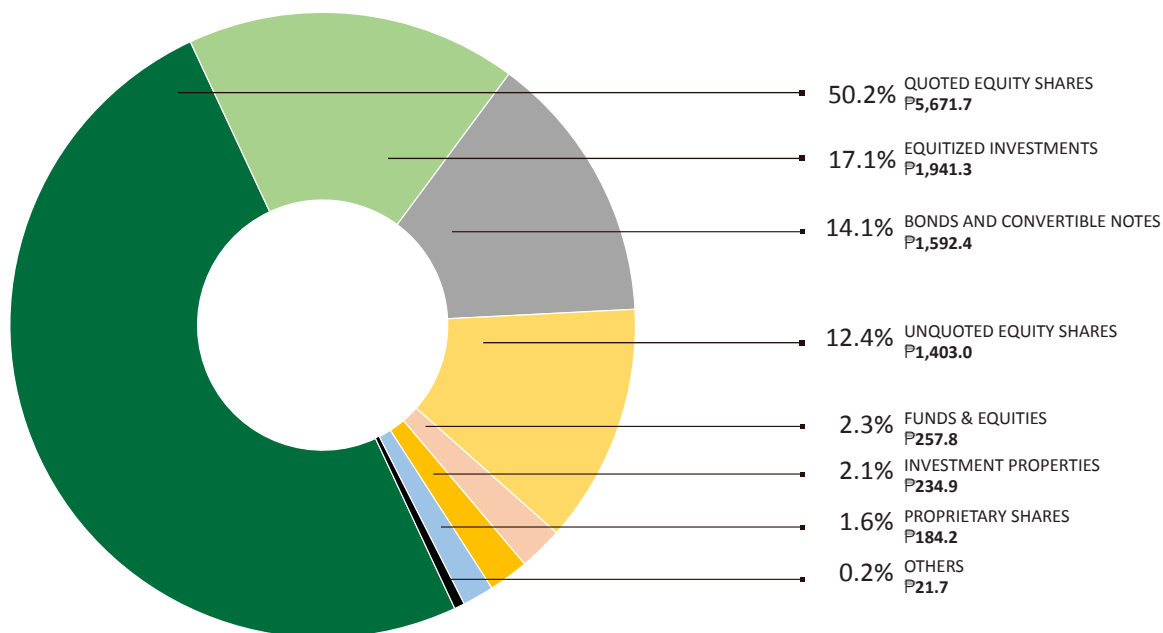
CONSOLIDATED TOTAL ASSETS & INVESTMENT PORTFOLIO



EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT



CONSOLIDATED INVESTMENT PORTFOLIO DETAILS (Note 1) DECEMBER 31, 2016



Note 1: Goodwill of P1.9 billion is not included.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS



The management of A. Soriano 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, 2016, 2015 and 2014, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 or members.

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

ANDRES SORIANO III
Chairman & Chief
Executive Officer/President

ERNEST K. CUYEGKENG
Executive Vice President &
Chief Financial Officer

Signed this 22th day of February 2017

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY, METRO MANILA) S.S.

SUBSCRIBED AND SWORN to before me this 22th day of February 2017, affiants exhibited to me the following:

NAME	PASSPORT NO.	DATE & PLACE OF ISSUE
Andres Soriano III	506368805	Jan. 14, 2015 to Jan. 13, 2025/U.S.
Ernest K. Cuyegkeng	EB4390925	Jan. 31, 2015 to Jan. 30, 2020/Manila

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Book No. XVI;
Series of 2017.

ATTY. REGINALDO L. HERNANDEZ
Notary Public for and in the City of Makati
Appointment No. M-155; Roll No. 20642
Commission expires on 12-31-18
PTR No. 5330045; 1-12-17; Makati City
IBP No. 1032456; 11-24-16; Pasig City
TIN: 100-364-501



SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (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

The Board of Directors and Stockholders

A. Soriano Corporation

Opinion

We have audited the consolidated financial statements of A. Soriano Corporation and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2016 and 2015, 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, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Recoverability of Goodwill

Under PFRS, the Group is required to annually test the amount of goodwill for impairment. The goodwill disclosed in Note 6 to the consolidated financial statements amounted to ₱1,889.5 million as at December 31, 2016, which is considered significant to the consolidated financial statements. We consider the recoverability of goodwill as a key audit matter due to the materiality of the amount involved and the sensitivity of the estimations to assumptions and judgment involved. In assessing the recoverability of the Group's goodwill from the acquisitions of Cirrus Medical Staffing, Inc., Phelps Dodge International Philippines, Inc. and Seven Seas Resorts and Leisure, Inc., management exercised significant judgments and used assumptions such as revenue growth rates, operating margins, discount rates and long-term growth rates in estimating the value-in-use of these cash-generating units (CGUs).

Audit response

We obtained an understanding of management's process in estimating the recoverable amount of goodwill based on the CGUs' value-in-use and evaluated the design of the relevant controls. We involved our internal specialist in evaluating the valuation methodology and assumptions used by management in estimating value-in-use. These assumptions include revenue growth rates, operating margins, discount rates and long-term growth rates. We compared the growth rates and operating margins used against the historical performance of the CGUs. In testing for the discount rates, our internal specialist performed independent testing on the derivation of discount rates using market-based parameters. In addition, we reviewed the disclosures in the consolidated financial statements related to the key assumptions used and the sensitivity of the estimates to these key assumptions particularly those to which the impairment test is most sensitive.

Recoverability of Investments in Associates

In 2016, the Group identified indicators of possible impairment in its investments in associates and, as required in PFRS, assessed the recoverability of its investments. In assessing the recoverable amounts, management estimated the expected cash flows from the operations of the associates. Management also applied judgment in selecting the valuation model to be used and assumptions such as revenue growth rates, discount rates and long-term growth rates. The investments in associates, as disclosed in Note 12 to the consolidated financial statements, amounted to ₱1,941.3 million as at December 31, 2016, which is material to the consolidated financial statements.

Audit response

We obtained an understanding of the management's process in identifying impairment indicators and in estimating the recoverable amount of its investments in associates. We also evaluated the design of the relevant controls. We met with management to understand the current business operations of its associates and whether these are considered in the Group's assumptions. Furthermore, we involved our internal specialist in evaluating the model used in estimating the equity value of the investments used by the Group and the assumptions in estimating the associates' cash flows. These assumptions include revenue growth rates, discount rates and long-term growth rates. We compared the revenue growth rates to the historical performance of the associates. In testing for the discount rates, our internal specialist performed independent testing on the derivation of discount rates using market-based parameters. We also reviewed and tested the sensitivity of the present value of discounted cash flows to changes in key assumptions particularly those to which the recoverable amount is most sensitive.

Valuation of Unquoted Available-for-Sale (AFS) Equity Instruments

The valuation of unquoted AFS equity investments is a key audit matter because the carrying value amounting to ₱1,403.0 million as at December 31, 2016 is material to the consolidated financial statements. In valuing the Group's unquoted AFS equity instruments at fair value in compliance with PFRS, management applied judgment in selecting the valuation technique and used assumptions in estimating future cash flows from its equity instruments considering the information available to the Group. The Group's disclosures about unquoted AFS instruments are included in Note 11 to the consolidated financial statements.

Audit response

We obtained an understanding of management's process in the valuation of unquoted equity instruments and evaluated the design of the relevant controls. We involved our internal specialist in evaluating the valuation technique, assumptions used in estimating expected dividends and share in realization of investment property applied by the Group. The assumptions used include revenue growth rates, operating margins, discount rates and long-term growth rates. We compared the revenue growth rates and operating margins to the historical performance of the investments. We also involved our internal specialist in evaluating management's forecasted and discounted cash flows through quantitative and qualitative review of the assumptions. In testing for the discount rates, our internal specialist performed independent testing on the derivation of discount rates using market-based parameters. For investments where cost is deemed as an appropriate estimate of fair value, we reviewed available information related to the investments and assessed contrary indicators affecting the estimated fair value.

Provisions and Contingencies

The Group is subject to examinations by tax authorities which may result to taxation issues due to different interpretation of tax laws, rulings and jurisprudence. Evaluating the completeness and proper valuation of provisions for tax exposures was significant to our audit because it requires application of significant estimates and judgment by management. There is also uncertainty over the outcome of these tax examinations. Any change on these assumptions and estimates could have a material impact on the Group's consolidated financial statements. The disclosures on the Group's contingencies are included in Note 30 to the consolidated financial statements.

Audit response

Our audit procedures included, among others, the involvement of our internal specialist in reviewing management's tax position and in evaluating the potential tax exposures by considering the correspondences with the relevant tax authorities and the opinion of the Group's third party tax consultants.

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, 2016, 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, 2016 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Julie Christine O. Mateo.

SYCIP GORRES VELAYO & CO.



Julie Christine O. Mateo

Partner

CPA Certificate No. 93542

SEC Accreditation No. 0780-AR-2 (Group A),

May 1, 2015, valid until April 30, 2018

Tax Identification No. 198-819-116

BIR Accreditation No. 08-001998-68-2015,

February 27, 2015, valid until February 26, 2018

PTR No. 5908742, January 3, 2017, Makati City

February 22, 2017

CONSOLIDATED BALANCE SHEETS

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Note 7)	₱ 2,403,739,518	₱ 1,774,319,172
Fair value through profit or loss (FVPL) investments (Note 8)	769,680,131	508,976,634
Receivables - net (Notes 9 and 16)	2,167,501,893	1,994,603,406
Inventories - net (Note 10)	683,916,919	700,984,189
Property development in progress (Note 29)	3,177,197	175,812,028
Available-for-sale (AFS) investments - current (Notes 11 and 18)	47,728,517	56,786,078
Prepayments	18,676,972	23,918,081
Other current assets (Note 29)	151,400,689	81,897,555
Total Current Assets	6,245,821,836	5,317,297,143
Noncurrent Assets		
AFS investments - net of current portion (Notes 11 and 18)	8,313,497,196	7,358,993,331
Investments and advances (Note 12)	1,943,573,979	1,824,260,087
Goodwill (Note 6)	1,889,496,064	1,852,422,215
Property and equipment (Notes 13 and 18)	2,648,731,039	2,701,877,014
Investment properties (Notes 14 and 29)	234,877,835	260,569,744
Retirement plan asset - net (Note 23)	60,191,266	59,482,997
Deferred income tax assets - net (Note 24)	62,304,841	59,195,709
Other noncurrent assets (Notes 15 and 29)	129,006,778	118,282,486
Total Noncurrent Assets	15,281,678,998	14,235,083,583
TOTAL ASSETS	₱ 21,527,500,834	₱ 19,552,380,726
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Note 16)	₱ 91,948,200	₱ 26,197,832
Accounts payable and accrued expenses (Notes 17 and 30)	969,798,809	916,122,968
Dividends payable (Note 19)	242,208,406	229,648,921
Customers' deposits for property development (Note 29)	—	597,268,360
Income tax payable	141,744,752	85,381,137
Current portion of long-term debt (Note 18)	629,350,200	638,070,546
Total Current Liabilities	2,075,050,367	2,492,689,764

(Forward)

CONSOLIDATED BALANCE SHEETS

	December 31	
	2016	2015
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 18)	₱ 1,916,231,143	₱ 2,459,835,814
Deferred revenues (Note 29)	8,601,560	10,117,900
Deferred income tax liabilities - net (Note 24)	600,160,058	502,874,235
Retirement benefits payable - net (Note 23)	4,211,769	6,666,773
Other noncurrent liabilities (Notes 15 and 29)	175,746,074	145,275,611
Total Noncurrent Liabilities	2,704,950,604	3,124,770,333
Total Liabilities	4,780,000,971	5,617,460,097
Equity Attributable to Equity Holders of the Parent (Note 19)		
Capital stock - ₱1 par value	2,500,000,000	2,500,000,000
Additional paid-in capital	1,605,613,566	1,605,613,566
Equity reserve on acquisition of noncontrolling interest (Note 3)	(26,356,543)	(26,356,543)
Cumulative translation adjustment	380,244,251	187,917,388
Unrealized valuation gains on AFS investments (Note 11)	1,899,776,724	686,254,240
Remeasurement on retirement benefits (Note 23)	37,608,665	34,992,585
Retained earnings:		
Appropriated (Note 19)	7,150,000,000	6,300,000,000
Unappropriated (Note 19)	4,914,057,124	4,487,779,074
Cost of shares held by a subsidiary (1,267,406,746 shares and 1,266,300,646 shares in 2016 and 2015, respectively) (Note 19)	(2,226,272,975)	(2,219,505,295)
	16,234,670,812	13,556,695,015
Noncontrolling interests (Note 3)	512,829,051	378,225,614
Total Equity	16,747,499,863	13,934,920,629
TOTAL LIABILITIES AND EQUITY	₱ 21,527,500,834	₱ 19,552,380,726

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2016	2015	2014*
REVENUES			
Sale of goods - net	₱ 6,608,154,597	₱ 6,102,268,950	₱ —
Services (Note 29)	3,483,481,253	2,747,521,027	1,983,852,999
Sale of real estate (Note 29)	633,912,337	293,036,415	—
Dividend income (Note 11)	218,797,811	209,651,661	260,862,079
Interest income (Notes 7, 8, 11 and 22)	95,311,627	83,315,419	96,438,999
Management fee (Notes 9, 26 and 29)	—	—	78,344,162
Equity in net earnings (losses) - net (Note 12)	(72,773,871)	153,953,858	(293,266,726)
	10,966,883,754	9,589,747,330	2,126,231,513
INVESTMENT GAINS (LOSSES)			
Gain on sale of:			
AFS investments (Note 11)	555,619,230	1,091,213,611	1,661,985,514
Long-term investments (Notes 12 and 14)	343,158,019	—	56,059,176
Gain (loss) on increase (decrease) in market values of FVPL investments (Note 8)	20,589,122	(25,654,441)	(9,487,014)
	919,366,371	1,065,559,170	1,708,557,676
TOTAL	11,886,250,125	10,655,306,500	3,834,789,189
Cost of goods sold (Note 20)	(5,188,332,297)	(4,931,773,630)	—
Cost of services rendered (Note 20)	(2,312,578,606)	(1,809,102,441)	(1,361,515,068)
Cost of real estate sold (Note 29)	(285,522,793)	(174,139,992)	—
Operating expenses (Note 20)	(1,347,769,652)	(1,168,575,073)	(865,860,283)
Interest expense (Notes 16, 18 and 22)	(109,007,134)	(116,599,234)	(61,361,043)
Foreign exchange gain (loss) - net	5,431,706	(28,856,549)	(9,962,427)
Other income (charges) - net (Notes 22 and 29)	(534,484,598)	(753,600,117)	528,011,135
INCOME BEFORE INCOME TAX	2,113,986,751	1,672,659,464	2,064,101,503
PROVISION FOR INCOME TAX (Note 24)	423,696,067	309,397,655	29,359,944
NET INCOME	₱ 1,690,290,684	₱ 1,363,261,809	₱ 2,034,741,559
Net Income Attributable to:			
Equity holders of the Parent	₱ 1,522,796,705	₱ 1,282,782,660	₱ 2,041,141,959
Noncontrolling interests	167,493,979	80,479,149	(6,400,400)
	₱ 1,690,290,684	₱ 1,363,261,809	₱ 2,034,741,559
Earnings Per Share			
Basic/diluted, for net income attributable to equity holders of the Parent (Note 25)	₱ 1.24	₱ 1.03	₱ 1.63

See accompanying Notes to Consolidated Financial Statements.

* PDP Group's revenues, costs and expenses were not included in 2014 since PDP Group was still an associate.

In 2016 and 2015, management fees for PDP Group were eliminated as PDP Group is now a subsidiary and its revenues, costs and expenses were included in the Consolidated Statements of Income.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2016	2015	2014*
NET INCOME	₱ 1,690,290,684	₱ 1,363,261,809	₱ 2,034,741,559
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Unrealized valuation gains (losses) on AFS investments (Note 11)	1,186,148,549	(2,246,929,467)	1,349,350,540
Income tax effect	(10,935,308)	(24,996,268)	(15,918,015)
	1,175,213,241	(2,271,925,735)	1,333,432,525
Unrealized (gain) loss of AFS investments, recognized in the consolidated statements of income (Note 11)	35,279,977	(285,974,884)	(1,794,468,827)
Income tax effect	3,029,266	5,335,427	23,913,736
	38,309,243	(280,639,457)	(1,770,555,091)
	1,213,522,484	(2,552,565,192)	(437,122,566)
Cumulative translation adjustment	192,326,863	177,214,950	31,120,016
	1,405,849,347	(2,375,350,242)	(406,002,550)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gain (loss) on retirement benefits (Note 23)	3,451,388	(8,358,212)	6,403,863
Income tax effect	(835,308)	2,507,464	(1,921,158)
	2,616,080	(5,850,748)	4,482,705
OTHER COMPREHENSIVE INCOME (LOSS)	1,408,465,427	(2,381,200,990)	(401,519,845)
TOTAL COMPREHENSIVE INCOME (LOSS)	₱ 3,098,756,111	(₱ 1,017,939,181)	₱ 1,633,221,714
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent	₱ 2,931,262,132	(₱ 1,098,418,330)	₱ 1,640,262,701
Noncontrolling interests	167,493,979	80,479,149	(7,040,987)
	₱ 3,098,756,111	(₱ 1,017,939,181)	₱ 1,633,221,714

See accompanying Notes to Consolidated Financial Statements.

* PDP Group's other comprehensive income (loss) was not included in 2014 since PDP Group was still an associate.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to Equity Holders of the Parent (Note 19)											
		Capital Stock		Additional Paid-in Capital		Equity Reserve on Acquisition of Noncontrolling Interest (Note 3)		Cumulative Translation Adjustment		Unrealized Valuation Gains (Losses) on AFS Investments (Note 11)		Remeasurement on Retirement Benefits (Note 23)
BALANCES AT DECEMBER 31, 2013	P	2,500,000,000	P	1,605,613,566	(P	26,356,543)	(P	20,417,578)	P	3,675,941,998	P	35,720,041
Total comprehensive income (loss) for the year		—		—		—		31,120,016		(437,122,566)		5,123,292
Cash dividends - net of dividends on common shares held by a subsidiary amounting to P314.5 million (Note 19)		—		—		—		—		—		—
Shares repurchased during the year (Note 19)		—		—		—		—		—		—
Movement in noncontrolling interests (Notes 3 and 6)		—		—		—		—		—		—
Appropriation during the year (Note 19)		—		—		—		—		—		—
BALANCES AT DECEMBER 31, 2014		2,500,000,000		1,605,613,566		(26,356,543)		10,702,438		3,238,819,432		40,843,333
Total comprehensive income (loss) for the year		—		—		—		177,214,950		(2,552,565,192)		(5,850,748)
Cash dividends - net of dividends on common shares held by a subsidiary amounting to P125.8 million (Note 19)		—		—		—		—		—		—
Shares repurchased during the year (Note 19)		—		—		—		—		—		—
Movement in noncontrolling interests (Notes 3 and 29)		—		—		—		—		—		—
Appropriation during the year (Note 19)		—		—		—		—		—		—
BALANCES AT DECEMBER 31, 2015		2,500,000,000		1,605,613,566		(26,356,543)		187,917,388		686,254,240		34,992,585
Total comprehensive income for the year		—		—		—		192,326,863		1,213,522,484		2,616,080
Cash dividends - net of dividends on common shares held by a subsidiary amounting to P253.5 million (Note 19)		—		—		—		—		—		—
Shares repurchased during the year (Note 19)		—		—		—		—		—		—
Movement in noncontrolling interests (Notes 3 and 29)		—		—		—		—		—		—
Appropriation during the year (Note 19)		—		—		—		—		—		—
BALANCES AT DECEMBER 31, 2016	P	2,500,000,000	P	1,605,613,566	(P	26,356,543)	P	380,244,251	P	1,899,776,724	P	37,608,665

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Equity Attributable to Equity Holders of the Parent (Note 19)								
	*Subtotal	Retained Earnings		Cost of Shares Held by a Subsidiary	Total	Noncontrolling Interests	Total	
		Appropriated	Unappropriated					
BALANCES AT DECEMBER 31, 2013	P 7,770,501,484	P 3,000,000,000	P 4,898,587,228	(P 2,031,222,641)	P 13,637,866,071	P 370,038,530	P	14,007,904,601
Total comprehensive income (loss) for the year	(400,879,258)	—	2,041,141,959	—	1,640,262,701	(7,040,987)		1,633,221,714
Cash dividends - net of dividends on common shares held by a subsidiary amounting to P314.5 million (Note 19)	—	—	(310,524,838)	—	(310,524,838)	—		(310,524,838)
Shares repurchased during the year (Note 19)	—	—	—	(132,426,129)	(132,426,129)	—		(132,426,129)
Movement in noncontrolling interests (Notes 3 and 6)	—	—	—	—	—	11,263,881		11,263,881
Appropriation during the year (Note 19)	—	1,600,000,000	(1,600,000,000)	—	—	—		—
BALANCES AT DECEMBER 31, 2014	7,369,622,226	4,600,000,000	5,029,204,349	(2,163,648,770)	14,835,177,805	374,261,424		15,209,439,229
Total comprehensive income (loss) for the year	(2,381,200,990)	—	1,282,782,660	—	(1,098,418,330)	80,479,149		(1,017,939,181)
Cash dividends - net of dividends on common shares held by a subsidiary amounting to P125.8 million (Note 19)	—	—	(124,207,935)	—	(124,207,935)	—		(124,207,935)
Shares repurchased during the year (Note 19)	—	—	—	(55,856,525)	(55,856,525)	—		(55,856,525)
Movement in noncontrolling interests (Notes 3 and 29)	—	—	—	—	—	(76,514,959)		(76,514,959)
Appropriation during the year (Note 19)	—	1,700,000,000	(1,700,000,000)	—	—	—		—
BALANCES AT DECEMBER 31, 2015	4,988,421,236	6,300,000,000	4,487,779,074	(2,219,505,295)	13,556,695,015	378,225,614		13,934,920,629
Total comprehensive income for the year	1,408,465,427	—	1,522,796,705	—	2,931,262,132	167,493,979		3,098,756,111
Cash dividends - net of dividends on common shares held by a subsidiary amounting to P253.5 million (Note 19)	—	—	(246,518,655)	—	(246,518,655)	—		(246,518,655)
Shares repurchased during the year (Note 19)	—	—	—	(6,767,680)	(6,767,680)	—		(6,767,680)
Movement in noncontrolling interests (Notes 3 and 29)	—	—	—	—	—	(32,890,542)		(32,890,542)
Appropriation during the year (Note 19)	—	850,000,000	(850,000,000)	—	—	—		—
BALANCES AT DECEMBER 31, 2016	P 6,396,886,663	P 7,150,000,000	P 4,914,057,124	(P 2,226,272,975)	P 16,234,670,812	P 512,829,051	P	16,747,499,863

See accompanying Notes to Consolidated Financial Statements.

* Subtotal for numbers of the six columns appearing on page 24.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱ 2,113,986,751	₱ 1,672,659,464	₱ 2,064,101,503
Adjustments for:			
Loss (gain) on sale of:			
AFS investments (Note 11)	(555,619,230)	(1,091,213,611)	(1,661,985,514)
Long-term investment (Notes 12 and 14)	(343,158,019)	—	(56,059,176)
Property and equipment (Note 13)	—	—	28,151
Valuation allowances - net (Note 22)	602,056,936	841,123,370	243,372,491
Dividend income (Note 11)	(218,797,811)	(209,651,661)	(260,862,079)
Depreciation and amortization (Note 13)	234,068,755	236,767,900	132,907,136
Equity in net losses (earnings) of associates (Note 12)	72,773,871	(153,953,858)	293,266,726
Interest expense (Note 22)	109,007,134	116,599,234	61,361,043
Interest income (Note 22)	(95,311,627)	(83,315,419)	(96,438,999)
Unrealized foreign exchange losses - net	42,147,356	62,227,101	32,420,744
Loss (gain) on decrease (increase) in market values of FVPL investments (Note 8)	(20,589,122)	25,654,441	9,487,014
Retirement benefit costs (Note 23)	15,698,052	16,230,854	11,722,183
Gain on remeasurement of previously held interest (Note 22)	—	—	(699,011,094)
Operating income before working capital changes	1,956,263,046	1,433,127,815	74,310,129
Decrease (increase) in:			
FVPL investments	(181,338,815)	40,316,999	(124,275,601)
Receivables	(223,054,364)	(44,016,071)	(17,241,769)
Inventories	15,482,484	199,230,246	(39,327,133)
Property development in progress	172,634,831	(19,169,531)	—
Prepayments and other current assets	(12,998,254)	(55,563,541)	(39,349,178)
Increase (decrease) in:			
Accounts payable and accrued expenses	53,675,841	(66,274,258)	282,359,937
Customers' deposit for property development	(597,268,360)	215,424,010	224,986,350
Deferred revenues	(1,516,340)	(19,597,403)	1,266,987
Net cash generated from operations	1,181,880,069	1,683,478,266	362,729,722
Dividends received	215,498,739	209,651,661	356,062,079
Interest received	89,959,658	83,315,419	98,046,778
Interest paid	(94,220,605)	(148,698,157)	(61,361,043)
Retirement benefit contribution (Note 23)	(17,949,668)	(20,926,478)	(13,923,949)
Income taxes paid	(400,069,455)	(253,933,598)	(12,094,161)
Net cash flows from operating activities	975,098,738	1,552,887,113	729,459,426

(Forward)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
AFS investments (Note 11)	₱ 1,473,209,534	₱ 3,294,238,365	₱ 5,650,606,104
Long-term investment	397,120,000	—	56,059,176
Property and equipment (Note 13)	1,780,000	—	—
Additions to:			
AFS investments (Note 11)	(1,019,866,822)	(3,426,157,700)	(4,435,277,618)
Property and equipment (Note 13)	(179,885,426)	(237,320,248)	(196,878,710)
Acquisition of subsidiaries, net of cash acquired (Note 6)	—	—	(2,369,366,713)
Advances from (to) affiliates (Note 12)	(386,108)	(2,655,735)	5,914,823
Movement in other noncurrent assets	(26,053,160)	(10,108,172)	—
Acquisition of an associate (Note 12)	—	(2,100,000)	—
Net cash flows from (used in) investing activities	645,918,018	(384,103,490)	(1,288,942,938)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from notes payable (Note 16)	554,000,000	557,000,000	1,529,461,840
Payments of:			
Notes payable (Note 16)	(554,000,000)	(2,072,225,829)	(78,139,466)
Long-term debt (Note 18)	(635,755,735)	(219,884,036)	(30,419,980)
Dividends (Note 19)	(487,734,748)	(414,223,047)	(54,875,431)
Company shares purchased by a subsidiary (Note 19)	(6,767,680)	(55,856,525)	(132,426,129)
Increase (decrease) in noncontrolling interests	134,603,437	(76,514,959)	504,714
Proceeds from long-term debt (Note 18)	—	1,500,000,000	—
Net cash flows from (used in) financing activities	(995,654,726)	(781,704,396)	1,234,105,548
NET INCREASE IN CASH AND CASH EQUIVALENTS	625,362,030	387,079,227	674,622,036
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	4,058,316	(13,793,714)	(17,480,886)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,774,319,172	1,401,033,659	743,892,509
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	₱ 2,403,739,518	₱ 1,774,319,172	₱ 1,401,033,659

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

A. Soriano Corporation (Anscor or the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on February 13, 1930 to, among others, act as agent or representative of corporations, partnerships or individuals whether residing here or abroad; to buy, retain, possess shares of stock, franchises, patents of any person or entity and to issue shares of stock, bonds or other obligations for the payment of articles or properties acquired by the Company; and to buy or acquire all or part of the property, assets, business and clientele of any person, corporation or partnership, managing the properties or businesses so purchased or acquired and exercising all the powers necessary and convenient for the management and development of the said properties or businesses. On July 17, 1979, the Philippine SEC approved the Company's amended articles of incorporation extending the term of its existence for another fifty years up to February 12, 2030. The Company is a corporation incorporated and domiciled in the Philippines whose shares are publicly traded. The registered office address of the Company is at 7th Floor, Pacific Star Building, Makati Avenue corner Gil Puyat Avenue Extension, Makati City, Philippines.

The consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 were authorized for issue by the Board of Directors (BOD) on February 22, 2017.

2. Basis of Preparation and Changes in Accounting Policies and Disclosures

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for securities at FVPL and AFS investments that have been measured at fair value. The consolidated financial statements are presented in Philippine pesos (Peso), which is the Company's functional and presentation currency. Amounts are presented to the nearest Peso unless otherwise stated.

Statement of Compliance

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

Changes in Accounting Policies

The Group applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2016. Adoption of these pronouncements did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and Philippine Account Standards (PAS) 28, *Investments in Associates and Joint Ventures*, *Investment Entities: Applying the Consolidation Exception*

These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value. They also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture) to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries when applying the equity method. These amendments are not applicable to the Group since none of the entities within the Group is an investment entity nor does the Group have investment entity associates or joint ventures.

- *Amendments to PFRS 11, Joint Arrangements, Accounting for Acquisitions of Interests in Joint Operations*
The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

- *PFRS 14, Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing PFRS preparer, this standard would not apply.
- *Amendments to PAS 1, Presentation of Financial Statements, Disclosure Initiative*
The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. They clarify the following:
 - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
 - That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated
 - That entities have flexibility as to the order in which they present the notes to financial statements
 - That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

These amendments do not have any impact to the Group.

- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortization*

The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

These amendments are applied prospectively and do not have any impact to the Group, given that the Group has not used a revenue-based method to depreciate or amortize its property, plant and equipment and intangible assets.

- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply.

The amendments are not relevant to the Group.

- Amendments to PAS 27, *Separate Financial Statements, Equity Method in Separate Financial Statements*
- The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

These amendments do not have any impact on the Group's consolidated financial statements.

Annual Improvements to PFRSs (2012-2014 cycle)

The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and do not have a material impact on the consolidated financial statements. These include:

- Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*

The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- *Amendment to PFRS 7, Financial Instruments: Disclosures, Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.
- *Amendment to PFRS 7, Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.
- *Amendment to PAS 19, Employee Benefits, Discount Rate: Regional Market Issue*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- *Amendment to PAS 34, Interim Financial Reporting, Disclosure of Information 'Elsewhere in the Interim Financial Report'*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

**New Accounting Standards, Interpretations and Amendments
to Existing Standards Effective Subsequent to December 31, 2016**

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

Effective beginning on or after January 1, 2017

- *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. The amendments do not have any impact on the Group's financial position and results of operation. The Group will include the required disclosures in its 2017 consolidated financial statements.

- *Amendments to PAS 7, Statement of Cash Flows, Disclosure Initiative*
The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted. Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.
- *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 on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted. These amendments are not expected to have any impact on the Group.

Effective beginning on or after January 1, 2018

- *Amendments to PFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The amendments are not applicable to the Group since it has no share-based payment transactions.

- *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 forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- **PFRS 15, *Revenue from Contracts with Customers***

PFRS 15 establishes a new five-step model that 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. The Group is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effective date.

- **PFRS 9, *Financial Instruments***

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but 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 PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)***

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted. The Group is currently assessing the impact of adopting this standard.

- *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. The Group is currently assessing the impact of adopting this standard.
- *Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration*
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group is currently assessing the impact of adopting this standard.

Effective beginning on or after January 1, 2019

- *PFRS 16, Leases*
Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of adopting PFRS 16.

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 postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed 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.

3. Basis of Consolidation and Summary of Significant Accounting and Financial Reporting Policies

Basis of Consolidation

The consolidated financial statements of the Group comprise the financial statements of the Company and the following wholly owned, majority and minority-owned subsidiaries as of December 31:

	Nature of Business	Percentage of Ownership		
		2016	2015	2014
A. Soriano Air Corporation (Note 29)	Services/Rental	100	100	100
Pamalican Island Holdings, Inc. (PIHI)	Investment Holding	62	62	62
Island Aviation, Inc. (IAI, Note 29)	Air Transport	62	62	62
Anscor Consolidated Corporation (Anscorcon)	Investment Holding	100	100	100
Anscor Holdings, Inc. (AHI, formerly Goldenhall Corp., Note 29)	Real Estate Holding	100	100	100
Akapulko Holdings, Inc. (Akapulko)	Real Estate Holding	100	100	100
Lakeroad Corp.	Real Estate Holding	100	100	100
Mainroad Corp.	Real Estate Holding	100	100	100
Makatwiran Holdings, Inc. (Makatwiran)	Real Estate Holding	100	100	100
Makisig Holdings, Inc. (Makisig)	Real Estate Holding	100	100	100
Malikhain Holdings, Inc. (Malikhain)	Real Estate Holding	100	100	100
Mountainridge Corp.	Real Estate Holding	100	100	100
Rollingview Corp.	Real Estate Holding	100	100	100
Timbercrest Corp.	Real Estate Holding	100	100	100

(Forward)

	Nature of Business	Percentage of Ownership		
		2016	2015	2014
Anscor International, Inc. (AI, Note 12)	Investment Holding	100	100	100
IQ Healthcare Investments Limited (IQHIL)	Manpower Services	100	100	100
Cirrus Medical Staffing, Inc. (Cirrus, Notes 6 and 29)	Manpower Services	94	94	94
Cirrus Holdings USA, LLC (Cirrus LLC, Notes 6 and 29)	Manpower Services	94	94	94
Cirrus Allied, LLC (Cirrus Allied, Notes 6 and 29)	Manpower Services	94	94	94
NurseTogether, LLC (NT, Note 6)	Online Community Management	94	94	94
Uptown Kamputhaw Holdings, Inc. (formerly Anscor Property Holdings, Inc., APhi, Note 14)	Real Estate Holding	—	100	100
Phelps Dodge International Philippines, Inc. (PDIPI, Notes 6, 12 and 29)	Investment Holding	100	100	100
Minuet Realty Corporation (Minuet)	Landholding	100	100	100
Phelps Dodge Philippines Energy Products Corporation (PDP Energy, Notes 6, 12 and 29)	Wire Manufacturing	100	100	100
PD Energy International Corporation (PDEIC, Note 12)	Wire Manufacturing	100	100	100
Sutton Place Holdings, Inc. (Sutton)	Investment Holding	100	100	100
Cirrus Global, Inc. (CGI, Note 29)	Manpower Services	93	93	93
IQ Healthcare Professional Connection, LLC (IQHPC, Note 29)	Manpower Services	93	93	93
AFC Agribusiness Corporation (AAC)	Real Estate Holding	81	81	81
Seven Seas Resorts and Leisure, Inc. (SSRLI, Note 29)	Villa Project Development	62	62	62
Pamalican Resort, Inc. (PRI, Note 29)	Resort Operations	62	62	62
Summerside Corporation (Summerside)	Investment Holding	40	100	100

Except for AI, IQHIL, Cirrus and its subsidiaries and IQHPC, the above companies are all based in the Philippines. The principal business location of AI and IQHIL is in the British Virgin Islands (BVI), while Cirrus and its subsidiaries and IQHPC are based in the United States of America (USA).

Material Partly-Owned Subsidiaries (SSRLI and PRI)

Set out below are the summarized financial information of entities that have noncontrolling interest (NCI) that is material to the Group. The amounts disclosed are based on those included in the consolidated financial statements before intercompany eliminations.

Significant details of the balance sheets and statements of comprehensive income of SSRLI and PRI are presented below as of and for the years ended December 31 (in millions):

		2016		2015
Balance Sheets:				
Current assets	₱	730.1	₱	690.9
Noncurrent assets		901.0		1,108.2
Current liabilities		356.3		919.3
Noncurrent liabilities		161.3		148.2
Equity		1,113.5		731.5
Equity attributable to NCI		419.8		270.6
Statements of Comprehensive Income (Loss):				
Revenue	₱	1,325.0	₱	825.3
Income from continuing operations, before tax		415.8		196.0
Net income		380.5		166.9
Other comprehensive income (loss)		1.4		(0.1)
Total comprehensive income		381.9		166.8
Total comprehensive income allocated to NCI during the year		144.0		62.9
Statements of Cash Flows:				
Cash flows from operations	₱	90.3	₱	430.4
Cash flows used in investing activities		(83.2)		(64.9)
Cash flows from (used in) financing activities		10.9		(280.7)

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

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

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

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

The Group reassesses 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 from the date of acquisition, being the date on which control is transferred to the Group and continue to be consolidated until the date that such control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Noncontrolling interests represent a portion of profit or loss and net assets of subsidiaries not held by the Group, directly or indirectly, and are presented separately in the consolidated statement of comprehensive income and within the equity section in the consolidated balance sheet and consolidated statement of changes in equity, separately from Company's equity.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the noncontrolling interests, even if this results in the noncontrolling interests having a deficit balance. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any noncontrolling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

In 2008, Sutton acquired an additional 32% interest in CGI, increasing its ownership to 93%. The excess of the consideration over the book value of the interest acquired was taken to "Equity Reserve on Acquisition of Noncontrolling Interest" in the consolidated balance sheet.

Current Versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated balance sheet based on current/noncurrent classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the 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 the 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.

The Group classifies all other liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

Investments in Associates

Associates are entities 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. Investments in associates are accounted for under the equity method of accounting in the consolidated financial statements and are initially recognized at cost. On acquisition of investment in an associate, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as goodwill. Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity's share of the associate's profit or loss in the period in which the investment is acquired. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment. After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in associates. At each reporting date, the Group determines whether there is objective evidence that the investment in associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value. The loss is recognized under "Equity in net earnings (losses) - net" in the consolidated statement of income. Valuation allowances were previously presented under "Other income (changes) - net" in the 2015 and 2014 consolidated statements of income.

The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the associates' equity reserves is recognized directly in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Any change in OCI of those 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, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity.

Unrealized gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses are also eliminated, unless the transaction provides evidence of an impairment of the assets transferred. The reporting dates of the associates of the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

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

The following are the Group's associates:

	Nature of Business	Percentage of Ownership		
		2016	2015	2014
Associates				
Prople Limited (Note 12)	Business Process Outsourcing	32	—	—
Vicinetum Holdings, Inc. (VHI)	Holding	32	32	32
AGP International Holdings Ltd. (AGPI, Note 12)	Holding	27	27	27
BehaviorMatrix, LLC (BM, Note 12)	Behavior Analytics Services	21	13	13

In 2016, AI converted its notes receivable from Prople Limited and BM to equity. The conversion and additional investment increased the Company's shareholdings, making Prople Limited and BM associates of the Group (see Note 12).

VHI is based in the Philippines. The principal location of AGPI is in the British Virgin Islands. Prople Limited and BM are based in Hong Kong and the United States of America, respectively.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any noncontrolling interests in the acquiree. For each business combination, the Group elects whether to measure the noncontrolling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the 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 of 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 through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39 is measured at fair value with changes in fair value recognized either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for noncontrolling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the 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.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units 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 cash-generating unit or a group of cash-generating units 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 cash-generating unit retained.

Asset Acquisitions

If the assets acquired and liabilities assumed in an acquisition transaction do not constitute a business, the transaction is accounted for as an asset acquisition. The Group identifies and recognizes the individual identifiable assets acquired 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 a 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 noncontrolling interests.

Foreign Currency Translation

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 Peso based on the exchange rate recorded at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the closing exchange rate at the end of reporting period. All differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the closing exchange rates at the date when the fair value was determined. Foreign exchange gains and losses relating to AFS equity instruments are presented under other comprehensive income.

Financial statements of consolidated foreign subsidiaries which are considered foreign entities are translated into the presentation currency of the Group (Peso) at the closing exchange rate at end of reporting period and their statements of income are translated using the monthly weighted average exchange rates for the year. The exchange differences arising from the translation are taken directly to a separate component of equity (under cumulative translation adjustment). On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated statement of income.

Fair Value Measurement

The Group measures financial assets (such as FVPL and AFS investments) at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost and of investment properties are disclosed.

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the 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 or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

The Group's management determines the policies and procedures for both recurring fair value measurement, such as unquoted AFS financial assets, and for non-recurring fair value measurement.

External valuers are involved for valuation of significant assets, such as investment properties. Involvement of external valuers is decided upon annually by management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per the Group's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents with relevant external sources to determine whether the change is reasonable.

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 in the previous page.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet 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 trade date. Derivatives are recognized on trade date basis.

Initial recognition of financial instruments

All financial assets are initially recognized at fair value. Except for securities at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Classification of financial instruments

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

As of December 31, 2016 and 2015, the Group has the following categories of financial assets and financial liabilities:

(a) Financial assets and financial liabilities at FVPL

This category includes 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 in the near term.

Financial assets or financial liabilities classified in this category may be designated by management on initial recognition when 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 them 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 evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; 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.

Derivatives recorded at FVPL

The Group enters into derivative contracts such as currency forwards. These derivative financial instruments are initially recorded at fair value and are subsequently remeasured at fair value at each reporting date. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) 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. There are no outstanding freestanding derivative contracts as of December 31, 2016 and 2015.

The Group has certain derivatives that are embedded in host financial contracts, such as structured notes and debt investments and conversion. These embedded derivatives include calls and puts in debt investments and interest rate and conversion options among others.

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.

Embedded derivatives are measured at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Financial assets and financial liabilities at FVPL are recorded in the consolidated balance sheet at fair value. Changes in fair value are recorded in "Gain (loss) on increase (decrease) in market values of FVPL investments". Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded as such according to the terms of the contract, or when the right of payment has been established.

As of December 31, 2016 and 2015 the Group has designated as FVPL all investments in bonds that have callable and other features, managed/hedged funds, and derivatives amounting to ₱769.7 million and ₱509.0 million, respectively. No financial liability at FVPL is outstanding as of December 31, 2016 and 2015 (see Note 8).

(b) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not in an active market. They are not entered into with the intention of immediate or short-term resale. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment.

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. The amortization is included in the interest income in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized as "Recoveries (valuation allowances) - net" account under "Other income (charges) - net" in the consolidated statement of income.

Included under loans and receivables are cash in banks, short-term investments, trade receivables, notes receivable, interest receivable, receivable from villa owners advances to employees and other receivables.

(c) AFS investments

AFS investments are those which are designated as such or do not qualify to be classified as FVPL, HTM 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, money market papers, investments in managed funds and other debt instruments.

After initial measurement, AFS investments are subsequently measured at fair value. However, AFS instruments in unquoted equity shares whose fair values cannot be reliably measured are carried at cost, less any impairment loss. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the consolidated statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments and the impact of restatement on foreign currency-denominated AFS equity securities are reported as part of other comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized under other comprehensive income is transferred to profit or loss as "Gain on sale of AFS investments". Where the Group holds more than one investment in the same security, cost of the disposed investment is determined on a weighted average cost basis. Interest earned on holding AFS investments are reported as interest income using the effective interest rate. Dividends earned on holding AFS investments are recognized as such in the consolidated statement of income when the right of payment has been established.

The Group classifies bonds held as AFS investments as current assets when the investments are expected to mature within 12 months after the reporting period.

As of December 31, 2016 and 2015, the Group's AFS investments include investment in equity securities and bonds and convertible notes.

(d) Other financial liabilities

All loans and borrowings are initially recognized at the fair value of the consideration received, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

Borrowings are classified as current liabilities unless these are expected to be settled within 12 months after the reporting date or the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

As of December 31, 2016 and 2015, included in other financial liabilities are the Group's notes payable, accounts payable and accrued expenses, long-term debt and dividends payable.

As of December 31, 2016 and 2015, there were no financial instruments classified as HTM.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized or removed from the consolidated balance sheet where:

- the contractual rights to receive cash flows from the asset have expired; or
- 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 rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

Financial liabilities

A financial liability is removed from the consolidated balance sheet 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 will result into the removal 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 end of reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

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.

For individually significant financial assets, 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 the estimated future cash flows (excluding future credit losses that have not been incurred). If the Group determines that no objective evidence of impairment exists for 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, 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. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). 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.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the consolidated statement of income. Interest income, if any, continues to be recognized based on the original effective interest rate of the asset. Loans, 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 year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to "Valuation allowances" account under "Other income (charges) - net" in the consolidated statement of income.

Assets carried at cost

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

AFS investments

In case of equity investments classified as AFS, objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income. The losses arising from impairment of such investments are recognized as "Valuation allowances" account under "Other income (charges) - net" in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized in the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS investments, 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 based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of “Interest income” in the consolidated statement of income. If, in the subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

“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 unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is recognized in the consolidated statement of income only 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.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements and the related assets and liabilities are presented gross in the consolidated balance sheet. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Revenue

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. Revenue is measured at the fair value of the consideration received excluding discounts, rebates, and other sales taxes or duties.

The Group assesses its revenue agreement against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also expected to inventory and credit risk.

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

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Sale of real estate

Sale of villa lots is 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 on villa development project

Revenue on villa development project of a subsidiary is recognized under the completed contract method.

Rendering of services

Handling fee, service fee, management fees, air transport services, and other aviation-related activities are recognized when the services have been performed.

Revenue on nurse placements is recognized upon the nurses' arrival and employment in the U.S. and UAE hospitals

All deposits on contracts with U.S. hospitals are recorded under "Deferred revenues" until the contracted nurses' arrival and employment in the U.S. and UAE hospitals.

Revenue from temporary staffing is recognized when services are rendered.

Revenue on permanent placements is recognized when the candidate starts with the contracting facility. If a candidate leaves a permanent placement within a relatively short period of time, it is customary for the Group to provide a replacement at no additional cost to the hospital.

Revenue from contractual services consists of jobs filled by subcontractors. The Group contracts with other staffing companies to provide the travelers to fill the jobs for the Group. These staffing companies are called subcontractors. Subcontractors are paid based on agreed terms at a percentage of the invoice.

Revenue from rooms is recognized based on actual occupancy. Other ancillary services are recognized when the related services are rendered and/or facilities/amenities are used.

Interest

Interest income from bank deposits and investments in bonds are recognized as interest accrues based on the effective interest rate method.

Dividends

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

Rental

Rental income is accounted for on a straight-line basis over the lease term.

Costs and Expenses

Costs and expenses are recognized in profit or loss when there is a decrease in future economic benefit related to a decrease in an asset, or an increase of a liability, that can be measured reliably. Costs and expenses include the cost of administering the business, and are expensed as incurred.

Cost of goods sold

The cost of goods sold is recognized as expense when the related goods are sold.

Cost of real estate sold

The cost of real estate sold includes the acquisition cost of the land determined based on average method.

Costs of services rendered

All direct nurse costs incurred in deployment of nurses are deferred and included in "Other noncurrent assets" in the consolidated balance sheet, until the nurses' arrival and employment in the U.S. and UAE hospitals. Upon the nurses' arrival and employment in the U.S. and UAE hospitals, deferred costs are reversed to "Costs of services rendered".

Cost and expenses related to room services are charged to operations when incurred.

Selling, general and administrative expenses

All selling and general and administrative expenses are expensed as incurred.

Other Comprehensive Income

Other comprehensive income comprises of items of income and expense that are not recognized in consolidated profit or loss for the year in accordance with PFRS. Other comprehensive income of the Group pertains to gains and losses on remeasuring AFS investments, exchange differences on translating foreign operations and remeasurements comprising actuarial gains and losses on retirement plan assets and liabilities. In computing for the earnings available for dividend declaration and earnings per share, other comprehensive income is not considered.

Cash and Cash Equivalents

Cash includes cash on hand and with 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 and that are subject to an insignificant risk of change in value.

Restricted cash funds are recorded as other noncurrent assets unless the restriction is expected to be released at least 12 months after the reporting period.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Cost of aircraft spare parts and supplies is determined at purchase price using the first-in, first-out method while NRV is the estimated current replacement cost of such spare parts and supplies.

Cost of food and beverage inventories and operating supplies is determined using the moving average method. NRV of food and beverage inventories is the estimated selling price in the ordinary course of business, less the estimated cost of preparation and the estimated cost necessary to make the sale. NRV of operating supplies is the estimated current replacement cost.

For cable and wire manufacturing, finished goods and work in process is determined at standard cost adjusted to actual cost, which includes direct materials, direct labor and applicable allocation of fixed and variable costs, determined using weighted average method. Raw materials, other materials, reels inventory and spare parts and supplies are determined at purchase price using weighted average method.

Prepayments

Prepayments include advance payments of various goods and services that are yet to be delivered and from which future economic benefits are expected to flow to the Group within the normal operating cycle or, within 12 months from the reporting date.

They are initially measured at the amount paid in advance by the Group for the purchase of goods and services and are subsequently decreased by the amount of expense incurred.

Property and Equipment

Depreciable properties, including buildings and improvements, leasehold improvements, machinery and other equipment, flight and ground equipment, furniture, fixtures and office equipment, and transportation equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operations, 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.

Property and equipment are written-off when either these are disposed of or when these are permanently withdrawn from use and there is no more future economic benefit expected from its use or disposal.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Depreciation is computed on a straight-line method over the following estimated useful lives of the properties, except for aircraft engine which is computed based on flying hours.

Category	Number of Years
Buildings and improvements	10 - 30
Land improvements	25
Leasehold improvements*	5 - 20
Flight, ground, machinery and other equipment	2 - 25
Furniture, fixtures and office equipment	3 - 5
Transportation equipment	3 - 5

** or lease term, whichever is shorter*

The useful lives, depreciation and amortization method, and residual values are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the use of property and equipment.

Construction in progress (CIP) is stated at cost. This includes cost of construction and other direct costs. CIP is not depreciated until such time the relevant assets are completed and put into operational use.

Property Development in Progress

Property development in progress includes villa development costs and related expenses incurred.

Property development in progress is carried at the lower of cost incurred and net realizable value. Net realizable value is the selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

Investment Properties

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, the Group's investment properties are stated at cost, less accumulated depreciation and any accumulated impairment losses. Land is subsequently carried at cost less any impairment in value.

Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred. Transfers are made to investment properties when, and only 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 properties 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. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Investment properties are written off when either these are disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of the investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Impairment of Nonfinancial Assets

At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets (namely, property and equipment and investment properties) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) 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 pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset. 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 a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill

Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized immediately in the consolidated statement of income.

Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill as of December 31 of each year.

Customers' Deposit for Property Development

Customers' deposit for property development, which pertain to advance payment by a villa buyer that is required to start and complete the villa development, is recognized at the fair value of the deposit received. Upon completion of the sale, the deposit will be applied against the total selling price of the villa.

Other Noncurrent Assets and Other Noncurrent Liabilities

Other noncurrent assets generally represent restricted cash funds for future acquisition of specific property and equipment and for future villa operating requirements. A corresponding liability is recognized for these funds under other noncurrent liabilities.

Capital Stock

Capital stock represents the total par value of the shares issued.

Additional Paid-in Capital

Additional paid-in capital pertains to the amount paid in excess of the par value of the shares issued.

Retained Earnings

Retained earnings represent the cumulative balance of net income or loss, net of any dividend declared.

Unappropriated retained earnings represent that portion which is free and can be declared as dividends to stockholders, after adjustments for any unrealized items, which are considered not available for dividend declaration.

Appropriated retained earnings represent that portion which has been restricted and therefore is not available for any dividend declaration.

Cost of Shares Held by a Subsidiary

The Company's shares which are acquired and held by a subsidiary (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Company's shares. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital.

Leases

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

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

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 above, and at the date of renewal or extension period for scenario b.

The Group as Lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

The 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. 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.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

Pension Benefits

The Group has non-contributory defined benefit retirement plans.

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 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. 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 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.

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

Provisions and Contingencies

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

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Income Taxes

Current income tax

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

Deferred income tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax assets are recognized for deductible temporary differences, carryforward benefits of unused tax credits from the 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 sufficient future taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

Deferred income tax liabilities are not provided on taxable temporary differences associated with investments in domestic subsidiaries. With respect to investments in foreign subsidiaries, deferred income 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 income tax assets is reviewed at each end of reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each end of reporting period and are recognized to the extent that it has become probable that sufficient future taxable income will allow the deferred income tax assets to be recovered.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are applicable 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 at the end of reporting period.

Current income tax and deferred income tax relating to items recognized directly in equity are also recognized in equity and not in the consolidated statement of income.

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

Value-added Tax (VAT)

Input VAT is the 12% indirect tax paid by the Group in the course of the Group's trade or business on local purchase of goods or services, including lease or use of property, from a VAT-registered person. In case of capital goods input VAT is spread evenly over the useful life of 60 months, whichever is shorter.

Output VAT pertains to the 12% tax due on the lease or exchange of taxable goods or properties or services by the Group.

If at the end of any taxable month the output VAT exceeds the input VAT, the excess shall be paid by the Group. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding month or months. Input VAT on capital goods may, at the option of the Group, be refunded or credited against other internal revenue taxes, subject to certain tax laws.

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 consolidated balance sheet.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any. The Company does not have potentially dilutive common shares as of December 31, 2016, 2015 and 2014.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective shareholders of the Company and subsidiaries. Dividends for the year that are approved after the end of reporting period are dealt with as an event after the end of reporting period.

Events After the Reporting Period

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

Segment Reporting

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 business segments is presented in Note 5.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, other comprehensive income (loss) and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

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.

Judgments

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

Determination of functional currency

The Company's functional currency was determined to be the Peso. It is the currency of the primary economic environment in which the Company operates.

Classification of financial instruments

The Group classifies a financial instrument, or its component parts, on initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheets (see Note 28).

Operating lease commitments - the Group as Lessee

The Group has entered into leases of office and commercial spaces. The Group has determined that all significant risks and rewards of ownership of these spaces remain with the lessors.

Operating lease commitments - the Group as Lessor

The Group has entered into a commercial property lease on its investment property. The Group has determined that it retains all the significant risks and rewards of ownership of this property and so accounts for it as an operating lease.

Determination of absence of significant influence over Enderun

The Company determined that it has no significant influence over Enderun. Management assessed that it does not exercise significant influence over the financial and operating policy decisions of the investee. Accordingly, Enderun is considered an AFS investment (see Note 11).

Assessment of control over the entities for consolidation

The Group has wholly owned, majority and minority-owned subsidiaries discussed in Note 3. Management concluded that the Group controls these subsidiaries arising from voting rights and, therefore, consolidates the entities in its consolidated financial statements.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation and uncertainty at the balance sheet 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.

Impairment losses on loans and receivables

The Group reviews its loans and receivables at each reporting date to assess whether an impairment loss should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

For the advances to related parties, the Group uses judgment, based on the best available facts and circumstances, including but not limited to, assessment of the related parties' operating activities (active or dormant), business viability and overall capacity to pay, in providing reserve allowance against recorded receivable amounts. For the receivables, the Group evaluates specific accounts where the Group has information that certain customers or third parties are unable to meet their financial obligations. Facts, such as the Group's length of relationship with the customers or other parties and their current credit status, are considered to ascertain the amount of reserves that will be recognized. These reserves are re-evaluated and adjusted as additional information is received. Allowance for doubtful accounts as of December 31, 2016 and 2015 amounted to ₱630.2 million and ₱637.3 million, respectively. Receivables and advances, net of valuation allowance, amounted to ₱2,169.8 million and ₱1,997.3 million as of December 31, 2016 and 2015, respectively (see Notes 9 and 12).

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's-length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for terms with similar terms and risk characteristics; or,
- other valuation models.

However, if the range of reasonable fair value measurements is significant and the probabilities of the various estimates cannot be reasonably assessed, the Group measures the investment at cost.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. The Group performs periodic reassessment by reference to prices from observable current market transactions in the same instrument or from other available observable market data (see Note 28).

Unquoted equity investments amounted to ₱1,403.0 million and ₱1,127.5 million as at December 31, 2016 and 2015, respectively (see Note 11).

Impairment of AFS equity investments

The Group recognizes impairment losses on AFS equity investments when there has been a significant or prolonged decline in the fair value below its cost or when other objective evidence of impairment exists. The determination of what is significant or prolonged decline requires judgment. The Group generally treats significant decline as 30% or more and prolonged decline as greater than 12 months. In addition, the Group evaluates other factors, including normal volatility in share price for equities and the future cash flows and the discount factors for unquoted equities.

In 2016, 2015 and 2014, total impairment loss recognized amounted to ₱590.9 million, ₱607.3 million and ₱161.5 million, respectively, on its equity instruments. AFS equity investments amounted to ₱7,513.4 million and ₱6,508.3 million as at December 31, 2016 and 2015, respectively (see Note 11).

Impairment of AFS debt investments

For AFS debt investments, the Group assesses the counterparty's ability to comply with the contractual obligations to pay out principal and interest. Further, the Group assesses whether the market prices of these bonds indicate objective evidence of impairment. In 2016, 2015 and 2014, total impairment loss recognized amounted to nil, ₱197.9 million, and ₱98.4 million, respectively. The carrying value of AFS debt investments amounted to ₱847.8 million and ₱907.5 million as at December 31, 2016 and 2015, respectively (see Note 11).

Estimation of allowance for inventory and impairment losses

The Group estimates the allowance for inventory obsolescence and impairment losses related to inventories based on specifically identified inventory items. The amounts and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for inventory and impairment losses would increase recorded expenses and decrease current assets.

Allowance for inventory losses and obsolescence amounted to ₱88.8 million and ₱74.7 million as of December 31, 2016 and 2015, respectively. The carrying amount of the inventories amounted to ₱683.9 million and ₱701.0 million as of December 31, 2016 and 2015, respectively (see Note 10).

Estimation of useful lives of the Group's property and equipment

The Group estimates the useful lives of property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence, and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of these assets is based on collective assessment of internal technical evaluation and experience with similar assets. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

As of December 31, 2016 and 2015, the carrying value of property and equipment amounted to ₱2,648.7 million and ₱2,701.9 million, respectively (see Note 13).

Investments carried under the equity method

Investments carried under the equity method are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group's impairment test on investments carried at equity is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years as well as the terminal value at the end of five years. 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.

The carrying amounts of the investments amounted to ₱1,941.3 million and ₱1,821.6 million as of December 31, 2016 and 2015, respectively (see Note 12).

Impairment of non-financial assets

(a) Property and equipment and investment properties

The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

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

As of December 31, 2016 and 2015, the carrying value of property and equipment and investment properties amounted to ₱2,883.6 million and ₱2,962.4 million, respectively (see Notes 13 and 14).

There is no impairment loss on property and equipment and investment properties for each of the three years in the period ended December 31, 2016 (see Notes 13 and 14).

(b) Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "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 expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Considering the U.S. crisis and the unemployment rate, the Group recognized an impairment provision of ₱100.0 million since December 31, 2009 on its investment in Cirrus.

As of December 31, 2016 and 2015, the carrying value of goodwill amounted to ₱1,889.5 million and ₱1,852.4 million, respectively (see Note 6).

Recognition of deferred income tax assets

The Group reviews the carrying amounts of the deferred income tax assets at each end of reporting period and reduces deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Significant management judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. However, there is no assurance that the Group will utilize all or part of the deferred income tax assets. As of December 31, 2016 and 2015, the Group recognized deferred income tax assets amounting to ₱99.5 million and ₱152.3 million, respectively (see Note 24).

Determination of pension and other retirement 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, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Net retirement plan asset as at December 31, 2016 and 2015 amounted to ₱60.2 million and ₱59.5 million, respectively. Net retirement benefits payable as of December 31, 2016 and 2015 amounted to ₱4.2 million and ₱6.7 million, respectively. Further details are provided in Note 23.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country. Further details about the assumptions used are provided in Note 23.

Provisions and contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and disclosure of contingencies are discussed in Notes 3 and 30.

Purchase price allocation in business combinations and goodwill

The Company accounts for the acquired businesses using the acquisition method which require extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any difference in the purchase price and the fair values of the net assets acquired is recorded as either goodwill in the consolidated statement of financial position or gain on bargain purchase in profit or loss. Thus, the numerous judgments made in estimating the fair value to be assigned to the acquiree's assets and liabilities can materially affect the Company's financial position and performance.

The Company's acquisitions of certain subsidiaries have resulted in recognition of goodwill. In 2014, the acquisition of PDIPI and its subsidiary, PDP Energy, has resulted in recognition of goodwill which amounted to ₱1,452.5 million based on provisional purchase price allocation. In 2015, the valuation was completed and the final goodwill amounted to ₱1,202.9 million.

The total carrying value of goodwill amounted to ₱1,889.5 million and ₱1,852.4 million as of December 31, 2016 and 2015, respectively (see Note 6).

5. Segment Information

The Company and its subsidiaries' operating businesses are organized and managed separately according to the nature of the products or services offered. Majority of the companies within the Group were incorporated and operating within the Philippines, except for the Nurse/Physical Therapist (PT) Staffing business. The amounts disclosed were determined consistent with the measurement basis under PFRS.

Holding company segment pertains to the operations of the Company.

Nurse/PT staffing companies segment pertains to the subsidiaries providing healthcare and allied services operating in the United States.

Resort Operations segment pertains to the Company's subsidiary providing hotel and resort accommodation, relaxation and entertainment, among others, while Villa Development includes the sale of villa lots, construction of structures and set up of furniture, fixture and equipment (see Note 3).

Cable and Wire manufacturing segment pertains to the Company's subsidiaries engaged in manufacturing, importing, exporting, buying, selling or otherwise dealing in, at wholesale, goods such as building wires, power cables, aluminum wires and cables, copper rods, automotive wires and other energy-related goods of electrical nature, including all equipment, materials, supplies used or employed in or related to the manufacture of its finished products.

Amounts for the investments in associates comprise the Group's equity in net earnings of the associates.

Other operations include air transportation, hangarage, real estate holding and management, and recruitment services.

The following tables present the financial information of the business segments as of and for the years ended December 31, 2016, 2015 and 2014 (in thousands):

	Before Eliminations								
	Philippines								
	US Nurse/PT Staffing Co.	Holding Co. (Parent)	Resort Operations and Villa Development	Cable and Wire Manufacturing	*Other Operations		Total	Eliminations	Consolidated
As of and for the year ended December 31, 2016									
Revenues, excluding interest income	P 2,572,502	P 856,376	P 1,321,882	P 6,608,160	P 711,787	P 12,070,707	(P 1,199,135)		P 10,871,572
Interest income	1,756	83,174	2,921	2,147	226	90,224	5,088		95,312
Investment gains (losses)	—	815,206	—	—	(8,503)	806,703	112,663		919,366
Interest expense	494	57,309	403	45,737	3,308	107,251	1,756		109,007
Income tax expense	108,724	21,050	35,226	255,450	11,292	431,742	(8,046)		423,696
Equity in net earnings (losses)-net	—	—	—	—	(72,724)	(72,724)	—		(72,724)
Net income	184,916	1,005,126	379,544	750,604	403,743	2,723,933	(1,033,642)		1,690,291
Total assets	1,151,194	17,754,581	1,631,042	3,905,133	12,099,505	36,541,455	(15,013,954)		21,527,501
Investments and advances	692,974	7,872,221	83,260	—	3,320,537	11,968,992	(10,025,418)		1,943,574
Property and equipment	3,897	23,922	809,384	568,299	108,568	1,514,070	1,134,661		2,648,731
Total liabilities	636,602	1,911,194	517,614	1,525,781	3,969,244	8,560,435	(3,780,434)		4,780,001
Depreciation and amortization	4,356	8,095	97,312	96,178	30,225	236,166	(2,097)		234,069
Impairment loss	8,332	653,673	—	15,814	2,562,011	3,239,830	(2,637,773)		602,057
Cash flows from (used in):									
Operating activities	304,444	593,426	173,811	809,980	53,212	1,934,873	(959,774)		975,099
Investing activities	(1,441)	711,084	(107,331)	(62,793)	3,897	543,416	102,502		645,918
Financing activities	(312,284)	(918,317)	(70,315)	(421,429)	(56,688)	(1,779,033)	783,378		(995,655)

* Other Operations include ASAC, AAC, Anscorcon, AI, AHI, CGI, IAI and the Group's equity in net earnings of associates.

	Before Eliminations					Total	Eliminations	Consolidated
	Philippines							
	US Nurse/PT Staffing Co.	Holding Co. (Parent)	Resort Operations and Villa Development	Cable and Wire Manufacturing	*Other Operations			
As of and for the year ended December 31, 2015								
Revenues, excluding interest income	₱ 1,850,730	₱ 2,742,661	₱ 994,023	₱ 6,102,341	₱ 382,875	₱ 12,072,630	(₱ 2,621,468)	₱ 9,451,162
Interest income	—	75,395	758	1,083	6,079	83,315	—	83,315
Investment gains (losses)	—	1,066,719	—	—	(1,160)	1,065,559	—	1,065,559
Interest expense	340	74,240	1,155	39,134	1,730	116,599	—	116,599
Income tax expense (benefit)	66,883	(15,815)	29,167	221,657	15,500	317,392	(7,994)	309,398
Equity in net earnings (losses)-net	—	—	—	—	153,954	153,954	—	153,954
Net income	108,864	2,759,487	166,854	574,356	364,558	3,974,119	(2,610,857)	1,363,262
Total assets	1,041,115	16,382,877	1,799,068	3,488,824	3,745,714	26,457,598	(6,905,218)	19,552,380
Investments and advances	—	8,132,207	74,091	—	2,253,691	10,459,989	(8,635,729)	1,824,260
Property and equipment	4,743	29,727	837,454	573,253	95,388	1,540,565	1,161,312	2,701,877
Total liabilities	129,598	2,252,921	1,067,586	1,616,524	4,695,279	9,761,908	(4,144,448)	5,617,460
Depreciation and amortization	4,914	7,369	97,984	70,967	29,435	210,669	26,099	236,768
Impairment loss	—	802,759	4,266	14,940	271,826	1,093,791	—	841,123
Cash flows from (used in):								
Operating activities	927,193	1,435,669	430,416	773,270	48,197	3,614,745	(2,061,858)	1,552,887
Investing activities	(38,281)	786,261	(64,949)	(101,420)	(5,368)	576,243	(960,346)	(384,103)
Financing activities	(909,597)	(2,125,914)	(280,715)	(492,814)	(21,151)	(3,830,191)	3,048,487	(781,704)

*"Other Operations" include ASAC, AAC, Anscorcon, AI, APMI, CGI, IAI and the Group's equity in net earnings of associates.

	Before Eliminations								
	Philippines								
	US Nurse/PT Staffing Co.	Holding Co. (Parent)	Resort Operations and Villa Development	Cable and Wire Manufacturing	*Other Operations		Total	Eliminations	Consolidated
As of and for the year ended December 31, 2014									
Revenues, excluding interest income	₱ 1,250,017	₱ 760,785	₱ 494,071	₱ –	₱ 545,505	₱ 3,050,378	(₱ 597,009)		₱ 2,453,369
Interest income	9,349	80,214	3,353	–	3,523	96,439	–		96,439
Investment gains (losses)	–	1,708,776	–	–	(218)	1,708,558	–		1,708,558
Interest expense	1,981	53,840	1,912	–	3,628	61,361	–		61,361
Income tax expense (benefit)	19,511	(3,777)	6,754	–	6,872	29,360	–		29,360
Equity in net earnings (losses)-net	–	–	–	–	(293,267)	(293,267)	–		(293,267)
Net income (loss)	30,352	1,602,622	(27,280)	–	474,120	2,079,814	(45,072)		2,034,742
Total assets	3,631,986	18,534,609	1,646,336	3,326,645	693,273	27,832,849	(6,513,391)		21,319,458
Investments and advances	2,012,400	7,743,783	–	–	35,827	9,792,010	(8,250,019)		1,541,991
Property and equipment	4,275	32,974	860,177	543,922	72,652	1,514,000	831,505		2,345,505
Total liabilities	3,452,932	4,356,736	881,577	421,764	343,102	9,456,111	(3,346,093)		6,110,018
Depreciation and amortization	7,101	2,235	92,390	–	31,181	132,907	–		132,907
Impairment loss	2,599	700,348	352	–	5,034	708,333	–		708,333
Cash flows from (used in):									
Operating activities	42,297	568,772	218,641	–	18,432	848,142	(118,683)		729,459
Investing activities	(1,269)	(2,041,432)	(151,145)	–	(38,976)	(2,232,822)	943,879		(1,288,943)
Financing activities	40,425	1,445,125	5,106	–	(12,397)	1,478,259	(244,153)		1,234,106

*“Other Operations” include ASAC, AAC, Anscorcon, AI, APhi, CGI, IAI and the Group’s equity in net earnings of associates.

6. Business Combinations

a. Step-acquisition

On December 19, 2014, the Company acquired 60% shareholding and voting interest in PDIPI, and its subsidiary, PDP Energy (collectively referred to as “PDP Group”). As a result, the Company’s equity interest in PDP Group increased from 40% to 100%, obtaining control of PDP Group. The primary reason for the additional investment is that the Company believes in the continuing success of PDP Group and in its ability to give an attractive rate of return.

The final fair values of identifiable assets and liabilities of PDP Group at the date of acquisition were (in millions):

	Final Fair Values Recognized on Acquisition
Cash and cash equivalents	₱ 661.0
Receivables	1,241.5
Inventories	778.2
Property, plant and equipment	1,608.0
Other assets	102.7
Total assets	4,391.4
Accounts payable and accrued expenses	(358.5)
Other payables	(63.9)
Deferred income tax liability	(319.2)
Total identifiable net assets acquired	3,649.8
Goodwill arising from the acquisition	1,202.9
Total consideration	₱ 4,852.7
<hr/>	
Cash paid (presented as investing activities)	₱ 2,995.7
Fair value of previously held interest	1,857.0
Total consideration	₱ 4,852.7

The fair values of trade receivables amounted to ₱1,241.5 million. The gross amount of trade receivables is ₱1,307.5 million, of which ₱66.0 million is expected to be uncollectible.

The deferred income tax liability mainly comprises the tax effect of the excess of fair value over cost of property, plant and equipment.

Goodwill is allocated entirely to PDP Energy, the cash generating unit. There are no specific values assigned to the customer and staff base. These are not separate and quantifiable and therefore, do not meet the criteria for recognition as an intangible asset under PAS 38, *Intangible Assets*.

Acquisition-related costs of ₱6.5 million have been charged to operations in 2014.

Since the change in ownership occurred towards the end of the year, for purposes of consolidation of balance sheet, the Company treated PDP Group as a consolidated subsidiary at the end of 2014. However, no revenue and cost and expenses of PDP Group were included in the consolidated statement of comprehensive income in 2014. Had PDP Group been consolidated from January 1, 2014, the consolidated statement of income would show an increase in pro-forma revenue of ₱6,552.4 million and increase in net income of ₱321.3 million in 2014. The revenue, cost and expenses of PDP Group were included in the consolidated statement of comprehensive income starting January 1, 2015.

The Company recognized a gain of ₱699.0 million as a result of measuring at fair value its 40% equity interest in PDP Group held before the business combination. The gain is included in "Other income (charges) - net" account in the 2014 consolidated statement of income (see Note 22).

b. Goodwill represents the excess of acquisition cost of the following subsidiaries over Anscor's share in the fair value of their net assets. The carrying amount of goodwill allocated to each cash-generating unit (subsidiaries) follows (in millions):

		2016		2015
PDP (see Note 6a)	₱	1,202.9	₱	1,202.9
Cirrus		587.3		550.2
SSRLI (Note 29)		99.3		99.3
	₱	1,889.5	₱	1,852.4

The goodwill allocated to Cirrus of ₱577.9 million, before accumulated exchange differences amounting to ₱115.2 million and ₱78.1 million as of December 31, 2016 and 2015, respectively, and valuation allowance amounting to ₱105.8 million as of December 31, 2016 and 2015, comprises the value of the acquired companies' customer and staff base and existing market share in the healthcare staffing industry. There are no specific values assigned to the customer and staff base. These are not separate and quantifiable and therefore, do not meet the criteria for recognition as an intangible asset under PAS 38. The goodwill from Cirrus increased by ₱37.1 million and ₱32.7 million in 2016 and 2015, respectively, due to foreign exchange differences.

c. Impairment Testing of Goodwill

i. PDP Group

The recoverable amount of the investments in PDP Group has been determined based on the value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The key assumptions used to determine the recoverable amount as of December 31, 2016 are discussed below:

Discount rate

Discount rate is consistent with the risk-free industry interest rate. The pre-tax discount rates applied to cash flow projections in 2016 and 2015 are 16.1% and 14.4%, respectively.

Terminal value

Terminal value is computed based on Gordon Growth model, which is the quotient of the normalized value of free cash flows assuming a long-term growth rate of 5%, and the difference between the discount rate and growth rate.

Growth rate

PDP Group assumed a growth rate of 5% in 2016 and 2015. Management used the average industry growth rate for the forecast.

Sensitivity to changes in assumptions

Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the cash-generating unit to materially exceed its recoverable amount.

ii. Cirrus

The recoverable amount of the investments in Cirrus has been determined based on the value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The key assumptions used to determine the recoverable amount as of December 31, 2016 and 2015 are discussed below:

Discount rate

Discount rate is consistent with the risk-free industry interest rate. The pre-tax discount rates applied to cash flow projections in 2016 and 2015 are 14.1% and 17.2%, respectively.

Terminal value

Terminal value is computed based on Gordon Growth model, which is the quotient of the normalized value of free cash flows assuming a long-term growth rate of 4%, and the difference between the discount rate and growth rate.

Growth rate

Cirrus assumed a growth rate of 9% and 10% in 2016 and 2015, respectively. Growth rate assumptions for the five-year cash flow projections are supported by the different initiatives of Cirrus which started in 2010.

Sensitivity to changes in assumptions

Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the cash-generating unit to materially exceed its recoverable amount.

iii. SSRLI

The recoverable amount of the investments in SSRLI has been determined based on the value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The key assumptions used to determine the recoverable amount as of December 31, 2016 and 2015 are discussed below:

Discount rate

Discount rate is consistent with the risk-free industry interest rate. The pre-tax discount rate applied to cash flow projections in 2016 and 2015 are 13.0% and 13.1%, respectively.

Growth rate

Growth rate assumptions for the five-year cash flow projections in 2016 and 2015 are supported by the different initiatives of SSRLI. The Company used 5% to 13% and 9% to 24% growth rate in revenue for its cash flow projection in 2016 and 2015, respectively.

Terminal value

Terminal value is computed based on Gordon Growth model, which is the quotient of the normalized value of free cash flows assuming a long-term growth rate of 4%, and the difference between the discount rate and growth rate.

Sensitivity to changes in assumptions

Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the cash-generating unit to materially exceed its recoverable amount.

7. Cash and Cash Equivalents

	2016	2015
Cash on hand and with banks	₱ 1,803,257,745	₱ 1,296,692,431
Short-term investments	600,481,773	477,626,741
	₱ 2,403,739,518	₱ 1,774,319,172

Cash with banks earn interest at the respective bank deposit rates ranging from 0.25% to 1.25% and 0.125% to 0.25% in 2016 and 2015, respectively. Short-term investments with interest rates ranging from 0.16% to 0.55% in 2016 and 2015 are made for varying periods of up to three months depending on the immediate cash requirements of the Group (see Note 22).

8. FVPL Investments

	2016	2015
Bonds	₱ 744,616,051	₱ 481,184,519
Funds and equities	3,345,600	6,352,114
Others	21,718,480	21,440,001
	₱ 769,680,131	₱ 508,976,634

This account consists of investments that are designated as FVPL and held-for-trading investments. Designated FVPL investments consist of foreign currency-denominated fixed income securities with embedded derivatives (e.g., call and put options) that significantly modify the security's cash flow. These investments are classified under bonds and others.

Held-for-trading investments include foreign currency-denominated mutual/hedge funds, and equity investments that are managed together on a fair value basis. These investments are classified under funds and equities.

FVPL investments in bonds represent foreign currency-denominated bond securities with variable and fixed interest rates. The FVPL coupon interest rate per annum ranges from 3.50% to 13.13% in 2016, 4.24% to 13.13% in 2015, and 5.25% to 13.13% in 2014.

Net gains (losses) on increase (decrease) in market value of FVPL investments as of December 31 are as follows (in millions):

	Unrealized valuation gains (losses) in market values as of December 31		Gain (loss) on increase (decrease) in market value of FVPL investments in 2016
	2016	2015	
Bonds	(P 22.2)	(P 43.8)	P 21.6
Funds and equities	(0.4)	(1.7)	1.3
Others	1.9	1.9	—
Total	(20.7)	(43.6)	22.9
Add realized loss on sale of FVPL investments			(2.3)
Net gain on increase in market value of FVPL investments			P 20.6

	Unrealized valuation gains (losses) in market values as of December 31		Gain (loss) on increase (decrease) in market value of FVPL investments in 2015
	2015	2014	
Bonds	(P 43.8)	(P 22.7)	(P 21.1)
Funds and equities	(1.7)	0.3	(2.0)
Others	1.9	1.2	0.7
Total	(43.6)	(21.2)	(22.4)
Add realized loss on sale of FVPL investments			(3.3)
Net loss on decrease in market value of FVPL investments			(P 25.7)

	Unrealized valuation gains (losses) in market values as of December 31		Gain (loss) on increase (decrease) in market value of FVPL investments in 2014
	2014	2013	
Bonds	(P 22.7)	(P 16.3)	(P 6.4)
Funds and equities	0.3	(2.3)	2.6
Others	1.2	1.1	0.1
Total	(21.2)	(17.5)	(3.7)
Add realized loss on sale of FVPL investments			(5.8)
Net loss on decrease in market value of FVPL investments			(P 9.5)

There were no outstanding forward transaction as of December 31, 2016 and 2015.

9. Receivables

	2016	2015
Trade	₱ 2,001,480,123	₱ 1,860,418,462
Tax credits/refunds	139,743,453	105,022,610
Notes receivable	32,000,000	40,000,000
Interest receivable	21,850,380	16,498,411
Advances to employees	14,567,248	12,374,133
Receivables from villa owners	11,069,973	15,960,585
Dividend receivable	3,299,072	—
Advances to suppliers	268,488	2,117,084
Others	8,672,669	14,709,562
	2,232,951,406	2,067,100,847
Less allowance for doubtful accounts	65,449,513	72,497,441
	₱ 2,167,501,893	₱ 1,994,603,406

Trade receivables are non-interest bearing and are normally settled on a 30-day term.

As at December 31, 2016 and 2015, the Group has notes receivable amounting to ₱32.0 million from ATR Holdings, Inc. and ₱40.0 million from Maybank ATR Kim Eng, respectively. The notes bear 7% interest rate per annum, unsecured and currently due and demandable.

Interest receivable pertains to accrued interest income from cash and cash equivalents, FVPL and AFS investments in debt instruments.

Receivables from villa owners pertain to SSRLI's net rental share and handling fees from reimbursable expenses such as guest supplies and other amenities, operating supplies, utilities, manpower, laundry services and other expenses for villa maintenance.

Others include advances to suppliers related to the total cost of fuel tanks and pipelines funded initially by the subsidiary but will be recovered from the supplier over the supply contract period agreed upon by the parties.

Movement in the allowance for doubtful trade and other receivable accounts are as follows:

2016	Trade	Others	Total
At January 1	₱ 70,664,283	₱ 1,833,158	₱ 72,497,441
Provision for the year (Note 22)	26,082,261	—	26,082,261
Write-off	(33,130,189)	—	(33,130,189)
At December 31	₱ 63,616,355	₱ 1,833,158	₱ 65,449,513

2015	Trade	Others	Total
At January 1	₱ 39,693,797	₱ 1,833,158	₱ 41,526,955
Provision for the year (Note 22)	32,110,190	—	32,110,190
Write-off	(1,139,704)	—	(1,139,704)
At December 31	₱ 70,664,283	₱ 1,833,158	₱ 72,497,441

10. Inventories

	2016	2015
At cost:		
Raw materials	₱ 109,764,434	₱ 75,782,695
Food and beverage	18,747,134	15,355,783
Aircraft parts in transit	7,378,912	10,033,989
Materials in transit	5,277,159	7,200,152
Reel inventory	3,645,904	4,043,109
	144,813,543	112,415,728
At net realizable value:		
Finished goods - net of allowance for inventory obsolescence of ₱26.9 million in 2016 and ₱19.0 million in 2015	233,969,537	262,455,851
Work in process - net of allowance for inventory obsolescence ₱7.0 million in 2016 and 2015	102,095,274	116,874,466
Raw materials - net of allowance for inventory obsolescence of ₱12.2 million in 2016 and ₱6.8 million in 2015	89,312,869	81,757,647
Spare parts and operating supplies - net of allowance for inventory obsolescence of ₱36.1 million in 2016 and ₱35.3 million in 2015	76,943,164	104,184,985
Aircraft spare parts and supplies - net of allowance for inventory losses of ₱5.1 million in 2016 and 2015	25,240,149	21,159,618
Construction-related materials - net of allowance for inventory obsolescence of ₱1.5 million in 2016 and 2015	11,542,383	2,135,894
	539,103,376	588,568,461
	₱ 683,916,919	₱ 700,984,189

Provision for inventory losses recognized in 2016, 2015 and 2014 amounted to ₱14.1 million, ₱7.1 million and ₱1.5 million, respectively.

Aircraft parts in transit are purchased from suppliers abroad under Freight on Board Shipping Point. These items are in the custody of either the Bureau of Customs or freight forwarder as of December 31, 2016 and 2015.

Operating supplies pertain to inventory items used in providing services such as printing, cleaning and office and guest supplies.

Construction-related materials are excess materials and supplies from Villa Development Project. These are held for use in other construction of villa or future repair/renovation of villas.

11. AFS Investments

	2016	2015
Quoted equity shares	₱ 5,671,746,053	₱ 5,082,198,801
Unquoted equity shares	1,402,973,236	1,127,466,140
Bonds and convertible note	847,825,052	907,451,753
Funds and equities	254,471,051	108,212,393
Proprietary shares	184,210,321	190,450,322
	8,361,225,713	7,415,779,409
Less current portion of AFS bonds	47,728,517	56,786,078
	₱ 8,313,497,196	₱ 7,358,993,331

Quoted equity shares consist of marketable equity securities that are listed and traded in the Philippine Stock Exchange (PSE). The fair market values of these listed shares are based on their quoted market prices as of December 31, 2016 and 2015 which are assessed to be the exit prices.

AFS investments in bonds represent foreign currency-denominated bond securities with variable and fixed coupon interest rate per annum ranging from 3.50% to 7.38% in 2016, 3.88% to 8.35% in 2015 and 4.22% to 9.88% in 2014. Maturity dates range from August 8, 2017 to October 15, 2025 for bonds held as of December 31, 2016 and April 22, 2016 to May 3, 2042 for bonds held as of December 31, 2015.

In 2016, 2015, and 2014, gain on sale of AFS investments amounted to ₱555.6 million, ₱1,091.2 million, ₱1,662.0 million, respectively.

The Group's AFS unquoted equity shares, bonds and convertible note include the following:

a. Enderun Colleges, Inc. (Enderun)

In 2008, the Company entered into a subscription agreement for the acquisition of 16,216,217 shares of stock equivalent to 20% equity stake in Enderun, a college that offers a full range of bachelor's degree and non-degree courses in the fields of hotel administration, culinary arts and business administration. The total cost of the investment in Enderun amounting to ₱286.2 million.

In 2015, the Company recognized ₱58.6 million gain on fair value adjustment in its investment in Enderun presented in other comprehensive income. The carrying value of the investment in Enderun amounted to ₱344.8 million as at December 31, 2016 and 2015, respectively.

The Company received cash dividends from Enderun amounting to ₱21.9 million and ₱9.4 million in 2016 and 2015, respectively.

Investment in Enderun is classified as AFS investments because the Company does not exercise significant influence and its holding in Enderun is not sufficient to influence major business decisions (see Note 4).

b. Y-mAbs Therapeutics, Inc. (YmAbs)

In December 2015, IQHPC invested US\$1.0 million (P47.1 million) in YmAbs, a clinical stage biotechnology company specializing in developing novel antibody therapeutics to treat cancer. This was classified as an AFS equity investment.

On November 10, 2016, IQHPC made additional investments to YmAbs amounting to US\$.75 million (P36.5 million). In November 2016, IQHPC transferred its investment of 399,544 shares of common stock in YmAbs to AI.

As of December 31, 2016 and 2015, the total investment of the Group in YmAbs amounted to P87.0 million (inclusive of foreign exchange adjustment) and P47.1 million, respectively.

c. Leopard Cambodia Investments (BVI) Ltd. (Leopard)

In 2012, AI purchased 525 shares of Leopard. Leopard is a limited company established in the British Virgin Islands (BVI). The objective is to achieve capital appreciation through investments primarily in businesses with significant operations in Cambodia and in real estate located in Cambodia.

In 2016, AI sold its shares in Leopard for P12.5 million which resulted to a gain of P1.5 million.

d. KSA Realty Corporation (KSA)

The Company has an equity stake in KSA, the owner of The Enterprise Center, an office building. In 2015, the Company recognized P99.2 million gain on fair value adjustment in its investment in KSA which is presented in other comprehensive income (see Note 24).

On June 15, 2016, the Company acquired additional shares in KSA amounting to P236.5 million. This increased the Company's stake in KSA from 11% in 2015 to 14.28%. As at December 31, 2016 and 2015, the Company's investment in KSA amounted to P752.9 million and P516.4 million, respectively.

The Company received cash dividends from KSA amounting to P114.2 million and P68.5 million in 2016 and 2015, respectively.

e. Maybank ATR Kim Eng Capital Partners, Inc. (Maybank ATR)

On October 21, 2013, the Company entered into a Memorandum of Agreement with Maybank ATR and other parties to incorporate an entity that shall serve as the holding company of the parties for their investments in a stand-alone trust company. In 2013, the Company invested P18.75 million in 15,000,000 common shares and P18.75 million in 18,750,000 cumulative, non-voting, redeemable and non-convertible preferred shares of the new entity. These investments give the Company a total of 10% interest in the new entity. As of December 31, 2016 and 2015, the cost of the Company's investment amounted to P37.5 million.

f. Geothermal Project

On January 10, 2014, the Company entered into a loan and investment agreement with SKI Construction Company, Inc. (SKI), Red Core Investment Corp. (Red Core), Tayabas Power, Tiaong Geothermal Power, Inc. (Tiaong Power), and San Juan Geothermal Power, Inc. (San Juan Power) to jointly survey and explore the geothermal energy potential in the areas defined by the Tayabas, Tiaong and San Juan Geothermal Renewable Energy Service Contract (GRESO). Under this agreement, the Company committed to lend up to ₱172.0 million for exploration phase of the three sites. As at December 31, 2016 and 2015, total amount of investment amounted to ₱82.9 million, net of allowance for impairment amounting to ₱58.0 million.

The Company may choose to convert each Note into common shares of the three operating companies: Tayabas Power, Tiaong Power and San Juan Power to achieve 9.1% stake in each of these entities. If the Company opts not convert the note within the agreed time frame, these notes will accrue interest until they mature 62 months from the initial drawdown date.

Below is the rollforward of the unrealized valuation gains (losses) on AFS investments recognized in equity:

	2016	2015
Beginning balance	₱ 686,254,240	₱ 3,238,819,432
Gain (loss) recognized directly in equity - net of tax	1,175,213,241	(2,271,925,735)
Amount removed from equity and recognized in consolidated statement of income - net of tax	38,309,243	(280,639,457)
Ending balance	₱ 1,899,776,724	₱ 686,254,240

In 2016, 2015 and 2014, the Group recognized impairment losses on its quoted and unquoted AFS debt and equity investments amounting to ₱590.9 million, ₱805.2 million, and ₱259.9 million, respectively (see Note 22).

12. Investments and Advances

	2016	2015
Investments at equity - net	₱ 1,941,304,352	₱ 1,821,604,352
Advances - net of allowance for doubtful accounts of ₱564.8 million in 2016 and 2015	2,269,627	2,655,735
	₱ 1,943,573,979	₱ 1,824,260,087

Advances to Vicinetum amounted to ₱1.4 million and ₱1.3 million as of December 31, 2016 and 2015, respectively, net of allowance for doubtful accounts of ₱564.8 million in both years.

Investments at equity consist of:

	2016	2015
Acquisition cost:		
Common shares	₱ 199,199,033	₱ 188,638,207
Preferred shares	2,059,988,045	1,997,775,000
Total	2,259,187,078	2,186,413,207
Accumulated equity in net earnings - net of valuation allowance	(557,507,726)	(484,733,855)
Effect of foreign exchange differences	239,625,000	119,925,000
	₱ 1,941,304,352	₱ 1,821,604,352

The significant transactions involving the Group's investments in associates for 2016 and 2015 follow:

AGP International Holdings Ltd. (AGPI)

In December 2011, AI entered into a subscription agreement with AGPI for US\$5.0 million Convertible Bridge Notes (the "Notes"), with interest rate of 9% compounded annually. The principal, together with the accrued interest, is payable on the one year anniversary of the issuance of each Note. The Notes are convertible at the option of the holder into: (a) Series B preferred shares at the per share price paid to buy out existing Series A preferred shares (US\$0.345/share or the "conversion price"); or (b) the equity security issued by AGPI in its next round of equity financing at the per share price paid in such next round of financing.

AGPI is a BVI business company formed in 2010 in connection with the acquisition of equity of Atlantic, Gulf and Pacific Company of Manila, Incorporated (AG&P). AGPI, through its subsidiary and associates, is focused on providing modular engineering and construction and general engineering design services, including, fabrication, assembly and manpower services, particularly in the oil, gas, petrochemical, power generation and mining industries.

On June 28, 2013, AI converted the US\$5.0 million Convertible Bridge Notes to 16.4 million Series B, voting preferred shares. On June 29, 2013, AI signed a definitive agreement with AGPI amounting to US\$40.0 million for the subscription of 83.9 million Series C, voting preferred shares in AGPI. Series B and Series C preferred shares are convertible, at the option of the holder into Class A common shares. The subscription increased AI's holdings to 27% giving the Group significant influence over AGPI.

The principal place of business of AGPI is Vantepool Plaza, 2nd Floor, Wickhams Cay 1, Road Town, Tortola British Virgin Island.

The total cost of the investment in AGPI amounted to ₱2.0 billion. As of December 31, 2016 and 2015, the carrying value of the investment amounted to ₱1,941.3 million and ₱1,821.6 million, respectively.

The following are the significant financial information relevant to the Group's investment in AGPI as of and for the years ended December 31, 2016 and 2015 (in millions):

	2016	2015
Equity	₱ 7,385.2	₱ 6,167.7
Net income	1,447.7	568.7

BehaviorMatrix, LLC (BM)

In October 2011, AI entered into a subscription agreement with Predictive Edge Media Holdings, LLC (PEMH) for the acquisition of 1,000,000 Series A preferred units at US\$3 per unit, which constituted 10% of the total Series A preferred units outstanding. In the first quarter of 2012, all of AI's holdings in PEMH, first acquired in October 2011, were exchanged for an interest in Predictive Edge Technologies, LLC ("Predictive"), PEMH's parent company. Predictive is a US-based early-staged technology company, which provides products and services that make practical and effective use of its patented behavioral science, based on psychological principles and state-of-the art mathematics that allow it to measure and quantify emotions associated with digital content.

In July 2015, AI made an additional investment of US\$0.5 million (P22.5 million).

In March 2016, AI invested an additional US\$0.437 million (P20.6 million) through a convertible note. In October 2016, Predictive merged with BM, its subsidiary, with the latter being the surviving company. As part of the restructuring of BM, the convertible notes and accrued interest were converted to equity on the same date and AI invested an additional US\$0.814 million (P39.2 million) for a 20.5% shareholding in BM. The increased ownership allows AI to exercise some influence over BM.

In 2016 and 2015, AI provided impairment loss on its investment in BM amounting to P62.2 million [presented under "Equity in net earnings (losses) - net" in the consolidated statement of income] and P57.2 million (see Note 22), respectively.

As of December 31, 2016 and 2015, the net carrying value of AI's investment in BM presented under investments at equity and AFS investments, respectively, amounted to nil.

Prople Limited

In November 2013, AI invested US\$4.0 million (P175.9 million) convertible notes in Prople Limited. In August 2015 and February 2016, AI purchased Tranche C notes of Prople Limited amounting to US\$0.5 million (P22.6 million) and US\$0.2 million (P10.6 million), respectively. These notes are convertible at the option of the holder into common shares of Prople Limited. The interest is 5% for the first three years and if not converted on the third anniversary of closing date (i.e., November 18, 2016, the conversion date), the interest will be the prevailing five-year US Dollar Republic of the Philippines (ROP) plus 400 basis points or 7%, whichever is higher for the next two years.

In February 2016, AI converted the notes to equity, giving AI a 32% equity stake and a significant influence over Prople Limited.

In 2016 and 2015, AI provided impairment loss on its investment in Prople amounting to P10.6 million [presented under "Equity in net earnings (losses) - net" in the consolidated statement of income] and P197.9 million (see Note 22), respectively.

As of December 31, 2016 and 2015, the net carrying value of AI's investment in Prople presented under investments in equity and AFS investments, respectively, amounted to nil.

The associates as of December 31, 2016 and 2015 have no contingent liabilities or capital commitments.

PDIPI and Subsidiaries

- a. PDP Energy established PDEIC, a PEZA-registered company engaged in manufacturing wires, mainly for export.
- b. Cash dividends received by the Company amounted to ₱250 million at ₱2.91 per share in 2016, ₱1.6 billion at ₱272.4 per share in 2015 and ₱95.2 million at ₱40.3 per share in 2014.

As discussed in Note 6, PDP Group became subsidiaries of the Company towards the end of December 2014. Prior to that, PDP Group is accounted for as an associate.

Anscor-Casto Travel Corporation

In 2014, the Company sold its 44% interest in Anscor-Casto Travel Corporation for ₱9.5 million which resulted in a gain for the same amount since the carrying value of the investment is nil.

Newco, Inc.

In 2014, the Company sold its 45% interest in Newco, Inc. for ₱46.6 million which resulted in a gain for the same amount since the carrying value of the investment is nil.

13. Property and Equipment

	2016					
	Land Buildings and Improvements	Flight Ground, Machinery and Other Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Construction in Progress	Total
Cost						
January 1	₱ 2,624,262,278	₱ 803,726,553	₱ 381,796,968	₱ 160,482,455	₱ 38,280,634	₱ 4,008,548,888
Additions	13,014,678	30,118,847	54,366,982	35,153,068	47,231,851	179,885,426
Reclassification	28,600,967	19,394,355	—	—	(47,995,322)	—
Retirement/ disposals	—	—	(566,551)	(11,769,257)	—	(12,335,808)
Foreign exchange adjustment	427,647	—	2,603,627	—	—	3,031,274
December 31	2,666,305,570	853,239,755	438,201,026	183,866,266	37,517,163	4,179,129,780
Accumulated						
Depreciation and Amortization						
January 1	598,359,494	325,983,683	266,016,152	116,312,545	—	1,306,671,874
Depreciation and amortization	97,540,270	77,899,620	41,275,895	17,352,970	—	234,068,755
Retirement/disposals	—	—	(364,947)	(11,397,233)	—	(11,762,180)
Foreign exchange adjustment	(375,479)	—	1,795,771	—	—	1,420,292
December 31	695,524,285	403,883,303	308,722,871	122,268,282	—	1,530,398,741
Net Book Value	₱ 1,970,781,285	₱ 449,356,452	₱ 129,478,155	₱ 61,597,984	₱ 37,517,163	₱ 2,648,731,039

	2015					
	Land Buildings and Improvements	Flight Ground, Machinery and Other Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Construction in Progress	Total
Cost						
January 1	P 2,588,972,115	P 762,499,675	P 295,345,186	P 147,146,569	P 40,941,659	P 3,834,905,204
Additions	19,585,661	53,432,485	28,292,544	15,313,172	120,696,386	237,320,248
Reclassification	15,566,895	46,858,945	60,931,571	–	(123,357,411)	–
Retirement/ disposals	–	(59,064,552)	(3,672,319)	(1,977,286)	–	(64,714,157)
Foreign exchange adjustment	137,607	–	899,986	–	–	1,037,593
December 31	2,624,262,278	803,726,553	381,796,968	160,482,455	38,280,634	4,008,548,888
Accumulated Depreciation and Amortization						
January 1	508,141,758	289,726,339	232,415,175	102,658,200	–	1,132,941,472
Depreciation and amortization	90,263,073	95,321,896	36,425,705	14,757,226	–	236,767,900
Retirement/disposals	–	(59,064,552)	(3,605,736)	(1,102,881)	–	(63,773,169)
Foreign exchange adjustment	(45,337)	–	781,008	–	–	735,671
December 31	598,359,494	325,983,683	266,016,152	116,312,545	–	1,306,671,874
Net Book Value	P 2,025,902,784	P 477,742,870	P 115,780,816	P 44,169,910	P 38,280,634	P 2,701,877,014

As of December 31, 2016 and 2015, land with improvements and structures of SSRLI with appraised value of ₱2,923.0 million were used as collateral for the loan obtained in 2005 by a subsidiary (see Note 18). As of December 31, 2016 and 2015, the mortgage participating certificates or “MPC” issued to the creditor bank represents 3% and 5%, respectively, of the appraised value of the properties that were used as collateral. The carrying value of the related property amounted to ₱269.2 million and ₱301.9 million as of December 31, 2016 and 2015, respectively.

Construction in progress includes cost of the on-going construction of the land and building improvements and cost of constructing and assembling machineries and equipment.

Depreciation charged to operations amounted to ₱234.1 million, ₱236.8 million, and ₱132.9 million in 2016, 2015 and 2014, respectively (see Note 20).

14. Investment Properties

	2016	2015
January 1	P 260,569,744	P 260,569,744
Additions	640,000	–
Disposals	(26,331,909)	–
December 31	P 234,877,835	P 260,569,744

The Group’s investment properties include 144.0 hectares of land in Palawan, 875.0 hectares of land in Cebu, and 97.4 hectares in Guimaras.

In 2016, the Group sold its investment property in Cebu to a third-party buyer through the sale of 100% of outstanding shares of stock of Uptown Kamputhaw Holdings, Inc., formerly APHI. Gain on sale of the investments amounted to ₱343.2 million, net of commission expense of ₱17.7 million.

Based on the valuation performed by professionally qualified, accredited and independent appraisers as of November and December 2016, the aggregate fair market values of the investment properties amounted to ₱357.0 million. The fair value was determined using the sales comparison approach which considers the sale of similar or substitute properties, related market data and the assets' highest and best use. The fair value of the investment properties is categorized as Level 3 which used adjusted inputs for valuation that are unobservable as of the date of valuation.

The inputs used were offer prices of similar land. Significant increases or decreases in offer price would result in higher or lower fair value of the asset.

The appraisers determined that the highest and best use of these properties are either for residential, agricultural, commercial and recreational utility. For strategic reasons, the properties are not being used in this manner. These properties are currently held by the Group for capital appreciation.

The Group has no restrictions on the realizability of the investment properties. Under Department of Agrarian Reform rules, AAC has to complete the development on the Guimaras land by September 2018.

In 2016 and 2015, the Group derived no income from these investment properties.

The aggregate direct expenses pertaining to real property taxes amounted to ₱0.3 million in 2016, 2015 and 2014.

15. Other Noncurrent Assets and Other Noncurrent Liabilities

Other noncurrent assets as of December 31 include:

		2016		2015
Fund for villa operations and capital expenditures (Note 29)	₱	85,261,048	₱	87,195,705
Deposit to supplier (Note 29)		35,191,266		14,157,327
Deferred nurse cost		3,242,209		7,225,350
Refundable deposits		2,096,322		2,051,851
Others		3,215,933		7,652,253
	₱	129,006,778	₱	118,282,486

Fund for villa operations and capital expenditures is a restricted cash fund of PRI held as a source of future maintenance requirements and for future replacement of power generating units and desalination plant. Interest income on this fund shall accrue to the villa owners. A liability related to the fund was recognized and is presented as "Other noncurrent liabilities" in the consolidated balance sheets (see Note 29).

Other noncurrent liabilities also include ₱70.9 million and ₱73.0 million fund for future infrastructure and utility development of villas as of December 31, 2016 and 2015, respectively, which is an allocated charge to the villa owners. The fund is intended to be used for putting up new infrastructure or utilities such as power generating units, roads, potable water, and sewer and irrigation lines, electrical and auxiliary lines essential for a villa to be operable. The fund also includes the villa's share in the future expansion of the existing back-of-house facilities (power generation, potable water production, sewage treatment plant, etc.) of PRI so that the resort's utilities' capacity can accommodate the additional demand that arises from the proposed new villa.

16. Notes Payable

Notes payable represent unsecured (unless otherwise stated), short-term, interest-bearing liabilities of Cirrus amounting to ₱91.9 million and ₱26.2 million as at December 31, 2016 and 2015, respectively.

- Cirrus obtained a loan with Branch Banking and Trust Company, a foreign bank domiciled in the United States of America, with interest payable monthly at LIBOR plus 2.5%. Cirrus has to abide by certain loan covenants on eligible accounts receivable and minimum net income requirements. Loans payable outstanding as of December 31, 2016 and 2015 amounted to US\$1.8 million (₱91.9 million) and US\$0.6 million (₱26.2 million), respectively. As of December 31, 2016 and 2015, Cirrus has an available credit line which amounted to US\$3.2 million (₱156.7 million) and US\$1.9 million (₱89.4 million), respectively. As of December 31, 2016 and 2015, Cirrus is in compliance with the debt covenants.
- The Company availed of loans from local banks totaling to ₱554.0 million and ₱257.0 million in 2016 and 2015, respectively. Terms of the loans is 11 to 30 days with rates ranging from 2.6% to 7%. As at December 31, 2016 and 2015, the loans were fully paid.
- In 2015, PDP Energy availed of a short-term loan from a local bank amounting to ₱300.0 million which bears annual interest rates ranging from 2.75% to 3.00%, repriced monthly based on market conditions. As of December 31, 2015, the loan was fully paid.
- The Group's unavailed loan credit line from banks amounted to ₱3,025.0 million and ₱4,025.0 million as of December 31, 2016 and 2015, respectively.
- Total interest expense recognized in the consolidated statements of income amounted to ₱2.3 million in 2016, ₱21.7 million in 2015, and ₱17.7 million in 2014 (see Note 22).

17. Accounts Payable and Accrued Expenses

	2016	2015
Trade payables	₱ 451,701,048	₱ 346,260,502
Accrued expenses (Note 30)	214,192,989	274,104,750
Advances from customers	181,519,584	189,260,593
Payable to contractors	34,627,981	19,613,461
Payable to government agencies	41,795,677	29,643,000
Payable to villa owners	4,162,545	21,389,213
Other payables	41,798,985	35,851,449
	₱ 969,798,809	₱ 916,122,968

Trade payables are non-interest bearing and are normally settled on 30 to 90 days' terms.

Accrued expenses include unpaid operating costs of the Group.

Advances from customers pertain mainly to payment of PDP's customers for future delivery of goods and advance payments made by PRI's customers for hotel reservations.

Payable to contractors are amount due to suppliers for ongoing and completed construction projects.

18. Long-term Debt

The Group's outstanding long-term debt from local banks pertain to the following companies:

	2016	2015
Anscor	₱ 1,566,180,000	₱ 1,905,930,000
PDP	942,857,143	1,114,285,714
IAI	36,544,200	44,471,700
PRI	–	33,218,946
	2,545,581,343	3,097,906,360
Less current portion	629,350,200	638,070,546
	₱ 1,916,231,143	₱ 2,459,835,814

- a. On June 24, 2013, the Company obtained a loan amounting to US\$45.0 million or ₱1,997.8 million to finance the additional investments in shares of stock of AG&P. The loan is payable quarterly in seven years, inclusive of a two-year grace period and bears interest equal to outstanding three month LIBOR rate plus 2.0% spread per annum. The loan is secured by pledge to the Company's investments in listed shares with market value amounting to ₱2,273.7 million and ₱2,169.1 million as of December 31, 2016 and 2015, respectively. This loan provides for certain affirmative and negative covenants, such as the use of the proceeds of the loan, maintenance at all times of the required collateral value of no less than 100% of the outstanding loan balance, not allow the Company's debt-to-equity ratio to exceed 1.75:1 and the Company's current ratio to fall below 1.25:1, among others. The loan agreement further provides that in the event that these ratios are violated specifically by reason of any additional indebtedness with maturity exceeding one year, the Company shall notify the bank in writing of such indebtedness.
- b. In 2015, PDP Energy obtained a long-term loan to partially fund the ₱1.5 billion cash dividend paid to Anscor. Principal amount of the loan amounted to ₱1.2 billion payable in seven years with annual interest of 4.5%, subject to repricing at the end of the fifth year.

PDP Energy is subject to the following negative covenants for as long as the long-term loan remains outstanding, which include, but are not limited to: (a) permitting any material change in its business or in the ownership or control of its business or in the composition of its top management; (b) incurring any indebtedness (long-term loan or borrowings) with other banks; (c) allowing declaration or payment of cash dividends to its stockholders if the debt service covenant ratio is below 1.25 times or in the event of default; (d) selling, leasing, transferring or otherwise disposing all or substantially all of PDP Energy's properties and assets; (e) extending loans, advances or subsidies to any corporation it owned other than for working capital requirements or with prior consent of the Bank; and (f) undertaking any capital expenditures or purchase additional capital equipment outside of the ordinary course of business. The long-term loan also provides that PDP Energy has to maintain a ratio of current assets to current liabilities of at least 1.0 times and debt-to-equity ratio should not be more than 2.0 times until final payment date. As at December 31, 2016, PDP Energy is in compliance with the debt covenants.

In addition, the long-term loan is secured by the following collaterals, among others:

- Real estate mortgage over the land owned by Minuet;
- Chattel mortgage over machineries and equipment of PDP Energy and PDEI located in PDP Energy and PDEI's premises;
- Pledge over the shares of stock for 1,121,000 shares of PDIPI held by Anscor; and
- Assignment of leasehold rentals of the properties located in PDP Energy's premises.

The long-term loan also provides for pretermination without penalty.

Movements and details of long-term loan as at December 31 are as follows:

	2016	2015
Beginning balance	₱ 1,114,285,714	₱ –
Availment	–	1,200,000,000
Payments	(171,428,571)	(85,714,286)
Ending balance	942,857,143	1,114,285,714
Less current portion	171,429,000	171,429,000
Noncurrent portion	₱ 771,428,143	₱ 942,856,714

Interest expense from long-term loan of PDP Energy amounted to ₱45.7 million and ₱36.2 million in 2016 and 2015, respectively. Accrued interest payable amounted to ₱8.8 million and ₱9.9 million as at December 31, 2016 and 2015, respectively.

- c. In 2014, IAI converted the short-term loan amounting to US\$1.05 million (₱46.96 million) to long-term loan. The term of the loan is six years, inclusive of one year grace period on principal payments. The loan is payable in 20 equal quarterly installments on principal repayment date commencing at the end of the first quarter of the grace period.

The loan is subject to Mortgage Trust Indenture or “MTI” dated November 29, 2005 between SSRLI and the MTI trustee (AB Capital and Investment Corporation), covering a portion of the assets of SSRLI.

The interest rate shall be equivalent to the base interest rate plus margin. The interest shall be payable quarterly in arrears computed based on the outstanding balance of the loan.

- d. Loans payable of PRI amounting to US\$2.0 million (₱108.0 million) and US\$1.0 million (₱53.0 million) were obtained on November 29, 2005 and December 22, 2011, respectively. The US\$2.0 million loan, which was transferred from SSRLI through an execution of Deed of Assumption of Loan and Mortgage dated June 2, 2011, is subject to Mortgage Trust Indenture (MTI), covering the assets of SSRLI (see Note 13). Both loans have a floating interest rate per quarter equivalent to the average quarterly LIBOR plus 2% spread. The US\$2.0 million loan has a maximum term of seven years, including three years grace period while the US\$1.0 million loan has a maximum term of five years. Both loans are payable in 17 equal quarterly installments starting October 2012 to October 2016. Current portion of loans payable amounted to nil and ₱33.2 million as of December 31, 2016 and 2015, respectively.

On October 3, 2012, PRI obtained a loan from its stockholder amounting to ₱30.0 million. The loan has a grace period of five years and is payable in seven equal annual installments commencing in the year 2018 up to 2024. In lieu of the interest, PRI waives the landing and take-off charges on the said stockholder's use of PRI's runway in Amanpulo. In 2013, PRI obtained an additional loan from the stockholder amounting to ₱19.1 million with the same terms from the previous loan. In May 2015, the loan to the stockholder amounting to ₱49.2 million was fully settled by SSRLI on behalf of PRI.

Total interest expense recognized in the consolidated statements of income amounted to ₱105.0 million, ₱94.9 million, and ₱43.4 million in 2016, 2015 and 2014, respectively (see Note 22).

19. Equity

Equity holders of the Parent

Capital stock consists of the following common shares:

	Number of Shares	Amount
Authorized	3,464,310,958	₱ 3,464,310,958
Issued	2,500,000,000	₱ 2,500,000,000

Outstanding shares, net of shares held by a subsidiary, as of December 31, 2016 and 2015 totaled 1,232,593,254 and 1,233,699,354, respectively. The Company's number of equity holders as of December 31, 2016 and 2015 is 11,225 and 11,302, respectively.

The Philippine SEC authorized the offering/sale to the public of the Company's 10.0 million and 140.0 million common shares with par value of ₱1.0 each on December 29, 1948 and January 17, 1973, respectively. On August 30, 1996, the SEC authorized the licensing of 910,476,302 common shares at the subscription price of ₱2.50 per share.

In 2016, 2015 and 2014, the Company declared the following cash dividends:

	2016	2015	2014
Cash dividends per share	₱ 0.20	₱ 0.10	₱ 0.25
Month of declaration	March	May	November
Total cash dividends	₱ 500.0 million	₱ 250.0 million	₱ 625.0 million
Share of a subsidiary	₱ 253.5 million	₱ 125.8 million	₱ 314.5 million

As of December 31, 2016 and 2015, the Company's dividends payable amounted to ₱242.2 million and ₱229.6 million, respectively. Dividends payable represents mainly dividend checks that were returned by the post office and which remained outstanding as of December 31, 2016 and 2015 due to problematic addresses of some of the Company's stockholders.

The Company's BOD approved the following appropriation of the Company's unrestricted retained earnings:

Year of Appropriation	Amount
2011	₱ 2,100,000,000
2013	900,000,000
2014	1,600,000,000
2015	1,700,000,000
2016	850,000,000
	₱ 7,150,000,000

The appropriation will be used for the Company's investment program within the next three years on business activities related to tourism business process outsourcing, manpower services, education and manufacturing, whether based in the Philippines or offshore. Appropriations which were due for expirations were extended for additional three years.

The unappropriated retained earnings is restricted for the dividend declaration by the following:

- Balance of gross deferred income tax assets amounting to ₱99.5 million and ₱153.3 million as of December 31, 2016 and 2015, respectively.
- Shares in the undistributed retained earnings of subsidiaries and associates amounting to ₱2.6 billion and ₱1.6 billion as of December 31, 2016 and 2015, respectively, which are included in retained earnings, are not available for declaration as dividends until declared by the subsidiaries.

Shares held by a subsidiary

As of December 31, 2016 and 2015, Anscorcon holds 1,267,406,746 shares and 1,266,300,646 shares, respectively, of the Company. Anscorcon purchased the Company's shares amounting to ₱6.8 million (1,106,100 shares) and ₱55.9 million (8,400,000 shares) in 2016 and 2015, respectively.

20. Cost of Goods Sold and Services Rendered and Operating Expenses

Cost of goods sold consists of:

	2016	2015
Materials used and changes in inventories (Note 10)	₱ 4,780,202,671	₱ 4,547,877,135
Repairs and maintenance	126,373,261	102,892,525
Salaries, wages and employee benefits (Note 21)	100,910,214	90,045,965
Utilities	82,975,821	88,514,624
Depreciation and amortization (Note 13)	78,018,330	80,706,067
Transportation and travel	5,128,643	5,191,943
Insurance	1,968,394	2,489,433
Dues and subscriptions	1,676,767	1,680,190
Fuel cost	331,399	398,488
Others	10,746,797	11,977,260
	₱ 5,188,332,297	₱ 4,931,773,630

Cost of services rendered consists of:

	2016	2015	2014
Salaries, wages and employee benefits (Note 21)	₱ 1,587,150,307	₱ 1,177,618,229	₱ 821,596,656
Insurance	123,475,477	90,683,928	66,864,333
Recruitment services	123,367,404	89,437,777	70,470,909
Dues and subscriptions	106,726,263	65,420,731	40,091,648
Other operating costs - resort	101,640,624	105,012,101	73,385,305
Transportation and travel	50,954,088	36,144,655	25,025,021
Outside services	36,347,026	43,162,954	60,019,196
Housing cost	30,138,144	31,219,222	30,794,148
Materials and supplies - resort operations	29,936,594	30,502,161	24,656,357
Depreciation and amortization (Note 13)	27,405,992	28,409,146	27,154,445
Fuel cost	26,581,852	33,328,482	55,147,646
Repairs and maintenance	24,344,528	22,173,010	22,207,388
Commissions	12,422,708	15,260,469	13,154,514
Variable nurse costs (Note 29)	7,748,434	7,461,184	3,388,812
Others	24,339,165	33,268,392	27,558,690
	₱ 2,312,578,606	₱ 1,809,102,441	₱ 1,361,515,068

Operating expenses consist of:

	2016	2015	2014
Salaries, wages and employee benefits (Note 21)	₱ 370,375,345	₱ 340,945,122	₱ 276,776,685
Taxes and licenses	140,391,738	67,625,106	43,522,272
Depreciation and amortization (Note 13)	128,644,433	127,652,687	105,752,691
Professional and directors' fees	124,630,473	94,483,322	76,167,744
Advertising	109,709,523	116,267,925	58,940,372
Shipping and delivery expenses	84,507,245	79,891,698	977,353
Utilities	55,643,818	68,855,836	92,803,138
Transportation and travel	52,910,938	21,025,407	29,395,090
Commissions	41,995,138	40,094,155	22,151,535
Repairs and maintenance	36,002,550	41,432,321	41,723,110
Insurance	29,866,029	26,148,572	13,094,357
Rental (Note 29)	21,633,810	18,756,512	13,052,306
Communications	19,187,297	19,212,844	9,645,650
Security services	18,152,937	18,307,777	14,258,848
International processing cost	14,422,025	7,356,938	4,195,032
Entertainment, amusement and recreation	12,757,890	18,550,777	12,779,121
Meetings and conferences	10,414,427	3,783,380	3,174,816
Donation and contribution	8,162,186	7,632,540	5,480,051
Association dues	7,714,913	7,690,415	5,867,816
Computer programming	6,537,040	3,209,205	3,303,519
Office supplies	6,482,155	7,263,853	4,295,975
Medical expenses	3,889,441	3,632,848	—
Others	43,738,301	28,755,833	26,763,541
	₱ 1,347,769,652	₱ 1,168,575,073	₱ 864,121,022

In 2016, 2015 and 2014, the Company paid bonus to its non-executive directors amounting to ₱9.0 million, ₱13.4 million, and ₱6.4 million, respectively.

21. Personnel Expenses

	2016	2015	2014
Salaries and wages	₱ 1,987,758,372	₱ 1,479,276,277	₱ 1,059,316,132
Pension costs (Note 23)	15,698,052	16,230,854	11,722,183
Social security premiums, meals and other employees' benefits	54,979,442	113,102,185	27,335,026
	₱ 2,058,435,866	₱ 1,608,609,316	₱ 1,098,373,341

In 2016, 2015 and 2014, the Company paid bonuses to its executive officers amounting to ₱39.3 million, ₱63.3 million, and ₱29.3 million, respectively.

22. Interest Income, Interest Expense and Other Income (Charges)

Interest income consists of:

	2016	2015	2014
Debt instruments (Notes 8 and 11)	₱ 79,517,862	₱ 73,314,316	₱ 75,149,914
Cash and cash equivalents (Note 7)	5,512,222	4,679,094	17,439,665
Funds and equities	3,326,334	5,309,052	3,406,469
Others	6,955,209	12,957	442,951
	₱ 95,311,627	₱ 83,315,419	₱ 96,438,999

Interest income on debt instruments is net of bond discount amortization amounting to ₱0.5 million in 2016, ₱0.4 million in 2015, and ₱2.8 million in 2014.

Interest expense consists of:

	2016	2015	2014
Long-term debt (Note 18)	₱ 104,959,908	₱ 94,940,763	₱ 43,408,333
Notes payable (Note 16)	2,259,110	21,652,492	17,722,053
Others	1,788,116	5,979	230,657
	₱ 109,007,134	₱ 116,599,234	₱ 61,361,043

Other income (charges) consists of:

	2016	2015	2014
Valuation allowances on:			
AFS investments (Note 11)	(P 590,899,207)	(P 805,238,727)	(P 259,940,637)
Receivables (Note 9)	(26,082,261)	(32,110,190)	(6,174,132)
Other current and noncurrent assets	(1,584,786)	(3,774,453)	(1,811,227)
Recovery of allowances for impairment losses (Notes 9, 10 and 11)	16,509,318	—	24,553,505
Rental income	7,542,788	3,771,910	819,991
Gain on remeasurement of previously held interest (Note 6)	—	—	699,011,094
Service fee	—	59,050,000	—
Insurance claims (Note 12)	—	—	46,228,744
Others	60,029,550	24,701,343	25,323,797
	(P 534,484,598)	(P 753,600,117)	P 528,011,135

In 2015, a subsidiary entered into a contract and received a fee of P59.0 million for various services rendered.

On November 8, 2013, PRI sustained property damages brought by Typhoon Yolanda. Because of these damages, its operations were temporarily suspended and resumed only on December 15, 2013. In 2013, PRI applied for insurance claims. In August and September 2014, PRI received its insurance claims of P46.23 million.

Others included ASAC's reimbursement from lessees and reversal of accrued expenses.

23. Pension and Other Post-employment Benefit Plans

The Group has funded defined benefit pension plans covering substantially all of its officers and employees. The benefits to be received by the officers and employees under the pension plans shall not be less than the minimum mandated retirement benefit plan under Republic Act (RA) No. 7641. The funds are administered by trustee banks under the control and supervision of the Board of Trustees (BOT) of the pension plans, who is composed of the executive officers of the Group.

The Group contributes to the funds as required under accepted actuarial principles to maintain the plan in sound condition and reserves the right to discontinue, suspend or change the rate and amount of its contribution to the funds at any time.

Funding Policy

The Group contributes to the plans amounts (estimated by an actuary on the basis of reasonable actuarial assumptions) which are necessary to provide the defined benefits. No member is required to make any contribution to the plans. Contributions to the plans are determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future in respect of services in the current period. The past service cost (PSC) is the present value of the units of benefits payable in the future in respect of services rendered prior to valuation date.

The Group's management performs an Asset-Liability Matching Study 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 risks of the plans. The Group's current strategic investment strategy consists of 40% of equity instruments and 60% of debt instruments.

The Group's plan assets and investments as of December 31, 2016 and 2015 consist of the following:

- a. Cash and cash equivalents, which include regular savings and time deposits;
- b. Investments in government securities, which include retail treasury bonds and fixed rate treasury notes that bear interest ranging from 2.13% to 9.13% in 2016 and 2015 and have maturities from September 4, 2016 to October 24, 2037 in 2016 and 2015;
- c. Investments in corporate debt instruments, consisting of both short-term and long-term corporate notes and land bonds, which bear interest ranging from 2.13% to 8.5% in 2016 and 4.41% to 8.5% in 2015 and have maturities from May 22, 2017 to April 20, 2025 in 2016 and from August 27, 2019 to April 25, 2025 in 2015; and
- d. Investments in equity securities, which consist of unlisted and actively traded securities of holding firms, banks and companies engaged in energy, oil and gas, telecommunications, transportation, real estate, construction, food and beverage, mining and other services among others.

As of December 31, 2016 and 2015, the Company's defined benefit retirement fund (Fund) has investments in shares of stock of the Company with a cost of ₱39.9 million and ₱41.0 million, respectively. All of the fund's investing decisions are made by the BOT of the pension plans. The retirement benefit fund's total gains arising from the changes in market prices amounted to ₱3.2 million and ₱2.1 million in 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the Fund's carrying value and fair value amounted to ₱448.6 million and ₱426.7 million, respectively.

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

	2016	2015	2014
Retirement benefit cost:			
Current service cost	₱ 18,559,744	₱ 19,132,392	₱ 13,730,445
Net interest	(2,861,692)	(2,901,538)	(2,008,262)
Net benefit expense (Note 21)	₱ 15,698,052	₱ 16,230,854	₱ 11,722,183
Actual return on plan assets	₱ 5,905,193	₱ 1,824,388	₱ 23,535,342

Changes in net retirement plan asset are as follows:

	2016	2015	2014
Net retirement plan asset, beginning	₱ 59,482,997	₱ 65,533,724	₱ 53,846,435
Current service cost	(13,968,281)	(13,310,014)	(10,316,336)
Net interest	3,015,453	3,221,383	2,383,337
	(10,952,828)	(10,088,631)	(7,932,999)
Actuarial changes arising from:			
Remeasurement of plan assets	(13,230,751)	(17,100,815)	9,836,624
Experience adjustments	8,514,257	7,386,456	1,357,122
Changes in financial assumptions	—	99,446	657,490
Changes in the effect of asset ceiling	5,045,756	2,473,743	(2,982,175)
	329,262	(7,141,170)	8,869,061
Contribution	10,917,120	11,179,074	7,723,131
Transfer from net retirement benefits payable	414,715	—	—
Net plan assets of acquired subsidiary (Note 6)	—	—	3,028,096
Net retirement plan asset, end	₱ 60,191,266	₱ 59,482,997	₱ 65,533,724

Changes in net retirement benefits payable are as follows:

	2016	2015	2014
Net retirement benefits payable, beginning	(₱ 6,666,773)	(₱ 9,054,911)	(₱ 10,965,263)
Current service cost	(4,591,463)	(5,822,378)	(3,414,109)
Net interest	(153,761)	(319,845)	(375,075)
	(4,745,224)	(6,142,223)	(3,789,184)
Actuarial changes arising from:			
Experience adjustments	(52,784)	(4,826,719)	(795,535)
Remeasurement of plan assets	(1,593,549)	(581,257)	190,861
Changes in financial assumptions	2,184,750	4,190,933	(922,028)
Changes in the effect of asset ceiling	43,978	—	—
	582,395	(1,217,043)	(1,526,702)
Contribution	7,032,548	9,747,404	6,200,818
Transfer to net retirement plan asset	(414,715)	—	—
Benefits paid directly by the Group	—	—	1,025,420
Net retirement benefits payable, end	(₱ 4,211,769)	(₱ 6,666,773)	(₱ 9,054,911)

Computation of net retirement plan assets (liabilities):

2016:

	Net Retirement Plan Asset	Net Retirement Liability	Total
Present value of defined benefit obligation	(P 346,015,862)	(P 41,890,705)	(P 387,906,567)
Fair value of plan assets	410,514,332	38,093,651	448,607,983
Surplus (deficit)	64,498,470	(3,797,054)	60,701,416
Effect of the asset ceiling	(4,721,919)	–	(4,721,919)
Transfer to retirement plan asset	414,715	(414,715)	–
Retirement plan asset (liability)	P 60,191,266	(P 4,211,769)	P 55,979,497

2015:

	Net Retirement Plan Asset	Net Retirement Liability	Total
Present value of defined benefit obligation	(P 325,294,428)	(P 39,236,445)	(P 364,530,873)
Fair value of plan assets	394,111,065	32,613,650	426,724,715
Surplus (deficit)	68,816,637	(6,622,795)	62,193,842
Effect of the asset ceiling	(9,333,640)	(43,978)	(9,377,618)
Retirement plan asset (liability)	P 59,482,997	(P 6,666,773)	P 52,816,224

Changes in the present value of defined benefit obligation:

	2016	2015
Defined benefit obligation, beginning	P 364,530,873	P 341,770,555
Interest cost	17,433,766	16,082,344
Current service cost	18,559,744	19,132,392
Benefits paid from plan assets	(1,971,593)	(5,604,302)
Remeasurement in other comprehensive income:		
Actuarial gain - changes in financial assumptions	(2,184,750)	(4,290,379)
Actuarial loss - change in demographic assumptions	1,763,688	–
Actuarial gain - experience adjustments	(10,225,161)	(2,559,737)
Defined benefit obligation, ending	P 387,906,567	P 364,530,873

Changes in the fair value of plan assets:

	2016	2015
Fair value of plan assets, beginning	₱ 426,724,715	₱ 409,578,151
Interest income	20,729,493	19,506,460
Contributions	17,949,668	20,926,478
Remeasurement loss	(14,824,300)	(17,682,072)
Benefits paid from plan assets	(1,971,593)	(5,604,302)
Fair value of plan assets, ending	₱ 448,607,983	₱ 426,724,715

Changes in the effect of asset ceiling:

	2016	2015
Beginning balance	₱ 9,377,618	₱ 11,328,783
Changes in the effect of asset ceiling	(5,089,734)	(2,473,743)
Interest on the effect of asset ceiling	434,035	522,578
Ending balance	₱ 4,721,919	₱ 9,377,618

The fair value of plan assets as of December 31 are as follows:

	2016	2015
Debt instruments	₱ 185,013,512	₱ 151,923,113
Unit investment trust funds	109,446,594	97,074,293
Equity instruments	92,751,984	120,684,378
Cash and cash equivalents	45,425,257	40,742,739
Others	15,970,636	16,300,192
	₱ 448,607,983	₱ 426,724,715

The financial instruments with quoted prices in active market amounted to ₱299.5 million and ₱204.2 million as of December 31, 2016 and 2015, respectively. 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 sensitivity analysis on the below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation of the Company, PDP Group and PRI as of the end of the reporting period, assuming all other assumptions were held constant:

2016	Increase (decrease)	Effect on present value of defined benefit obligation Increase (decrease)
Discount rates	-0.7% to -4.0% +0.6% to +4.4%	₱ 3,566,736 (3,876,060)
Future salary increases	+1.1% to +8.4% -1.0% to -7.2%	₱ 6,874,329 (6,004,623)

2015	Increase (decrease)	Effect on present value of defined benefit obligation Increase (decrease)
Discount rates	-0.6% to -4.9%	₱ 4,099,559
	+0.7% to 5.4%	(4,472,116)
Future salary increases	+1.1% to 10.2%	₱ 7,981,416
	-1.0% to -8.8%	(6,925,561)

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation of the subsidiaries except PDP Group and PRI as of the end of the reporting period, assuming all other assumptions were held constant:

2016	Increase (decrease)	Effect on present value of defined benefit obligation Increase (decrease)
Discount rates	-4.1% to -8.1%	₱ 897,356
	+4.6% to +9.1%	(712,052)
Future salary increase	+4.1% to 8.4%	₱ 1,380,422
	-3.8% to -7.4%	(1,240,425)

2015	Increase (decrease)	Effect on present value of defined benefit obligation Increase (decrease)
Discount rates	-1.0% to -7.8%	(₱ 496,858)
	+1.0% to 9.1%	580,414
Future salary increase	+1.0% to 8.0%	₱ 508,937
	-1.0% to -7.0%	(446,728)

The Group expects to make contributions amounting to ₱20.9 million to its defined benefit pension plans in 2017.

The principal assumptions used in determining pension benefit obligations for the Group's plans are shown below:

	2016	2015
Discount rate	4.64% to 5.86%	4.3% to 5.64%
Future salary increases	3.00% to 5.00%	5.0% to 10.0%

The weighted average duration of the defined benefit obligation as of December 31, 2016 and 2015 ranges from 1.8 to 11.8 years and 1.8 to 16.8 years, respectively.

Shown below is the maturity analysis of the expected future benefit payments as at December 31, 2016 and 2015:

Year	2016	2015
2017	₱ 159,025,500	₱ 155,431,588
2018	13,262,761	9,280,105
2019	6,982,818	6,715,322
2020	11,495,521	12,295,369
2021	88,259,168	94,757,510
2022 to 2026	31,296,005	28,503,743
	₱ 310,321,773	₱ 306,983,637

24. Income Taxes

The provision for income tax consists of:

	2016	2015	2014
Current	₱ 338,260,726	₱ 272,752,008	₱ 12,927,935
Deferred	85,435,341	36,645,647	16,432,009
	₱ 423,696,067	₱ 309,397,655	₱ 29,359,944

The components of the net deferred income tax assets (liabilities) are as follows:

	2016		2015	
	Net Deferred Income Tax Assets ⁽¹⁾	Net Deferred Income Tax (Liabilities) ⁽²⁾	Net Deferred Income Tax Assets ⁽¹⁾	Net Deferred Income Tax (Liabilities) ⁽²⁾
Recognized directly in the consolidated statements of income:				
Deferred income tax assets on:				
Allowance for doubtful accounts	₱ 26,498,106	₱ 6,145,889	₱ 27,983,703	₱ 9,615,346
Allowance for inventory losses	24,772,634	—	28,311,111	—
Accrued expenses	8,608,406	3,972,777	7,686,498	3,422,768
Unamortized past service cost	1,630,587	1,621,856	12,907,495	2,085,246
Unrealized foreign exchange loss	1,309,770	6,194,707	1,255,789	19,694,777
Retirement benefits payable	1,448,372	—	752,404	—
Market adjustment on FVPL	—	15,097,294	—	13,053,875
NOLCO on federal and state income tax	—	—	—	16,873,653
Others	2,229,188	—	9,619,820	—
	66,497,063	33,032,523	88,516,820	64,745,665
Deferred income tax liabilities on:				
Fair value adjustment	—	(356,389,025)	—	(356,389,025)
Goodwill amortization of Cirrus	—	(185,001,298)	—	(128,522,084)
Uncollected management fee	—	(8,462,334)	—	(5,835,042)
Retirement plan assets	(2,961,335)	(3,113,386)	(1,335,269)	(5,515,109)
Unrealized foreign exchange gains	(667,578)	—	(26,757,874)	—
Others	—	—	(538,111)	—
	(3,628,913)	(552,966,043)	(28,631,254)	(496,261,260)
Recognized in the consolidated other comprehensive income:				
Deferred income tax liabilities on:				
Unrealized valuation gains on AFS investments	(944,264)	(67,470,367)	(689,857)	(59,818,732)
Cumulative actuarial gains	380,955	(12,756,171)	—	(11,539,908)
	(563,309)	(80,226,538)	(689,857)	(71,358,640)
	₱ 62,304,841	(₱ 600,160,058)	₱ 59,195,709	(₱ 502,874,235)

⁽¹⁾ Pertain to PDP, SSRLI, ASAC, APHI, AHI, Anscorcon and Sutton.

⁽²⁾ Pertain to Anscor and AI.

There are deductible temporary differences for which no deferred income tax assets were recognized as future realizability of these deferred income tax assets is not certain. These deductible temporary differences are as follows:

	2016	2015
Allowances for:		
Impairment losses	₱ 1,527,630,711	₱ 936,731,504
Doubtful accounts	569,379,331	609,698,582
Inventory losses	3,877,877	3,955,899
NOLCO	269,860,049	589,540,228
Accrued pension benefit and others	16,256,984	27,365,371
Unrealized foreign exchange losses	11,473,695	10,997,073
Provision for probable losses and lawsuits	5,721,158	5,721,158
MCIT	4,745,193	4,474,885

The Company and other subsidiaries domiciled in the Philippines are subjected to the Philippine statutory tax rate of 30% in 2016, 2015 and 2014 while a foreign subsidiary is subject to U.S. federal tax rate of 34% in 2016, 2015 and 2014.

The reconciliation of provision for income tax computed at the statutory tax rates to provision for income tax is as follows:

	2016	2015	2014
Provision for income tax at statutory tax rates	₱ 634,196,025	₱ 501,797,840	₱ 619,230,451
Additions to (reductions from) income taxes resulting from:			
Gain on sale of AFS investments, marketable equity securities and other investments subjected to final tax	(165,363,218)	(322,201,613)	(515,638,967)
Income tax at 5% GIT	(94,108,256)	(72,567,282)	(25,905,954)
Movement in unrecognized deferred income tax assets	66,327,305	262,898,352	236,630,712
Dividend income not subject to income tax	(65,639,343)	(62,895,499)	(78,258,624)
Expired NOLCO and MCIT	38,513,380	21,800,602	28,968,902
Nontaxable income	(9,622,892)	—	—
Interest income already subjected to final tax	(1,006,593)	(335,147)	(2,427,063)
Gain on remeasurement of previously held interest	—	—	(209,703,328)
Equity in net earnings of associates not subject to income tax	—	(46,186,157)	(44,142,332)
Others	20,399,659	27,086,559	20,606,147
	₱ 423,696,067	₱ 309,397,655	₱ 29,359,944

The Group has available NOLCO and MCIT which can be claimed as deduction from taxable income and as credit against income tax due, respectively, as follows:

NOLCO

The following table summarizes the NOLCO as of December 31, 2016 of the Company and its subsidiaries domiciled in the Philippines:

Period of Recognition	Availment Period	Amount	Additions	Applied	Expired	Balance
2013	2014-2016	₱ 143,626,077	–	(₱ 23,005,879)	(₱120,620,198)	₱ –
2014	2015-2017	107,543,065	–	–	–	107,543,065
2015	2016-2018	159,571,086	–	–	–	159,571,086
2016	2017-2019	–	2,745,898	–	–	2,745,898
		₱ 410,740,228	₱ 2,745,898	(₱ 23,005,879)	(₱120,620,198)	₱269,860,049

As of December 31, 2016 and 2015, a foreign subsidiary has NOLCO on federal and state income tax of nil and approximately US\$3.8 million (₱178.8 million), respectively. No deferred income tax assets were recognized on this NOLCO as its future realizability is not certain.

MCIT

Period of Recognition	Availment Period	Amount	Additions	Applied	Expired	Adjustment*	Balance
2013	2014-2016	₱ 2,327,321	–	–	(₱ 2,327,321)	–	–
2014	2015-2017	1,611,284	–	–	–	(298,660)	1,312,624
2015	2016-2018	919,233	–	–	–	(261,547)	657,686
2016	2017-2019	–	2,774,883	–	–	–	2,774,883
		₱ 4,857,838	₱ 2,774,883	–	(₱ 2,327,321)	(₱ 560,207)	₱ 4,745,193

*Adjustment pertains to the unexpired portion of MCIT of APHI.

25. Earnings Per Share - Basic / Diluted

Earnings per share - basic / diluted were computed as follows:

	2016	2015	2014
Net income attributable to equity holders of the parent	₱ 1,522,796,705	₱ 1,282,782,660	₱ 2,041,141,959
Weighted average number of shares (Note 19)	1,232,679,551	1,244,599,629	1,253,952,678
Earnings per share	₱ 1.24	₱ 1.03	₱ 1.63

The Group does not have potentially dilutive common stock equivalents in 2016, 2015 and 2014.

26. Related Party Transactions

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

In the normal course of business and in addition to those disclosed in Notes 12 and 29, the Group grants/ receives cash advances to/from its associates and affiliates.

Compensation of the Group's key management personnel (in millions):

		2016		2015		2014
Short-term employee benefits (Note 21)	₱	165.6	₱	154.7	₱	112.0
Post-employment benefits (Note 23)		8.1		7.6		7.1
Total	₱	173.7	₱	162.3	₱	119.1

There are no termination benefits, share-based payments or other long-term employee benefits granted to key management personnel.

27. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents, receivables, investments in debt instruments, quoted and unquoted equity securities, investments in mutual and hedge funds, and short-term and long-term bank loans. The Group's other financial instruments include accounts payable and dividends payable and amounts due to affiliates, which arose directly from operations.

The Group's investment objectives consist mainly of:

- maintaining a bond portfolio that earns adequate cash yields and,
- maintaining a stable equity portfolio that generates capital gains through a combination of long-term strategic investments and short-term to medium-term hold type investment.

The main risks arising from the use of these financial instruments are credit risk, liquidity risk, interest rate risk, equity price risk, foreign currency risk, and copper price risk. These risks are monitored by the Group's Investment Committee (the Committee).

The Committee evaluates the performance of all investments and reviews fund allocation to determine the future strategy of the fund. The Committee is formed by the Company's Chairman, Vice Chairman, Chief Finance Officer, and an independent consultant. These meetings occur at least every quarter. The BOD reviews and approves the Company's risk management policies. The Company's policies for managing each of these risks are summarized on the next page.

Credit risk

The Group is exposed to credit risk primarily because of its investing and operating activities. Credit risk losses may occur as a result of either an individual, counterparty or issuer being unable to or unwilling to honor its contractual obligations. The Group is exposed to credit risk arising from default of the counterparties (i.e., foreign and local currency denominated debt instruments and receivables) to its financial assets. The Group does not have a counterparty that accounts for more than 10% of the consolidated revenue.

Credit risk management

In managing credit risk on these investments, capital preservation is paramount. The Group transacts only with recognized and creditworthy counterparties. Investments in bonds are invested in highly recommended, creditworthy debt instruments that provides satisfactory interest yield.

Credit risk exposures

The table below shows the gross maximum exposure for each class of financial assets before the effects of collateral, credit enhancements and other credit risk mitigation techniques:

	2016	2015
Cash in banks	₱ 1,803,068,523	₱ 1,294,574,992
Short-term investments*	670,981,773	477,626,741
FVPL investments - bonds	744,616,051	481,184,519
AFS investments - debt instruments	847,825,052	907,451,753
	4,066,491,399	3,160,838,005
Loans and receivables:		
Trade	1,937,863,768	1,789,754,179
Notes receivable	32,000,000	40,000,000
Interest receivable	21,850,380	16,498,411
Receivable from villa owners	11,069,973	15,960,585
Advances to employees	14,567,248	12,374,133
Others	10,138,583	12,876,404
	2,027,489,952	1,887,463,712
	₱ 6,093,981,351	₱ 5,048,301,717

*Including short term investments amounting to ₱70.5 million under "Other current assets" as of December 31, 2016

Credit quality per class of financial assets

For the Group's financial assets, credit quality is monitored and managed using internal credit ratings. Internal risk ratings are derived in accordance with the Group's rating policy.

The table below shows the credit quality by class of financial asset based on the Group's credit rating system:

2016	Financial Assets that are Neither Past Due nor Impaired		Past Due But Not Impaired	Impaired	Total
	High Grade	Standard Grade			
Cash in banks	P 1,803,068,523	P –	P –	P –	P 1,803,068,523
Short-term investments*	670,981,773	–	–	–	670,981,773
FVPL investments					
bonds	64,101,510	680,514,541	–	–	744,616,051
AFS investments					
debt instruments	14,654,970	833,170,082	–	58,000,000	905,825,052
Receivables:					
Trade	–	1,429,619,823	508,243,945	63,616,355	2,001,480,123
Notes receivables	–	32,000,000	–	–	32,000,000
Interest receivable	–	21,850,380	–	–	21,850,380
Receivable from villa owners	–	11,069,973	–	–	11,069,973
Advances to employees	10,766,272	3,800,976	–	–	14,567,248
Others	3,039	9,369,482	766,062	1,833,158	11,971,741
	P 2,563,576,087	P 3,021,395,257	P 509,010,007	P 123,449,513	P 6,217,430,864

* Including short-term investments amounting to P70.5 million under "Other Current Assets."

2015	Financial Assets that are Neither Past Due nor Impaired		Past Due But Not Impaired	Impaired	Total
	High Grade	Standard Grade			
Cash in banks	P 1,294,574,992	P –	P –	P –	P 1,294,574,992
Short-term investments	477,626,741	–	–	–	477,626,741
FVPL investments					
bonds	24,747,254	456,437,265	–	–	481,184,519
AFS investments					
debt instruments	165,885,612	741,566,141	–	58,000,000	965,451,753
Receivables:					
Trade	–	1,221,346,395	568,407,784	70,664,283	1,860,418,462
Notes receivables	–	40,000,000	–	–	40,000,000
Interest receivable	–	16,498,411	–	–	16,498,411
Receivables from villa owners	–	15,960,585	–	–	15,960,585
Advances to employees	11,771,382	602,751	–	–	12,374,133
Others	–	12,876,404	–	1,833,158	14,709,562
	P 1,974,605,981	P 2,505,287,952	P 568,407,784	P 130,497,441	P 5,178,799,158

The Group evaluates credit quality on the basis of the credit strength of the security and/or counterparty/ issuer. High grade financial assets reflect the investment grade quality of the investments and/or counterparty; realizability is thus assured. Standard grade assets are considered moderately realizable.

Financial assets that are past due but not impaired

The table below shows the aging analysis of past due but not impaired loans/receivables per class that the Group held. Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due.

Trade and others	Financial Assets that are Past Due but Not Impaired				Total
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	
December 31, 2016	₱ 288,083,008	₱ 130,946,255	₱ 69,093,076	₱ 20,887,668	₱ 509,010,007
December 31, 2015	323,754,131	148,833,254	68,388,744	27,431,655	568,407,784

Liquidity risk

Liquidity risk is defined as the risk that the Group may not be able to settle or meet its obligations as they fall due. Aside from yielding good returns, the Group ensures investments have ample liquidity to finance operations and capital requirements. Short-term bank loans are secured to fill in temporary mismatch of funds for new investments.

Where applicable, long-term debt or equity are used for financing when the business requirement calls for it to ensure adequate liquidity in the subsidiaries and affiliates' operation.

The Group's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its liabilities when they are due. This is done by primarily investing in highly liquid investments.

The tables below summarize the maturity profile of the Group's financial liabilities at December 31 based on undiscounted contractual payments as well as the financial assets used for liquidity management.

December 31, 2016	Within 6 months	6 to 12 months	Over 1 up to 5 years	Over 5 years	Total
Cash in banks	₱ 1,803,257,745	₱ –	₱ –	₱ –	₱ 1,803,257,745
Short-term investments*	670,981,773	–	–	–	670,981,773
FVPL investments					
Bonds	24,300,650	9,793,305	513,202,670	197,319,426	744,616,051
AFS investments					
Bonds	–	47,728,517	472,588,641	327,507,894	847,825,052
Receivables	1,572,657,610	418,575,998	24,745,751	11,510,593	2,027,489,952
	₱ 4,071,197,778	₱ 476,097,820	₱ 1,010,537,062	₱ 536,337,913	₱ 6,094,170,573
Notes payable	₱ 91,948,200	₱ –	₱ –	₱ –	₱ 91,948,200
Accounts payable and accrued expenses**	785,540,886	142,462,246	–	–	928,003,132
Long-term debt	223,740,000	405,610,200	1,916,231,143	–	2,545,581,343
Dividends payable	241,914,173	294,233	–	–	242,208,406
	₱ 1,343,143,259	₱ 548,366,679	₱ 1,916,231,143	₱ –	₱ 3,807,741,081

* Including short-term investment amounting ₱70.5 million under "Other current asset."

** Excluding non-financial liabilities amounting to ₱41.8 million.

December 31, 2015	Within 6 months	6 to 12 months	Over 1 up to 5 years	Over 5 years	Total
Cash in banks	₱ 1,296,692,431	₱ –	₱ –	₱ –	₱ 1,296,692,431
Short-term investments	477,626,741	–	–	–	477,626,741
FVPL investments					
Bonds	10,311,599	–	125,731,438	345,141,482	481,184,519
AFS investments					
Bonds	56,534,651	286,241,765	564,675,337	–	907,451,753
Receivables	1,727,583,282	130,961,652	28,918,778	–	1,887,463,712
	₱ 3,568,748,704	₱ 417,203,417	₱ 719,325,553	₱ 345,141,482	₱ 5,050,419,156
Notes payable	₱ 26,197,832	₱ –	₱ –	₱ –	₱ 26,197,832
Accounts payable and accrued expenses*	726,883,003	34,559,115	125,037,850	–	886,479,968
Long-term debt	–	638,070,546	2,459,835,814	–	3,097,906,360
Dividends payable	229,648,921	–	–	–	229,648,921
	₱ 982,729,756	₱ 672,629,661	₱ 2,584,873,664	₱ –	₱ 4,240,233,081

*Excluding non-financial liabilities amounting to ₱29.6 million.

The Group's total financial liabilities due to be settled within one year include notes payable that management considers as working capital. Accounts payable and accrued expenses and dividends payable are expected to be settled using cash to be generated from operations and drawing from existing lines of credits or liquidity reserves.

Market risks

Market risk is defined as the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. It is the risk coming from adverse movements in factors that affect the market value of financial instruments of the Group. The Group is exposed primarily to the financial risks of changes in interest rates, equity price risk, price risk of mutual funds, and foreign currency risk.

Investments exposed to market risk are foreign and local currency denominated quoted debt instruments, foreign and local currency denominated equity instruments and mutual fund/hedge fund investments.

There has been no change to the Group's manner in managing and measuring the risk.

a. Interest rate risks

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The following table demonstrate management's best estimate of the sensitivity to reasonably possible change in interest rates, with all other variables held constant (in millions):

Floating debt instrument	Change in Interest Rates [in basis points (bps)]	Effect on Income Before Tax	
		Increase (Decrease)	
2016	+150	(P 22.22)	
	-150	22.22	
2015	+150	(P 29.73)	
	-150	29.73	

The sensitivity analysis shows the effect on the consolidated statements of income of assumed changes in interest rates on the net interest income for one year, based on the floating rate of financial assets and liabilities held at December 31, 2016 and 2015. There is no other impact on equity other than those affecting profit and loss.

Fair value interest rate risk

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Group accounts for its quoted debt instruments at fair value. Changes in benchmark interest rate will cause changes in the fair value of quoted debt instruments.

The tables below show the impact on income before income tax and equity (in millions) of the estimated future bond yields using a duration based sensitivity approach. Items affecting profit and loss are bonds classified as FVPL and items affecting equity account are bonds classified as AFS.

	Change in Interest Rates (in bps)	Increase (Decrease)	
		Effect on Income Before Tax	Effect on Equity
2016			
AFS investments	+100	P –	(P 17.89)
	-100	–	19.11
FVPL investments	+100	(18.47)	–
	-100	19.48	–

	Change in Interest Rates (in bps)	Increase (Decrease)	
		Effect on Income Before Tax	Effect on Equity
2015			
AFS investments	+100	P –	(P 19.82)
	-100	–	21.02
FVPL investments	+100	(24.25)	–
	-100	28.36	–

b. Equity price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of the equity indices and the values of individual stock. The equity price risk exposure arises from the Group's investment in stock listed in the Philippine Stock Exchange (PSE).

The sensitivity analysis assumes that the stock's standard deviation on its historical returns for the past one year provides the basis for the range of reasonably possible changes in prices of the stock investments. In establishing the relative range of the stock investment returns, the Group also assumes a 99% confidence level.

The table below show the impact on income (in millions) before income tax and equity of the estimated future return of the stock investments using a Beta-based sensitivity approach.

AFS investments	Change in PSE Price Index	Increase (Decrease)	
		Effect on Income Before Tax	Effect on Equity
2016	+18.44%	P —	P 593.35
	-18.44%	—	(593.35)
2015	+34.28%	—	822.25
	-34.28%	—	(822.25)

The annual standard deviation of the PSE price index is approximately 14.73% and 12.04% and with 99% confidence level, the possible change in PSE price index could be +/-18.44% and +/-34.28% in 2016 and 2015, respectively. There are no outstanding stock investments listed in PSE that are classified as FVPL as of December 31, 2016 and 2015.

c. Price risk of mutual funds

The Group is exposed to the risk of changes in the fund's net asset value (NAV) due to its market risk exposures.

The sensitivity analysis demonstrates management's best estimate of the impact of reasonably possible change in NAV, with all other variables held constant.

The table below show the impact on income before income tax and equity (in millions) of assumed changes in NAV. A negative amount in the table reflects a potential reduction on income before income tax or equity while a positive amount reflects a potential increase on income before income tax or equity.

Mutual funds	Change in NAV	Increase (Decrease)	
		Effect on Income Before Tax	Effect on Equity
2016	+10%	P 1.06	P 18.20
	-10%	(1.06)	(18.20)
2015	+10%	1.01	32.51
	-10%	(1.01)	(32.51)

d. Foreign currency risks

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rate. The Group's exposure arises primarily from investments in foreign currency denominated debt investments and equity securities.

The Company and a subsidiary's foreign exchange risk arises primarily from investments in foreign currency denominated debt and equity securities. To minimize income volatility due to exchange rate movements, liquid investments are held in a basket of currencies, including Philippine peso and other major currencies such as U.S. dollar, Australian dollar and Japanese Yen. This also enables the Company and a subsidiary to access investment opportunities in those currencies. The Group occasionally engages in foreign currency forward contracts as a defensive measure against foreign currency volatility.

On borrowings, it is the Company's group-wide policy for its subsidiaries and associates where it has significant influence to minimize any foreign exchange risks. Thus, all borrowings whether short-term or long-term, in general, should be in Philippine peso. Any foreign currency borrowings may be engaged only if matched by the entities' corresponding currency revenue flows or by a foreign currency asset. As such, PRI, SSRIL and CGI can borrow in U.S. dollar as their revenues are dollar-based. It is also the policy of the Group to minimize any foreign exchange exposure in its management of payables. Any substantial exposure is covered by foreign exchange contracts, if necessary.

The analysis discloses management's best estimates of the effect of reasonably possible movement of the currency rate against the Philippine peso on income before tax (in millions). It assumes that all other variables remain constant. A negative amount in the table reflects a potential reduction in income before income tax or equity, while a positive amount reflects a net potential increase in income before income tax or equity.

	Change in Currency Rate	Effect on Income Before Tax Increase (Decrease)
2016		
US Dollar	+4.41%	(P 7.30)
	-4.41%	7.30
Australian Dollar	+11.40%	(0.85)
	-11.40%	0.85
	Change in Currency Rate	Effect on Income Before Tax Increase (Decrease)
2015		
US Dollar	+3.80%	(P 6.41)
	-3.80%	6.41
Japanese Yen	+8.51%	(0.76)
	-8.51%	0.76

e. Copper rod price risk

The PDP Group uses copper rods in the manufacturing of its products. Copper rods component represents a significant portion of the cost of each unit produced. Average monthly purchase of copper rods amounted to P275.3 million with an average quantity of about 1,318 metric tons in 2016 and P316.3 million with an average quantity of about 1,111 metric tons in 2015.

Copper rods are priced based on the London Metal Exchange prices and are affected by the volatility in the price of metal in the world market. The following table represents the effect on income before tax (in millions) of the reasonably possible change in metal prices, as they affect prices of copper rods, with all other variables held constant:

	% Change in Copper Rod Prices	Effect on Income Before Income Tax
2016	+10.80%	(P 38.00)
	-10.80%	38.00
2015	+11.13%	(31.58)
	-11.13%	31.58

PDP Group's exposure to price risk on copper rod purchases is managed through back-to-back purchase of rods versus sales orders, average pricing on the firm orders like automobile wire products with long-term contracts, and obtaining orders from contractors with a fixed price or locked-in contracts with a specified period.

f. Operating and regulatory risk

CMSIS is accredited by the The Joint Commission, a private sector, US-based, not-for-profit organization. This accreditation significantly influences the CMSIS's credentialing and documentation processes for the traveling healthcare professionals. The Joint Commission accreditation is deemed as the Gold Seal of Standards for healthcare staffing companies and provides license to transact business with hospitals and association requiring The Joint Commission accreditation. Any changes on the accreditation rules and regulations may adversely affect the CMSIS's credentialing and operating procedures and ability to staff qualified healthcare professionals. The CMSIS manages its exposure to such risks by conducting internal audits and monitoring new rules and regulations from The Joint Commission.

With respect to its international business segment, CMSIS is subject to regulations by the US State Department for the immigration of nurses and temporary work visa of therapists to the USA. These governmental regulations significantly influence the CMSIS' ability to deploy nurses and therapists in the USA. CMSIS manages its exposure to such risks by actively monitoring legal and regulatory pronouncements issued by the US State Department.

Capital Management

Due to the diversity of the operations of each company in the Group, capital risk management processes in place are specific to each company. Below are the capital risk management policies of the Company and its more significant subsidiaries and associate:

- a. The primary objective of the Group's capital management is to ensure an adequate return to its shareholders and to maximize its value to its shareholders. In pursuance of this goal, the Group establishes an optimum risk return investment objectives through a sound diversified investment portfolio and in ensuring a fair credit rating, the Group establishes prudent financial policies through appropriate capitalization ratios in its investments and maintain reasonable liquidity.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated balance sheet.

No changes were made in the objectives, policies or process for the years ended December 31, 2016 and 2015.

b. Cirrus' and CGI's capital management objectives are:

- To ensure its ability to continue as a going concern; and
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

CGI monitors capital on the basis of the carrying amount of equity as presented on the face of its balance sheet.

CGI sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. It manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying business.

28. Financial Instruments

Categorization of Financial Instruments

December 31, 2016	Loans and Receivables	Financial Assets at FVPL	AFS Investments	Total
Cash and short-term investments*	₱ 2,474,239,518	₱ –	₱ –	₱ 2,474,239,518
FVPL investments	–	769,680,131	–	769,680,131
AFS investments	–	–	8,361,225,713	8,361,225,713
Receivables**	2,027,489,952	–	–	2,027,489,952
	₱ 4,501,729,470	₱ 769,680,131	₱ 8,361,225,713	₱ 13,632,635,314

* Including short-term investment amounting to ₱70.5 million under "Other current assets."

** Excluding non-financial assets amounting to ₱142.0 million.

December 31, 2015	Loans and Receivables	Financial Assets at FVPL	AFS Investments	Total
Cash and short-term investments	₱ 1,774,319,172	₱ –	₱ –	₱ 1,774,319,172
FVPL investments	–	508,976,634	–	508,976,634
AFS investments	–	–	7,415,779,409	7,415,779,409
Receivables*	1,887,463,712	–	–	1,887,463,712
	₱ 3,661,782,884	₱ 508,976,634	₱ 7,415,779,409	₱ 11,586,538,927

* Excluding non-financial assets amounting to ₱29.6 million.

Other Financial Liabilities	2016	2015
Notes payable	₱ 91,948,200	₱ 26,197,832
Accounts payable and accrued expenses*	928,003,132	886,479,968
Dividends payable	242,208,406	229,648,921
Long-term debt, including current portion	2,545,581,343	3,097,906,360
	₱ 3,807,741,081	₱ 4,240,233,081

* Excluding non-financial liabilities amounting to ₱41.8 million and ₱29.6 million in 2016 and 2015, respectively.

Fair Values of Financial Assets and Liabilities

Set out below, is a comparison by class of the carrying amounts and fair value of the Group's financial instruments:

	December 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FVPL investments:				
Bonds and convertible note	P 744,616,051	P 744,616,051	P 481,184,519	P 481,184,519
Funds and equities	3,345,600	3,345,600	6,352,114	6,352,114
Others	21,718,480	21,718,480	21,440,001	21,440,001
	769,680,131	769,680,131	508,976,634	508,976,634
AFS investments:				
Quoted equity shares	5,671,746,053	5,671,746,053	5,082,198,801	5,082,198,801
Bonds and convertible note	847,825,052	847,825,052	907,451,753	907,451,753
Funds and equities	254,471,051	254,471,051	108,212,393	108,212,393
Proprietary shares	184,210,323	184,210,323	190,450,322	190,450,322
Unquoted shares	1,097,757,074	1,097,757,074	861,146,084	861,146,084
	8,056,009,553	8,056,009,553	7,149,459,353	7,149,459,353
	P 8,825,689,684	P 8,825,689,684	P 7,658,435,987	P 7,658,435,987

The carrying amounts of cash and cash equivalents, receivables, notes payable, dividends payable and accounts payable and accrued expenses approximate their fair values due to the short-term maturity of these financial instruments. As of December 31, 2016 and 2015, AFS investments amounting to P305.2 million and P266.3 million, respectively, were carried at cost less impairment since these are investments in unquoted equity shares and the fair values cannot be measured reliably.

The carrying values of long-term debt, which have floating rates with quarterly repricing, approximate their fair values.

The following methods and assumptions were used to estimate the fair values:

- FVPL investments in bonds, funds and equities and others are derived from quoted market prices in active markets.
- AFS investments in bonds, quoted equity shares and funds and equities and proprietary shares are derived from quoted market prices in active markets.
- AFS investments in unquoted equity shares are based on the discounted cash flow (DCF) model. The valuation requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, and growth rate. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity investments.

The following table provides the Group's fair value measurement hierarchy of its assets:

As of December 31, 2016:

	Total	Fair value measurement using		
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
FVPL investments:				
Bonds	P 744,616,051	P 744,616,051	P —	P —
Funds and equities	3,345,600	3,345,600	—	—
Others	21,718,480	21,718,480	—	—
	769,680,131	769,680,131	—	—
AFS investments:				
Quoted equity shares	5,671,746,053	5,671,746,053	—	—
Bonds and convertible notes	847,825,052	847,825,052	—	—
Funds and equities	254,471,051	254,471,051	—	—
Proprietary shares	184,210,323	184,210,323	—	—
Unquoted shares	1,097,757,074	—	—	1,097,757,074
	8,056,009,553	6,958,252,479	—	1,097,757,074
	P 8,825,689,684	P 7,727,932,610	P —	P 1,097,757,074

As of December 31, 2015:

	Total	Fair value measurement using		
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
FVPL investments:				
Bonds	P 481,184,519	P 481,184,519	P —	P —
Funds and equities	6,352,114	6,352,114	—	—
Others	21,440,001	21,440,001	—	—
	508,976,634	508,976,634	—	—
AFS investments:				
Quoted equity shares	5,082,198,801	5,082,198,801	—	—
Bonds and convertible note	907,451,753	907,451,753	—	—
Funds and equities	108,212,393	108,212,393	—	—
Proprietary shares	190,450,322	190,450,322	—	—
Unquoted shares	861,146,084	—	—	861,146,084
	7,149,459,353	6,288,313,269	—	861,146,084
	P 7,658,435,987	P 6,797,289,903	P —	P 861,146,084

Description of significant unobservable inputs to valuation of financial instruments classified under Level 3 (in millions):

2016	Valuation technique	Significant unobservable inputs	Range	Sensitivity of input to fair value
Enderun	DCF Model	Student growth rate of 10%	5% to 15%	5%: fair value of ₱346 15%: fair value of ₱348
		Tuition fee increase by 5%	0% to 7%	0%: fair value of ₱329 7% fair value of ₱374
		Cost of capital of 12%	10% to 14%	10%: fair value of ₱439 13%: fair value of ₱304
KSA	DCF Model	Dividend payout is ₱100 million with 5% annual increase	-5% to 10%	-5% fair value of ₱720 10% fair value of ₱804
		Liquidity discount of 20%	10% to 30%	10%: fair value of ₱842 30%: fair value of ₱655
		Cost of equity of 14%	13% to 15%	13%: fair value of ₱798 15% fair value of ₱703

2015	Valuation technique	Significant unobservable inputs	Range	Sensitivity of input to fair value
Enderun	DCF Model	Student growth rate of 10%	5% to 15%	5%: fair value of ₱344 15% fair value of ₱347
		Tuition fee increase by 5%	0% to 5%	0%: fair value of ₱309 5% fair value of ₱389
		Cost of capital of 14%	12% to 16%	12%: fair value of ₱438 16%: fair value of ₱289
KSA	DCF Model	Dividend payout is ₱60 million	-5% to 10%	-5% fair value of ₱497 10% fair value of ₱556
		Liquidity discount of 20%	10% to 30%	10%: fair value of ₱524 30% fair value of ₱508
		Cost of equity of 11.5%	10% to 13%	10%: fair value of ₱571 13% fair value of ₱469

An increase in the percentage of EBITDA over revenue would increase the fair value of the investment in Enderun.

An increase in the expected lease income of KSA would increase the dividend payout, which would lead to an increase in the fair value of the investment in KSA.

Reconciliation of fair value measurement of AFS assets in unquoted equity shares (in millions):

	Enderun	KSA	Total
As at January 1, 2015	₱ 286	₱ 417	₱ 703
Re-measurement recognized in OCI	59	99	158
Realized gains (losses) in profit or loss	—	—	—
Unrealized gains (losses) in profit or loss	—	—	—
Purchases	—	—	—
Reclassified in discontinued operations	—	—	—
Transfer into/out of Level 3	—	—	—
Sales	—	—	—
As at December 31, 2015	345	516	861
Re-measurement recognized in OCI	—	—	—
Realized gains (losses) in profit or loss	—	—	—
Unrealized gains (losses) in profit or loss	—	—	—
Purchases	—	237	237
Reclassified in discontinued operations	—	—	—
Transfer into/out of Level 3	—	—	—
Sales	—	—	—
As at December 31, 2016	₱ 345	₱ 753	₱ 1,098

For the years ended December 31, 2016 and 2015, there were no transfers from Level 1, Level 2 and Level 3 fair value measurements.

29. Contracts and Agreements

Sutton

- a. On February 26, 2009, CGI's BOD ratified the new Service Agreement with IQHPC with a revised fee equivalent to 3% of all billed expenses effective January 1, 2009.

In January 2016, CGI and IQHPC entered into a new Service Agreement where IQPHC will pay CGI the agreed specific rate that corresponds the type of medical staff deployed to a facility. The term of the agreement is valid for a period of 36 months from the commencement date. Fees shall be billed upon deployment and are due within 30 days. Interest shall accrue at the rate of 2% per month on any unpaid balance.

- b. In the ordinary course of business, IQHPC enters into Service Agreements with U.S. hospitals and/or staffing agencies to provide services in relation to the placement of qualified Filipino nurses for full time employment in the U.S. The Service Agreement sets forth the rights, responsibilities, terms and conditions governing IQHPC's services, which include among others, training and procedural assistance in obtaining all required licensure examinations, obtaining U.S. permanent residence status and eventual placement of the nurses to the U.S. hospitals and/or agency.

As of December 31, 2016 and 2015, IQHPC has outstanding Service Agreements with different U.S. hospitals and one with a staffing agency. Service income recognized in 2016, 2015, and 2014 amounted to ₱11.1 million, ₱3.6 million, and ₱3.4 million, respectively.

- c. CGI entered into a non-cancellable operating lease covering certain offices. The lease has terms ranging up to three years, with renewal options and includes annual escalation rates of 5% to 10%. In 2015, the lease agreement was renewed for a one-year term ending July 31, 2017.

The future minimum rentals payable under the non-cancellable operating lease within one year from the balance sheet date amounted to ₱1.9 million and ₱1.7 million as of December 31, 2016 and 2015, respectively.

Rent expense in 2016, 2015 and 2014 amounted to ₱3.0 million, ₱2.8 million, and ₱2.8 million, respectively.

- d. In May 2010, CGI entered into a sublease agreement with a third party covering its office space. The sublease has a term of one year ending April 30, 2011 renewable upon mutual agreement of both parties. Upon its maturity, the sublease agreement was renewed for several periods. The extended sublease agreement ended last July 31, 2014.

In October 2014, CGI entered into sublease agreement with another third party covering its office space renewable upon mutual agreement of both parties. The initial sublease agreement was for a period of eight months until July 15, 2015. At the end of the lease term, the sublease agreement was renewed and extended until June 15, 2016.

Rent income from the sublease agreement in 2016, 2015 and 2014 amounted to ₱0.4 million, ₱0.7 million, and ₱0.6 million, respectively.

- e. In 2014, advances to CGI amounting to ₱6.0 million were assigned to Sutton in exchange for its 948 common shares.
- f. In April 2012, CGI entered into a Service Agreement with Cleveland Clinic Abu Dhabi (CCAD) for CGI to provide nurses for deployment in Abu Dhabi. In consideration of the services provided by CGI, the Service Agreement provides that CCAD shall pay a lump-sum fee of 17% of the first year salary, exclusive of benefits, of each candidate that satisfactorily completes all legal and regulatory requirements to live and work at CCAD.

Permitted fees are to be invoiced in the following manner:

- 25% of fee upon signing the contract offer of employment;
- 50% of fee upon deployment; and
- 25% of fee upon completion of the probationary 90-day time period at CCAD.

CGI records deferred revenue equal to a percentage of service fee invoiced to CCAD. Portion of the deferred revenue were already advanced by CCAD and are refundable once the service agreements are not met.

Service income recognized in 2016, 2015 and 2014 amounted to ₱51.3 million, ₱18.1 million and ₱14.4 million, respectively.

Cirrus

- a. Cirrus Holdings USA, LLC and Cirrus Allied, LLC have various staffing contracts with their U.S. clients concerning certain rates and conditions, among others. Service income amounted to ₱2.6 billion, ₱1.9 billion, and ₱1.3 billion in 2016, 2015 and 2014, respectively.
- b. Cirrus has entered into a third party non-cancellable operating lease agreements for the rental of office space and equipment. The leases include options to renew, as well as rent escalation clauses and in certain cases, incentives from the landlord for rent-free months and allowances for tenant improvements.

As of December 31, 2016 and 2015, future minimum lease payments associated with these agreements with terms of one year or more are as follows:

		2016		2015
Within one year	₱	9,141,751	₱	9,377,598
After one year but not more than five years		11,115,307		20,559,102
	₱	20,257,058	₱	29,936,700

Rent expense in 2016, 2015 and 2014 amounted to ₱10.7 million, ₱10.7 million, and ₱10.9 million, respectively.

ASAC

ASAC entered into a lease agreement for ground handling equipment in the conduct of its operations. The lease agreement is in force for a period of not more than one year unless all parties formally extend the said term.

IAI

- a. On August 23, 2006, IAI entered into a Maintenance Service Plan (MSP) with Honeywell for the latter to service IAI's additional aircraft engine acquired in 2007. Under the terms of the programs, IAI agrees to pay a fee computed at a rate of engine's actual operating hours or the minimum operating hours, subject to annual escalation. The engine shall be shipped to the United States to undergo repairs and maintenance as necessary by a Honeywell authorized service center. Deposits for the MSP as of December 31, 2016 and 2015 amounted to ₱35.2 million and ₱14.2 million, respectively, and included as part of "Other noncurrent assets" account in the consolidated balance sheets.
- b. IAI conducts its operations from leased facilities which include the aircraft hangar, parking lots and the administrative office. The lease agreement is for a period of two years commencing on September 1, 2009 and is subsequently renewed for another two years upon its termination in 2011, 2013 and 2015. The renewed lease agreement will terminate in August 2017.

The same shall be renewable upon mutual agreement if either party receives no notice of termination. Rent expense recognized in operations amounted to ₱2.9 million in 2016, ₱2.9 million in 2015, and ₱2.8 million in 2014.

SSRLI and PRI

- a. On January 9, 2007, SSRLI and the Philippine Economic Zone Authority (PEZA) signed a Registration Agreement declaring SSRLI as an Ecozone Developer/Operator, entitling SSRLI to establish, develop and construct the villas and to operate the Ecozone. SSRLI is entitled to four-year income tax holiday and tax-free importation of machineries and equipment on PEZA-covered registered activities under the Registration Agreement.

On December 18, 2009, SSRLI's resort operations have been registered with PEZA to engage in the renovation and expansion of Amanpulo Resort at the Pamalican Island Tourism Ecozone. SSRLI's resort operations are entitled to 5% gross income tax on revenues generated from foreign clients and regular income tax on non-foreign clients under the Registration Agreement.

On July 1, 2011, PRI took over the resort operations of SSRLI. On the same date, PEZA approved PRI's application for registration as a location at the Pamalican Island Ecozone Tourism Zone. SSRLI also transferred in the name of PRI all resort operation-related contracts entered into with related parties and third parties, including its long-term loans with a bank, except for the foreshore lease contract with the Department of Environment and Natural Resources (DENR) which is non-transferrable (see Note 18).

On October 3, 2012, PRI entered into an operating lease agreement with SSRLI covering all rights and interests in resort-related assets, which include land, land improvements and buildings for a period of 20 years beginning July 1, 2011.

- b. On February 18, 2011, the BOD of the Company approved the Company's acquisition of additional shares from the minority shareholders of SSRLI. The acquisition increased the ownership of the Company from 46.79% to 62.30% of the total outstanding common and preferred shares of SSRLI. Total acquisition price for the additional shares is US\$5.89 million (P255.9 million) cash consideration plus the fair value of the 46.79% investment amounting to P302.7 million. Goodwill recognized from the acquisition amounted to P99.3 million.
- c. Since 1995, the Company charges SSRLI a monthly fee amounting to US\$4,000 or its Peso equivalent for the Company's general, administrative, treasury, tax and legal services rendered to SSRLI.
- d. PRI executed in the past an Operating and Management Agreement (OMA) with Amanresorts Management, B.V. (AMBV, the Operator of Amanresorts), a company based in Amsterdam, the Netherlands, for a fee of 5% of PRI's gross operating profits, as defined in the OMA. The OMA provides for, among others, the reimbursements by PRI to Amanresorts of all costs and expenses incurred by the latter in connection with the management and operation of the resort and a reserve cash funding equivalent to 4% of gross revenues which will be used to cover the cost of replacements, renewals, and additions to furniture, fixtures and equipment. On June 24, 2013, both parties have mutually entered into a new OMA, effective on the same date, in which PRI will pay a basic fee amounting to 4% of gross revenue and an incentive fee of 10% based on the gross operating profit collectively known as management fee. In addition to the management fees discussed, PRI shall also reimburse AMBV for all costs and expenses incurred by AMBV directly in connection with rendering services under the new OMA.

Likewise, marketing services and license contracts with AMBV were entered into by PRI in the past, providing marketing fee of 3% of the resort's annual gross hotel revenues and US\$1,000 monthly fee, respectively. On June 24, 2013, both parties mutually entered into a new marketing services agreement of the same terms and conditions except for a lower marketing fee rate of 1% of gross revenue from 3%.

PRI also executed a Reservation Services Agreement with Hotel Sales Services Ltd. (HSSL) in which PRI will pay the latter a monthly fee of 6.5% of the gross accommodation charges processed through HSSL's central sales and reservation offices, with the exception of bookings made through the global distribution system which cost US\$100 per booking. Upon commencement of the service agreement on June 24, 2013, PRI paid an establishment fee of US\$1,500. PRI pays annual maintenance fee of US\$1,000 to HSSL. The agreement will expire upon the date the Hotel is no longer managed by AMBV.

PRI also obtained from Amanresorts I.P.R.B.V. (AIPRBV), a company incorporated in Amsterdam, the Netherlands, the nonexclusive license to use the Amanresorts Marks in connection with the operation of the Resort.

The OMA, marketing and license contracts will expire on June 30, 2018. Further, AMBV has the option to extend the operating term for a period of five years from the date of its expiration. Total fees related to these agreements amounted to ₱58.0 million, ₱51.8 million, and ₱34.8 million in 2016, 2015, and 2014, respectively.

- e. SSRLI has an agreement with IAI for the latter to provide regular air service. IAI shall charge SSRLI a fixed round trip rate per passenger, subject to an annual review by both parties, with a guarantee that all of IAI's operating costs will be covered.

As a result of the transfer of resort operations from SSRLI to PRI, the latest renewal of the air service agreement was made between PRI and IAI covering a three-year period from July 1, 2011 to June 30, 2014. The contract was extended for another three years.

- f. PRI entered into a lease agreement with IAI for the Guest Lounge and Purchasing Office. The lease agreement has duration of two years ending September 2013. In 2015, the lease agreement was renewed for another two years. The agreement provides that PRI is not allowed to sublease any part of the leased premises.

Future minimum annual rentals payable under this lease are as follows:

		2016		2015
Not later than one year	₱	1,727,167	₱	2,590,751
Later than one year but not later than 5 years		–		1,727,167
	₱	1,727,167	₱	4,317,918

Rent relating to the lease amounted to ₱2.8 million in 2016, ₱2.5 million in 2015, and ₱1.9 million in 2014.

- g. On May 31, 2013, APhi and SSRLI entered into a management contract in which APhi will provide technical advice, supervision and management services and general administration for various Phase 3-A villa projects, such as but not limited to other Amanpulo special capital expenditure projects. SSRLI shall pay a fixed monthly fee amounting to ₱615,000 exclusive of VAT, effective June 1, 2013 until the projects have been completed, delivered and accepted by SSRLI. The monthly fee was reduced to ₱0.5 million, exclusive of VAT, from August 1, 2016 until March 24, 2017.

On December 15, 2016, the agreement with APhi was transferred to AHI.

- h. On July 1, 2011, PRI entered into management agreements with the villa owning companies wherein it shall provide general maintenance and accounting and administrative services for the villas. PRI shall also be responsible for the marketing and promotion of the villas. In return for these services, PRI shall be entitled to 50% of the net villa rental proceeds. PRI shall also receive reimbursements of costs, with 15% handling fees (except for utilities which are not subject to handling fees), incurred in providing services to the villa guests. PRI's share in the net villa rental proceeds including handling fees amounted to ₱96.0 million, ₱75.1 million and ₱57.2 million in 2016, 2015, and 2014, respectively, and presented as "Services revenue" in the consolidated statements of income.

As part of the agreement, PRI will also receive a fund which shall be used for future maintenance requirements of the villas. As of December 31, 2016 and 2015, the restricted fund amounted to ₱85.3 million and ₱87.2 million, respectively, which is included under "Other noncurrent assets" and "Other noncurrent liabilities" in the consolidated balance sheets (see Note 15).

- i. In November 2005, the DENR awarded to SSRLI the exclusive use of the foreshore land surrounding the Pamalican Island, where Amanpulo Resort is situated. The award has a duration of 25 years which may be renewed for another full period at the option of SSRLI. Annual rent shall be paid in advance on or before the 16th day of November every year.

On October 3, 2012, PRI entered into a lease agreement with SSRLI covering the land where PRI operates and certain resort-related assets for a period of 20 years. Annual lease rental amounted to ₱53.5 million payable within the first five days at the beginning of each quarter. Effective January 1, 2016, the annual rental fee is ₱42.8 million.

Future minimum lease payments under these lease agreements as of December 31 are as follows:

		2016		2015
Within one year	₱	42,800,000	₱	45,390,751
After one year but not more than five years		171,200,000		172,927,167
More than five years		406,600,000		449,400,000
	₱	620,600,000	₱	667,717,918

- j. In 2014, SSRLI entered into a Construction Service Contract (Service Contract) with the PEZA-registered villa owners in which SSRLI shall provide project management general and specific administration and supervision over the preconstruction and post-construction stages of the Project. The villa owners shall pay SSRLI a handling fee which represents 15% of the actual project cost during the villa construction or renovation. In 2016, 2015 and 2014, SSRLI recognized handling fee, included under "Services revenue" account which amounted to ₱7.6 million, ₱56.5 million and ₱17.7 million, respectively.

- k. In 2015, SSRLI redeemed Class A preferred stock of 117,080,330 shares and Class B preferred stock of 82,919,670 shares amounting to ₱200.0 million.
- l. SSRLI entered into memorandum of agreements with the buyers of villa. Total deposits amounted to nil and ₱597.3 million as of December 31, 2016 and 2015, respectively. These are presented as “Customers’ deposit for property development” in the consolidated balance sheets. In 2016 and 2015, two villas and a villa were sold and generated gain on sale amounting to ₱331.0 million and ₱113.0 million, respectively.
- m. Starting 2013, SSRLI has property development in progress, which pertains to the costs related to the development of various projects. As at December 31, 2016 and 2015, total property development in progress amounted to ₱3.2 million and ₱175.8 million. These pertain to projects that are to be completed within one year and are, thus, presented as current assets.

PDIPI and Subsidiaries

- a. The Company has a management contract with PDP Energy which provides, among others, for payment of annual management fees amounting to ₱7.2 million (VAT inclusive) plus certain percentages of audited income before tax and management and technical assistance fees (VAT exclusive). Due from PDP Energy amounted to ₱20.8 million and ₱15.2 million (eliminated in the consolidated financial statements) as of December 31, 2016 and 2015, respectively (see Notes 9 and 26). Management fees amounted to ₱88.3 million, ₱71.0 million and ₱62.2 million (eliminated in the 2016 and 2015 consolidated financial statements) in 2016, 2015 and 2014, respectively.
- b. Beginning January 2004, PDP Energy entered into a technical assistance contract with Phelps Dodge International Corporation which provides an annual payment of technical fees amounting to a certain percentage of audited income before tax (VAT inclusive). There are no technical fees starting 2015. Technical fees amounted to ₱57.7 million in 2014. These are included in “Management fee” in the 2014 consolidated statement of income. On December 19, 2014, PDP Energy entered into a technical assistance and support agreement with General Cable Corporation (GCC). The agreement provides that GCC shall make available to PDP Energy technical assistance and support services which include, among others the availability of technical and qualified resource persons with expertise in materials, technologies and manufacturing processes to be made available to PDP Energy through periodic consultation meetings with PDP Energy personnel and technical visits to PDP Energy.
- c. In 2008, PDP Energy entered into a contract of lease with a third party covering the lease of its office building. The contract is for a two year lease period and renewable at the option of both parties. The contract ended in 2013 and was no longer renewed. In line with this, PDP Energy entered into a contract of lease with another third party for the lease of its office building. The term is for a period of five years and renewable at the option of both parties.

The future aggregate minimum lease payments under the new operating lease are as follows:

	2016	2015
Not later than 1 year	₱ 6,577,643	₱ 6,533,374
More than 1 year but not later than 5 years	₱ 3,766,386	₱ 10,344,029
	₱ 10,344,029	₱ 16,877,403

- d. On December 19, 2014, PDIPI entered into a trademark licensing agreement with General Cable Technologies Corporation (GCTC) wherein GCTC will grant a perpetual and exclusive license to PDIPI to use the Phelps Dodge trademark in the manufacture and sale of wires and cables in the Philippines. On the same date, PDP Energy entered into a distributor and representative agreement with General Cable Industries Inc. (GCI) which provides, among others, the exclusive distributor, reseller and representative for the sale of GCI products to customers within the Philippines.

30. Other Matters

- a. ASAC is a founding member of the Federation of Aviation Organizations of the Philippines (FEDAVOR) since 1986. In 2005, FEDAVOR won a Supreme Court case against MIAA involving its imposition of higher rates for rental and other services without a public hearing. ASAC accrued its share in FEDAVOR's legal expenses in 2006. In 2009, MIAA filed and subsequently won their motion for reconsideration with the Court of Appeals ruling that all refunds have to be coursed through the Commission on Audit. As of December 31, 2016, the refund process has remained pending.

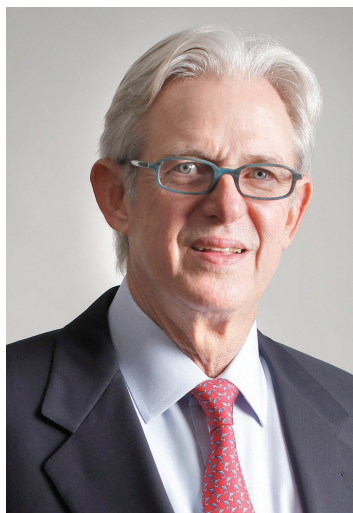
ASAC recognized accruals amounting to ₱1.1 million as of December 31, 2016 and 2015 for the Concessionaire's Privilege Fees which covers the subleasing that the MIAA is set to bill ASAC.

- b. ASAC is a defendant in labor lawsuits and claims. As of December 31, 2016 and 2015 management has recognized provisions for losses amounting to ₱5.7 million (see Note 17) that may be incurred from these lawsuits.
- c. IAI has a pending lease contract renewal with MIAA as of December 31, 2016.
- d. Some subsidiaries of the Group have claims, commitments, litigations and contingent liabilities that arise in the normal course of their operations, which are not reflected in the consolidated financial statements. Management is of the opinion that as of December 31, 2016 and 2015, losses, if any, from these commitments and contingencies will not have a material effect on the consolidated financial statements.
- e. On April 20, 2016, the BOD and stockholders of the CMSIS authorized the re-acquisition of its own 28 common stocks for a total purchase price amounting to US\$0.2 million.

31. Subsequent Event

On February 22, 2017, the BOD of Anscor approved the declaration of cash dividend of ₱0.20 per share or ₱500.0 million to stockholders of record as of March 9, 2017, payable on April 4, 2017.

BOARD OF DIRECTORS



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Chairman of the Board/
Chief Executive Officer/President



EDUARDO J. SORIANO
Vice Chairman/
Treasurer



ERNEST K. CUYEGKENG



JOHN L. GOKONGWEI, JR.



OSCAR J. HILADO



JOSE C. IBAZETA



ROBERTO R. ROMULO

OFFICERS

ERNEST K. CUYEGKENG

Executive Vice President & Chief Financial Officer

WILLIAM H. OTTIGER

Senior Vice President & Corporate Development Officer

NARCISA M. VILLAFLORES

Vice President & Comptroller

LORENZO D. LASCO

Vice President

JOSHUA L. CASTRO

Assistant Vice President & Assistant Corporate Secretary

LORNA P. KAPUNAN

Corporate Secretary

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AFC Agribusiness Corporation
Anscor Consolidated Corporation
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Anscor International, Inc.
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Cirrus Global, Inc.
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Cirrus Medical Staffing, Inc.
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IQ Healthcare Professional Connection, LLC
Island Aviation, Inc.
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Pamalican Island Holdings, Inc.
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PD Energy International Corporation
Phelps Dodge International Philippines, Inc.
Phelps Dodge Philippines Energy Products Corporation
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Sutton Place Holdings, Inc.

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Prople Limited
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Y-mAbs Therapeutics, Inc.

OFFICERS & CORPORATE DIRECTORY

CORPORATE DIRECTORY

Corporate Social Responsibility Arm

The Andres Soriano Foundation, Inc.
Andrews Avenue, Pasay City
(632) 831-99-41 • (632) 851-55-07
www.asorianofdn.org

Address

7th Floor Pacific Star Building,
Makati Ave. cor Gil Puyat Ave. Ext.,
1209 Makati City, Philippines

Post Office Box

1304 Makati Central Post Office
1252 Makati City, Philippines

Websites

www.anscor.com.ph
www.sorianogroup.com.ph

Telephone Numbers

(632) 819-02-51 to 60

Fax Number

(632) 811-50-68

External Auditors

SyCip Gorres Velayo & Co.

Stock Transfer Agent

Stock Transfer Services, Inc.
34th Floor, Unit D, Rufino Pacific Tower
6784 Ayala Avenue, Makati City

Legal Counsels

Kapunan Garcia & Castillo
Picazo Buyco Tan Fider & Santos
Tan Acut Lopez & Pison



A. SORIANO CORPORATION
7th Floor, Pacific Star Building,
Makati Avenue corner Gil Puyat Avenue Ext.,
1209 Makati City, Philippines