A. Soriano Corporation and Subsidiaries

Consolidated Financial Statements
As at December 31, 2017 and 2016
and for the Years Ended December 31, 2017, 2016 and 2015

and

Independent Auditor's Report

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The 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, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (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.

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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 ₱1,302.3 million as at December 31, 2017, which is considered significant to the consolidated financial statements. We considered 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 Phelps Dodge International Philippines, Inc. and Seven Seas Resorts and Leisure, Inc., management exercised significant judgments and used assumptions such as revenue growth rates, 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. 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, discount rates and long-term growth rates. We compared the growth rates used against the historical performance of the CGUs. In testing the discount rates, our internal specialist performed independent testing on the determination 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 Investment in an Associate

In 2017, the Group identified indicators of possible impairment in its investment in an associate and, as required in PFRS, assessed the recoverability of its investment. In assessing the recoverable amount, management estimated the expected cash flows from the operations of the associate. Management also applied judgment in selecting the valuation model to be used and assumptions such as revenue growth rate, discount rate and long-term growth rate. The investment in the associate, as disclosed in Note 13 to the consolidated financial statements, amounted to ₱1,448.7 million as at December 31, 2017, which is material to the consolidated financial statements.

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Audit Response

We obtained an understanding of the management's process in identifying impairment indicators and in estimating the recoverable amount of its investment in an associate. We met with management to understand the current business operations of the associate and whether this is considered in the Group's assumptions. Furthermore, we involved our internal specialist in evaluating the model used in estimating the equity value of the investment used by the Group and the assumptions in estimating the associate's cash flows. These assumptions include revenue growth rate, discount rate and long-term growth rate. We compared the revenue growth rate to the historical performance of the associate. In testing the discount rate, our internal specialist performed independent testing on the determination of discount rate 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 ₱1,209.7 million as at December 31, 2017 is material to the consolidated financial statements. In valuing the Group's unquoted AFS equity investments 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 investments considering the information available to the Group. The Group's disclosures about unquoted AFS investments are included in Note 12 to the consolidated financial statements.

Audit Response

We obtained an understanding of management's process in the valuation of unquoted equity investments. We involved our internal specialist in evaluating the valuation technique and the assumptions used in estimating expected dividends. The assumptions used include revenue growth rates, discount rates and long-term growth rates. We compared the revenue growth rates 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 the discount rates, our internal specialist performed independent testing on the determination 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 inherent 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 32 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. We also discussed with management the status of the examinations by tax authorities. In addition, we obtained 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, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

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

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

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

Management is responsible for the preparation and fair presentation of 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.

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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.

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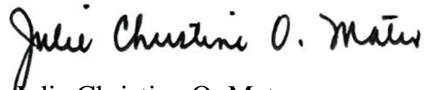

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February 22, 2018

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A. SORIANO CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 8)	**₱3,255,534,668**	₱2,403,739,518
Fair value through profit or loss (FVPL) investments (Note 9)	**856,080,159**	769,680,131
Receivables (Note 10)	**1,783,448,898**	2,167,501,893
Inventories (Note 11)	**817,360,103**	683,916,919
Property development in progress (Note 30)	**3,177,197**	3,177,197
Available-for-sale (AFS) investments - current (Note 12)	**30,165,459**	47,728,517
Prepayments	**18,036,082**	18,676,972
Other current assets (Note 29)	**50,188,780**	151,400,689
Total Current Assets	**6,813,991,346**	6,245,821,836
Noncurrent Assets		
AFS investments - net of current portion (Notes 12 and 19)	**9,530,317,793**	8,313,497,196
Investments and advances (Note 13)	**1,651,840,135**	1,943,573,979
Goodwill (Note 6)	**1,302,276,264**	1,889,496,064
Property and equipment (Notes 14 and 19)	**2,668,188,799**	2,648,731,039
Investment properties (Notes 15 and 30)	**236,521,635**	234,877,835
Retirement plan asset - net (Note 24)	**93,706,684**	60,191,266
Deferred income tax assets - net (Note 25)	**61,082,479**	62,304,841
Other noncurrent assets (Notes 16 and 30)	**168,305,642**	129,006,778
Total Noncurrent Assets	**15,712,239,431**	15,281,678,998
TOTAL ASSETS	**₱22,526,230,777**	₱21,527,500,834
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Note 17)	**₱–**	₱91,948,200
Accounts payable and accrued expenses (Notes 18 and 32)	**908,931,327**	969,798,809
Dividends payable (Note 20)	**252,554,370**	242,208,406
Income tax payable	**65,633,131**	141,744,752
Current portion of long-term debt (Note 19)	**611,283,871**	629,350,200
Total Current Liabilities	**1,838,402,699**	2,075,050,367

(Forward)

	December 31	
	2017	2016
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 19)	**₱1,107,440,450**	₱1,916,231,143
Deferred revenues (Note 30)	**9,469,328**	8,601,560
Deferred income tax liabilities - net (Note 25)	**420,514,319**	600,160,058
Retirement benefits payable - net (Note 24)	**9,184,074**	4,211,769
Other noncurrent liabilities (Notes 16 and 30)	**170,050,058**	175,746,074
Total Noncurrent Liabilities	**1,716,658,229**	2,704,950,604
Total Liabilities	**3,555,060,928**	4,780,000,971
Equity Attributable to Equity Holders of the Parent (Note 20)		
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	**295,800,724**	380,244,251
Unrealized valuation gains on AFS investments (Note 12)	**3,003,271,945**	1,899,776,724
Remeasurement on retirement benefits (Note 24)	**57,994,622**	37,608,665
Retained earnings:		
Appropriated (Note 20)	**7,150,000,000**	7,150,000,000
Unappropriated (Note 20)	**6,250,515,619**	4,914,057,124
Cost of shares held by a subsidiary (1,282,826,746 shares and 1,267,406,746 shares in 2017 and 2016, respectively) (Note 20)	**(2,324,314,735)**	(2,226,272,975)
	18,512,525,198	16,234,670,812
Noncontrolling Interests (Note 3)	**458,644,651**	512,829,051
Total Equity	**18,971,169,849**	16,747,499,863
TOTAL LIABILITIES AND EQUITY	**₱22,526,230,777**	₱21,527,500,834

See accompanying Notes to Consolidated Financial Statements.

A. SORIANO CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2017	2016	2015
REVENUES			
Sale of goods - net	**₱7,188,994,574**	₱6,608,154,597	₱6,102,268,950
Services (Notes 7 and 30)	**3,080,921,191**	3,483,481,253	2,747,521,027
Dividend income (Note 12)	**270,687,177**	218,797,811	209,651,661
Interest income (Notes 8, 9, 12 and 23)	**98,878,579**	95,311,627	83,315,419
Equity in net earnings - net of valuation allowance (Note 13)	**(497,099,065)**	(72,773,871)	153,953,858
Sale of real estate (Note 30)	**–**	633,912,337	293,036,415
	10,142,382,456	10,966,883,754	9,589,747,330
INVESTMENT GAINS (LOSSES)			
Gain on disposal of subsidiaries (Notes 7 and 15)	**1,097,861,615**	343,158,019	–
Gain on sale of AFS investments (Note 12)	**433,166,363**	555,619,230	1,091,213,611
Gain (loss) on increase (decrease) in market values of FVPL investments (Note 9)	**10,658,363**	20,589,122	(25,654,441)
	1,541,686,341	919,366,371	1,065,559,170
TOTAL	**11,684,068,797**	11,886,250,125	10,655,306,500
Cost of goods sold (Note 21)	**(6,069,283,925)**	(5,188,332,297)	(4,931,773,630)
Cost of services rendered (Notes 7 and 21)	**(1,965,474,430)**	(2,312,578,606)	(1,809,102,441)
Operating expenses (Notes 7 and 21)	**(1,381,111,751)**	(1,347,769,652)	(1,168,575,073)
Interest expense (Notes 17, 19 and 23)	**(90,524,037)**	(109,007,134)	(116,599,234)
Foreign exchange gain (loss) - net	**(17,853,205)**	5,431,706	(28,856,549)
Cost of real estate sold (Note 30)	**–**	(285,522,793)	(174,139,992)
Other income (charges) - net (Notes 23 and 30)	**(287,350,531)**	(534,484,598)	(753,600,117)
INCOME BEFORE INCOME TAX	**1,872,470,918**	2,113,986,751	1,672,659,464
PROVISION FOR INCOME TAX (Notes 7 and 25)	**250,743,108**	423,696,067	309,397,655
NET INCOME	**₱1,621,727,810**	₱1,690,290,684	₱1,363,261,809
Net income from continuing operations	**₱1,669,364,961**	₱1,505,374,572	₱1,254,397,443
Net income (loss) from discontinued operations (Note 7)	**(47,637,151)**	184,916,112	108,864,366
	₱1,621,727,810	₱1,690,290,684	₱1,363,261,809
Net Income Attributable to:			
Equity holders of the Parent	**₱1,580,819,946**	₱1,522,796,705	₱1,282,782,660
Noncontrolling interests	**40,907,864**	167,493,979	80,479,149
	₱1,621,727,810	₱1,690,290,684	₱1,363,261,809
Earnings Per Share			
Basic/diluted, for net income attributable to equity holders of the Parent (Note 7 and 26)	**₱1.29**	₱1.24	₱1.03

See accompanying Notes to Consolidated Financial Statements.

A. SORIANO CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2017	2016	2015
NET INCOME	**₱1,621,727,810**	₱1,690,290,684	₱1,363,261,809
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 12)	**1,538,126,123**	1,186,148,549	(2,246,929,467)
Income tax effect	**(17,476,173)**	(10,935,308)	(24,996,268)
	1,520,649,950	1,175,213,241	(2,271,925,735)
Unrealized loss (gain) of AFS investments recognized in the consolidated statements of income (Note 12)	**(433,166,363)**	35,279,977	(285,974,884)
Income tax effect	**16,011,634**	3,029,266	5,335,427
	(417,154,729)	38,309,243	(280,639,457)
	1,103,495,221	1,213,522,484	(2,552,565,192)
Cumulative translation adjustment	**(84,443,527)**	192,326,863	177,214,950
	1,019,051,694	1,405,849,347	(2,375,350,242)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gain (loss) on retirement benefits (Note 24)	**29,961,119**	3,451,388	(8,358,212)
Income tax effect	**(9,575,162)**	(835,308)	2,507,464
	20,385,957	2,616,080	(5,850,748)
OTHER COMPREHENSIVE INCOME (LOSS)	**1,039,437,651**	1,408,465,427	(2,381,200,990)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱2,661,165,461**	₱3,098,756,111	(₱1,017,939,181)
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent	**₱2,620,257,597**	₱2,931,262,132	(₱1,098,418,330)
Noncontrolling interests	**40,907,864**	167,493,979	80,479,149
	₱2,661,165,461	₱3,098,756,111	(₱1,017,939,181)

See accompanying Notes to Consolidated Financial Statements.

A. SORIANO CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	Equity Attributable to Equity Holders of the Parent (Note 20)											
	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 12)	Remeasurement on Retirement Benefits (Note 24)	Retained Earnings		Cost of Shares Held by a Subsidiary	Total	Noncontrolling Interests	Total
							Appropriated	Unappropriated				
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**	**₱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	–	–	–	177,214,950	(2,552,565,192)	(5,850,748)	–	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 ₱125.8 million (Note 20)	–	–	–	–	–	–	–	(124,207,935)	–	(124,207,935)	–	(124,207,935)
Shares repurchased during the year (Note 20)	–	–	–	–	–	–	–	–	(55,856,525)	(55,856,525)	–	(55,856,525)
Movement in noncontrolling interests (Notes 3 and 30)	–	–	–	–	–	–	–	–	–	–	(76,514,959)	(76,514,959)
Appropriation during the year (Note 20)	–	–	–	–	–	–	1,700,000,000	(1,700,000,000)	–	–	–	–
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**	**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	–	–	–	192,326,863	1,213,522,484	2,616,080	–	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 ₱253.5 million (Note 20)	–	–	–	–	–	–	–	(246,518,655)	–	(246,518,655)	–	(246,518,655)
Shares repurchased during the year (Note 20)	–	–	–	–	–	–	–	–	(6,767,680)	(6,767,680)	–	(6,767,680)
Movement in noncontrolling interests (Notes 3 and 30)	–	–	–	–	–	–	–	–	–	–	(32,890,542)	(32,890,542)
Appropriation during the year (Note 20)	–	–	–	–	–	–	850,000,000	(850,000,000)	–	–	–	–
BALANCES AT DECEMBER 31, 2016	**2,500,000,000**	**1,605,613,566**	**(26,356,543)**	**380,244,251**	**1,899,776,724**	**37,608,665**	**7,150,000,000**	**4,914,057,124**	**(2,226,272,975)**	**16,234,670,812**	**512,829,051**	**16,747,499,863**
Total comprehensive income (loss) for the year	–	–	–	(84,443,527)	1,103,495,221	20,385,957	–	1,580,819,946	–	2,620,257,597	40,907,864	2,661,165,461
Cash dividends - net of dividends on common shares held by a subsidiary amounting to ₱255.6 million (Note 20)	–	–	–	–	–	–	–	(244,361,451)	–	(244,361,451)	–	(244,361,451)
Shares repurchased during the year (Note 20)	–	–	–	–	–	–	–	–	(98,041,760)	(98,041,760)	–	(98,041,760)
Movement in noncontrolling interests (Notes 3 and 30)	–	–	–	–	–	–	–	–	–	–	(95,092,264)	(95,092,264)
BALANCES AT DECEMBER 31, 2017	**₱2,500,000,000**	**₱1,605,613,566**	**(₱26,356,543)**	**₱295,800,724**	**₱3,003,271,945**	**₱57,994,622**	**₱7,150,000,000**	**₱6,250,515,619**	**(₱2,324,314,735)**	**₱18,512,525,198**	**₱458,644,651**	**₱18,971,169,849**

See accompanying Notes to Consolidated Financial Statements.

A. SORIANO CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,872,470,918**	₱2,113,986,751	₱1,672,659,464
Adjustments for:			
Gain on sale/disposal of:			
Subsidiaries (Notes 7 and 15)	**(1,097,861,615)**	(343,158,019)	–
AFS investments (Note 12)	**(433,166,363)**	(555,619,230)	(1,091,213,611)
Equity in net earnings - net of valuation allowance (Note 13)	**497,099,065**	72,773,871	(153,953,858)
Dividend income (Note 12)	**(270,687,177)**	(218,797,811)	(209,651,661)
Valuation allowances - net (Note 23)	**255,054,868**	602,056,936	841,123,370
Depreciation and amortization (Notes 14 and 21)	**252,088,932**	234,068,755	236,767,900
Interest income (Note 23)	**(98,878,579)**	(95,311,627)	(83,315,419)
Interest expense (Note 23)	**90,524,037**	109,007,134	116,599,234
Retirement benefit costs (Note 24)	**16,747,851**	15,698,052	16,230,854
Unrealized foreign exchange losses - net	**13,884,632**	42,147,356	62,227,101
Loss (gain) on decrease (increase) in market values of FVPL investments (Note 9)	**(10,658,363)**	(20,589,122)	25,654,441
Operating income before working capital changes	**1,086,618,206**	1,956,263,046	1,433,127,815
Decrease (increase) in:			
FVPL investments	**(97,058,391)**	(181,338,815)	40,316,999
Receivables	**365,575,268**	(223,054,364)	(44,016,071)
Inventories	**(138,806,873)**	15,482,484	199,230,246
Prepayments and other current assets	**101,852,799**	(12,998,254)	(55,563,541)
Property development in progress	**–**	172,634,831	(19,169,531)
Increase (decrease) in:			
Accounts payable and accrued expenses	**60,867,482**	53,675,841	(66,274,258)
Customers' deposit for property development	**–**	(597,268,360)	215,424,010
Deferred revenues	**867,768**	(1,516,340)	(19,597,403)
Net cash generated from operations	**1,379,916,259**	1,181,880,069	1,683,478,266
Dividends received	**270,687,177**	215,498,739	209,651,661
Interest received	**98,091,189**	89,959,658	83,315,419
Interest paid	**(85,531,605)**	(94,220,605)	(148,698,157)
Retirement benefit contribution (Note 24)	**(16,659,548)**	(17,949,668)	(20,926,478)
Income taxes paid	**(312,505,882)**	(400,069,455)	(253,933,598)
Net cash flows from operating activities	**1,333,997,590**	975,098,738	1,552,887,113

(Forward)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
AFS investments (Note 12)	**₱2,255,676,587**	₱1,607,860,897	₱3,294,238,365
Long-term investment	**1,376,788,000**	397,120,000	–
Property and equipment (Note 14)	**4,279,888**	1,780,000	–
Additions to:			
AFS investments (Note 12)	**(2,087,820,428)**	(1,019,866,822)	(3,427,132,659)
Property and equipment (Note 14)	**(289,432,012)**	(179,885,426)	(237,320,248)
Acquisition of an associate (Note 13)	**(91,256,250)**	–	(2,100,000)
Movement in other noncurrent assets	**(39,298,864)**	(26,053,160)	(10,108,172)
Proceeds from redemption of preferred shares	**12,301,027**	–	–
Advances to affiliates (Note 13)	**(77,440,000)**	(386,108)	(2,655,735)
Net cash flows from (used in) investing activities	**1,063,797,948**	780,569,381	(385,078,449)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Notes payable (Note 17)	**(91,948,200)**	(554,000,000)	(2,072,225,829)
Long-term debt (Note 19)	**(838,534,464)**	(635,755,735)	(219,884,036)
Dividends (Note 20)	**(489,654,036)**	(487,734,748)	(414,223,047)
Company shares purchased by a subsidiary (Note 20)	**(98,041,760)**	(6,767,680)	(55,856,525)
Redemption of preferred shares	**(29,081,587)**	(47,926)	(75,540,000)
Proceeds from availment of:			
Notes payable (Note 17)	**–**	554,000,000	557,000,000
Long-term debt (Note 19)	**–**	–	1,500,000,000
Net cash flows used in financing activities	**(1,547,260,047)**	(1,130,306,089)	(780,729,437)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**850,535,491**	625,362,030	387,079,227
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**1,259,659**	4,058,316	(13,793,714)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,403,739,518**	1,774,319,172	1,401,033,659
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 8)	**₱3,255,534,668**	₱2,403,739,518	₱1,774,319,172

See accompanying Notes to Consolidated Financial Statements.

A. SORIANO CORPORATION AND SUBSIDIARIES
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 at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 were authorized for issue by the Board of Directors (BOD) on February 22, 2018.

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 (PFRSs).

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, 2017. Adoption of these pronouncements did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

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

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

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

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

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

  The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary difference or assets that are in the scope of the amendments.

New Accounting Standards, Interpretations and Amendments
to Existing Standards Effective Subsequent to December 31, 2017
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, 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.

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

The Group's assessment of the impact of PFRS 9 is ongoing. The assessment below is based on currently available information and may be subject to changes arising from further reasonable and supportable information becoming available to the Group when it adopts PFRS 9 in 2018.

(a) Classification and measurement

Debt securities currently held as available-for-sale (AFS) under PAS 39 are expected to be classified as at fair value through other comprehensive income (FVOCI) as these are held both to collect contractual cash flows and to sell. Trade and other receivables are held to collect contractual cash flows and thus qualify for amortized cost measurement. However, the Group is still finalizing its assessment on whether the contractual cash flows of these debt financial assets are solely payments of principal and interest to be able to conclude that these instruments are eligible for amortized cost or FVOCI measurement.

Quoted and unquoted equity shares currently held as AFS are expected to be measured at fair value through profit or loss, which will increase volatility in profit or loss. The Group is in the process of determining how to measure the fair value of the unquoted investments.

(b) Impairment

PFRS 9 requires the Group to record expected credit losses on all of its debt financial assets. The Group plans to apply the simplified approach and to record lifetime expected losses on all trade receivables that do not contain significant financing component. For the Group's debt securities and other receivables that will be measured at amortized cost or at FVOCI, the general approach for measuring expected credit losses is required to be applied. Thus, credit losses for these financial assets will be measured either on 12-month or lifetime basis depending on the extent of the deterioration of their credit quality. The Group is currently quantifying the impact of the change in measuring credit losses.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  The 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.

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The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date.

The Group is still in the process of determining the impact on its consolidated financial statements.

In addition, as the presentation and disclosure requirements in PFRS 15 are more detailed than under current PFRSs, the Group is currently assessing what necessary changes it needs to make on its current systems, internal controls, policies and procedures to enable the Group to collect and disclose the required information.

The recognition and measurement requirements in PFRS 15 also apply to gains or losses on disposal of nonfinancial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Group.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (*Part of Annual Improvements to PFRSs 2014 - 2016 Cycle*)
  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

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

interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

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

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

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

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

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

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

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

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. Entities shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

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The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Group is currently assessing the impact of adopting this interpretation.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council 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 at December 31:

		Percentage of Ownership		
	Nature of Business	**2017**	2016	2015
A. Soriano Air Corporation (Note 30)	Services/Rental	**100**	100	100
Pamalican Island Holdings, Inc. (PIHI)	Investment Holding	**62**	62	62
Island Aviation, Inc. (IAI, Note 30)	Air Transport	**62**	62	62
Anscor Consolidated Corporation (Anscorcon)	Investment Holding	**100**	100	100
Anscor Holdings, Inc. (AHI, formerly Goldenhall Corporation, Note 30)	Real Estate Holding	**100**	100	100
Akapulko Holdings, Inc. (Akapulko)	Real Estate Holding	**100**	100	100
Lakeroad Corporation	Real Estate Holding	**100**	100	100
Mainroad Corporation	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 Corporation	Real Estate Holding	**100**	100	100

(Forward)

	Nature of Business	Percentage of Ownership 2017	2016	2015
Rollingview Corporation	Real Estate Holding	**100**	100	100
Timbercrest Corporation	Real Estate Holding	**100**	100	100
Phelps Dodge International Philippines, Inc. (PDIPI, Notes 6 and 30)	Investment Holding	**100**	100	100
Minuet Realty Corporation (Minuet)	Landholding	**100**	100	100
Phelps Dodge Philippines Energy Products Corporation (PDP Energy, Notes 6 and 30)	Wire Manufacturing	**100**	100	100
PD Energy International Corporation (PDEIC, Note 6)	Wire Manufacturing	**100**	100	100
Sutton Place Holdings, Inc. (Sutton)	Investment Holding	**100**	100	100
Cirrus Global, Inc. (CGI, Note 30)	Manpower Services	**93**	93	93
IQ Healthcare Professional Connection, LLC (IQHPC, Note 30)	Manpower Services	**93**	93	93
Anscor International, Inc. (AI, Note 13)	Investment Holding	**100**	100	100
IQ Healthcare Investments Limited (IQHIL)	Manpower Services	**100**	100	100
Cirrus Medical Staffing, Inc. (Cirrus, Notes 7 and 30)	Manpower Services	**–**	94	94
Cirrus Holdings USA, LLC (Cirrus LLC, Notes 7 and 30)	Manpower Services	**–**	94	94
Cirrus Allied, LLC (Cirrus Allied, Notes 7 and 30)	Manpower Services	**–**	94	94
NurseTogether, LLC (NT, Note 7)	Online Community Management	**–**	94	94
AFC Agribusiness Corporation (AAC)	Real Estate Holding	**81**	81	81
Seven Seas Resorts and Leisure, Inc. (SSRLI, Notes 6 and 30)	Villa Project Development	**62**	62	62
Pamalican Resort, Inc. (PRI, Notes 6 and 30)	Resort Operations	**62**	62	62
Summerside Corp. (Summerside)*	Investment Holding	**40**	40	100
Uptown Kamputhaw Holdings, Inc. (formerly Anscor Property Holdings, Inc., APHI, Note 15)	Real Estate Holding	**–**	–	100

**As at December 31, 2017 and 2016, the Group has 100% beneficial ownership over Summerside.*

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 at and for the years ended December 31 (in millions):

	2017	2016
Balance Sheets:		
Current assets	**₱535.6**	₱665.2
Noncurrent assets	**990.8**	964.9
Current liabilities	**364.9**	441.2
Noncurrent liabilities	**154.2**	76.4
Equity	**1,007.3**	1,112.5
Equity attributable to NCI	**379.8**	419.4

	2017	2016
Statements of Comprehensive Income:		
Revenue	**₱874.3**	₱1,336.7
Income from continuing operations, before tax	**128.2**	415.8
Net income	**100.5**	379.5
Other comprehensive income (loss)	**(4.7)**	1.4
Total comprehensive income	**95.8**	381.0
Total comprehensive income allocated to NCI during the year	**36.1**	143.6

	2017	2016
Statements of Cash Flows:		
Cash flows from operations	**₱197.6**	₱90.3
Cash flows used in investing activities	**(111.9)**	(83.2)
Cash flows from (used in) financing activities	**(186.1)**	10.9

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 12 months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the 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 12 months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Deferred income 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 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 - net of valuation allowance" in the consolidated statement 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 as at December 31:

		Percentage of Ownership		
	Nature of Business	**2017**	2016	2015
Vicinetum Holdings, Inc. (VHI)	Investment Holding	**32**	32	32
Prople Limited (Note 13)	Business Process Outsourcing	**32**	32	–
AGP International Holdings Ltd. (AGPI, Note 13)	Investment Holding	**27**	27	27
BehaviorMatrix, LLC (BM, Note 13)	Behavior Analytics Services	**21**	21	13
ATRAM Investment Management Partners Corp. (AIMP) (Note 13)	Asset Management	**20**	–	–

In 2016, AI converted its notes receivable from Prople Limited and BM to equity. The conversion and additional investment increased AI's shareholdings, making Prople Limited and BM associates of the Group (see Note 13).

In 2017, Anscor purchased additional shares in AIMP which resulted to an increase in ownership allowing the Group to exercise significant influence over the investee (see Note 13).

The principal business location of AIMP and VHI is the Philippines. AGPI, BM and Prople Limited are based in the BVI, USA and Hong Kong, 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.

Disposal Group and Discontinued Operations
A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of income.

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.

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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 above.

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 at December 31, 2017 and 2016, 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 at December 31, 2017 and 2016.

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.

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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 at December 31, 2017 and 2016, the Group has designated as FVPL all investments in bonds that have callable and other features, managed/hedged funds and derivatives amounting to ₱856.1 million and ₱769.7 million, respectively (see Note 9). No financial liability at FVPL is outstanding as at December 31, 2017 and 2016.

(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 "Valuation allowances" 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, interest receivable, advances to employees, receivables from villa owners, dividend receivable, notes receivable 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 at December 31, 2017 and 2016, the Group's AFS investments include investment in equity securities and bonds and convertible notes amounting to ₱9,560.5 million and ₱8,361.2 million, respectively (see Note 12).

(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 at December 31, 2017 and 2016, included in other financial liabilities are the Group's notes payable, accounts payable and accrued expenses, long-term debt and dividends payable.

As at December 31, 2017 and 2016, 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 financial reporting date 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 "Recovery of 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 arrangement 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 exposed 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 the consolidated statement of income 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 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.

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

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 statement of income 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.

Depreciation commences when an asset is in its operational location or working condition capable of being operated in the manner intended by management. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for

sale) in accordance with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations,* and the date the asset is derecognized.

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 pre-tax 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 at the end of each financial reporting period.

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 the consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to the consolidated statement of income 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.

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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 the financial 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 or 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.

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

For its VAT-registered activities, when VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position up to the extent of the recoverable amount.

For its non-VAT registered activities, the amount of VAT passed on from its purchases of goods or service is recognized as part of the cost of goods/asset acquired or as part of the expense item, as applicable.

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 at December 31, 2017, 2016 and 2015.

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 29).

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.

Determination of absence of significant influence over Enderun

Prior to 2017, the Company determined that it has no significant influence over Enderun. Management assessed that it did not exercise significant influence over the financial and operating policy decisions of the investee. Accordingly, Enderun was classified as an AFS investment as at December 31, 2016. In 2017, Anscor sold all of its shares in Enderun (see Note 12).

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 majority and minority-owned 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 at December 31, 2017 and 2016 amounted to ₱625.2 million and ₱630.2 million, respectively. Receivables and advances, net of valuation allowance, amounted to ₱1,865.2 million and ₱2,169.8 million as at December 31, 2017 and 2016, respectively (see Notes 10 and 13).

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. 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 (see Note 29).

Unquoted equity investments amounted to ₱1,209.7 million and ₱1,403.0 million as at December 31, 2017 and 2016, respectively (see Note 12).

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 2017, 2016 and 2015, total impairment loss recognized amounted to ₱42.7 million, ₱590.9 million and ₱607.3 million, respectively, on its equity instruments (see Note 23). AFS equity investments amounted to ₱8,876.0 million and ₱7,513.4 million as at December 31, 2017 and 2016, respectively (see Note 12).

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. The Company recognized impairment loss of ₱82.9 million, nil and ₱197.9 million in 2017, 2016 and 2015, respectively (see Note 23). The carrying value of AFS debt investments amounted to ₱684.5 million and ₱847.8 million as at December 31, 2017 and 2016, respectively (see Note 12).

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 ₱84.5 million and ₱88.8 million as at December 31, 2017 and 2016, respectively. The carrying amount of the inventories amounted to ₱817.4 million and ₱683.9 million as at December 31, 2017 and 2016, respectively (see Note 11).

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 at December 31, 2017 and 2016, the carrying value of property and equipment amounted to ₱2,668.2 million and ₱2,648.7 million, respectively (see Note 14).

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 expected cash flows are estimated from the operations of the associates 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 rates used for the discounted cash flow model, as well as the expected future cash inflows, revenue growth rates and long-term growth rates used for extrapolation purposes.

The carrying amounts of the investments amounted to ₱1,570.1 million and ₱1,941.3 million as at December 31, 2017 and 2016, respectively (see Note 13).

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 at December 31, 2017 and 2016, the carrying value of property and equipment and investment properties amounted to ₱2,904.7 million and ₱2,883.6 million, respectively (see Notes 14 and 15).

There is no impairment loss on property and equipment and investment properties for each of the three years in the period ended December 31, 2017 (see Notes 14 and 15).

(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. In assessing the recoverability of the Group's goodwill, 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. Considering the U.S. crisis and the unemployment rate, the Group recognized an impairment provision of ₱105.8 million since December 31, 2009 on its investment in Cirrus. In 2017, the Group sold its investment in Cirrus including goodwill allocated to Cirrus (see Note 7).

As at December 31, 2017 and 2016, the carrying value of goodwill amounted to ₱1,302.3 million and ₱1,889.5 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 the 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 at December 31, 2017 and 2016, the Group recognized deferred income tax assets amounting to ₱74.1 million and ₱89.7 million, respectively (see Note 25).

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, 2017 and 2016 amounted to ₱93.7 million and ₱60.2 million, respectively. Net retirement benefits payable as at December 31, 2017 and 2016 amounted to ₱9.2 million and ₱4.2 million, respectively. Further details are provided in Note 24.

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 24.

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 32.

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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. On October 19, 2017, the Group sold its interest in Cirrus which serves as the Nurse/PT staffing segment of the Group (see Note 7).

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.

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 - net of valuation allowance.

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 at and for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	Before Eliminations							
	US	Philippines						
	*Nurse/PT Staffing Company	Holding Company (Parent)	Resort Operations and Villa Development	Cable and Wire Manufacturing	**Other Operations	Total	Eliminations	Consolidated
As of and for the year ended December 31, 2017								
Revenues, excluding interest income	₱2,028,265	₱831,590	₱874,279	₱7,188,995	₱616,609	₱11,539,738	(₱1,496,234)	₱10,043,504
Interest income	1	87,909	3,529	2,297	5,841	99,577	(698)	98,879
Investment gains	–	443,825	–	1,811	992,107	1,437,743	103,943	1,541,686
Interest expense	5,386	45,912	–	36,042	3,184	90,524	–	90,524
Income tax expense (benefit)	(5,073)	12,549	27,681	212,103	10,486	257,746	(7,003)	250,743
Equity in net earnings - net of valuation allowance	–	–	–	–	(497,099)	(497,099)	–	(497,099)
Net income (loss)	(47,637)	1,072,980	100,523	543,667	704,833	2,374,366	(752,638)	1,621,728
Total assets	–	18,928,517	1,526,424	3,824,469	12,972,567	37,251,977	(14,725,746)	22,526,231
Investments and advances	–	7,069,111	60,706	–	2,349,032	9,478,849	(7,827,009)	1,651,840
Property and equipment	–	21,152	812,752	626,908	99,367	1,560,179	1,108,010	2,668,189
Total liabilities	–	1,384,736	519,125	1,150,106	2,631,923	5,685,890	(2,130,829)	3,555,061
Depreciation and amortization	2,328	8,838	66,299	75,188	41,484	194,137	57,952	252,089
Impairment loss	111,599	125,551	5,458	9,386	3,856	255,850	(795)	255,055
Cash flows from (used in):								
Operating activities	206,562	743,752	197,556	313,737	166,200	1,627,807	(293,809)	1,333,998
Investing activities	(3,637)	1,168,955	(111,939)	(145,832)	(57,715)	849,832	213,966	1,063,798
Financing activities	(161,618)	(1,055,032)	(186,114)	(511,429)	9,577	(1,904,616)	357,356	(1,547,260)

**Sold on October 19, 2017. Financial performance shown is up to the date of disposal.*
***"Other Operations" include ASAC, AAC, Anscorcon, AI, AHI, CGI, IAI and the Group's equity in net earnings of associates - net of valuation allowance.*

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	Before Eliminations							
	US	Philippines						
	Nurse/PT Staffing Company	Holding Company (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	₱2,572,502	₱856,376	₱1,336,651	₱6,608,160	₱711,787	₱12,085,476	(₱1,213,904)	₱10,871,572
Interest income	1,756	83,174	2,921	2,147	226	90,224	5,088	95,312
Investment gains	–	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 (benefit)	108,724	21,050	36,207	255,450	11,292	432,723	(9,027)	423,696
Equity in net earnings - net of valuation allowance	–	–	–	–	(72,774)	(72,774)	–	(72,774)
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	1,630,028	3,905,133	12,099,505	36,540,441	(15,012,940)	21,527,501
Investments and advances	692,974	7,872,221	60,706	–	3,320,537	11,946,438	(10,002,864)	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	517,581	1,525,781	3,969,244	8,560,402	(3,780,401)	4,780,001
Depreciation and amortization	4,356	8,095	97,312	69,527	30,225	209,515	24,554	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	90,277	809,980	53,212	1,851,339	(876,240)	975,099
Investing activities	(1,441)	711,084	(83,242)	(62,793)	3,897	567,505	213,064	780,569
Financing activities	(312,284)	(918,317)	(10,869)	(421,429)	(56,688)	(1,719,587)	589,281	(1,130,306)

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

	Before Eliminations							
	US	Philippines						
	Nurse/PT Staffing Company	Holding Company (Parent)	Resort Operations and Villa Development	Cable and Wire Manufacturing	*Other Operations	Total	Eliminations	Consolidated
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	(₱2,566,198)	₱9,506,432
Interest income	–	75,395	758	1,083	6,079	83,315	–	83,315
Investment gains	–	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 - net of valuation allowance	–	–	–	–	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	(252,668)	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	(961,318)	(385,075)
Financing activities	(909,597)	(2,125,914)	(280,715)	(492,814)	(21,151)	(3,830,191)	3,049,462	(780,729)

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

6. Business Combinations

a. 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:

	2017	2016
PDP	**₱1,202,945,277**	₱1,202,945,277
SSRLI	**99,330,987**	99,330,987
Cirrus	–	587,219,800
	₱1,302,276,264	₱1,889,496,064

The goodwill allocated to Cirrus of ₱577.9 million, before accumulated exchange differences amounting to ₱115.1 million and valuation allowance amounting to ₱105.8 million as at December 31, 2016, 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. In 2017, the Group sold its investment in Cirrus resulting to derecognition of its goodwill (see Note 7).

b. 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 at December 31, 2017 and 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 2017 and 2016 are 18.3% and 16.1%, 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 5.5% and 5.0% in 2017 and 2016, respectively, and the difference between the discount rate and growth rate.

Growth rate
PDP Group assumed a growth rate of 1.0% to 5.0% in 2017 and 5.0% in 2016. 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. 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 at December 31, 2017 and 2016 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 2017 and 2016 are 12.8% and 13.0%, 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 6.5% and 4.0% in 2017 and 2016, respectively, and the difference between the discount rate and growth rate.

Growth rate
Growth rate assumptions for the five-year cash flow projections in 2017 and 2016 are supported by the different initiatives of SSRLI. SSRLI used 3.0% to 9.0% and 5.0% to 13.0% growth rate in revenue for its cash flow projection in 2017 and 2016, respectively.

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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. 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 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 projection in 2016 is 14.1%.

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 4.0%, and the difference between the discount rate and growth rate.

Growth rate
Cirrus assumed a growth rate of 9.0% in 2016. Growth rate assumption for the five-year cash flow projections is supported by the different initiatives of Cirrus which started in 2010.

Sensitivity to changes in assumptions
Management believed 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. Deconsolidated Subsidiary

On October 19, 2017, the Group, through its wholly-owned subsidiary, IQHIL, entered into a Merger Agreement with Webster Capital Management LLC, a US-based company, effectively selling the Group’s entire shareholdings in Cirrus equivalent to 93.55% of the latter’s total outstanding shares. As a result, the Group consolidated Cirrus’ statement of comprehensive income up to the date of sale.

Total gain on disposal of Cirrus recognized in the 2017 consolidated statement of income amounted to ₱1,097.9 million.

Cirrus serves as the Nurse/PT staffing segment of the Group and is a separate reportable operating segment (see Note 5).

The results of Cirrus are presented below (in thousands):

	Period Ended October 19, 2017	Years Ended December 31, 2016	December 31, 2015
Revenues	**₱2,028,267**	₱2,580,163	₱1,850,730
Cost of services	**(1,569,503)**	(2,026,219)	(1,468,253)
Gross profit	**458,764**	553,944	382,477
Expenses	**(511,474)**	(260,304)	(206,730)
Income (loss) before income tax	**(52,710)**	293,640	175,747
Provision for (benefit from) income tax	**(5,073)**	108,724	66,883
Net income (loss) from a deconsolidated subsidiary	**(₱47,637)**	₱184,916	₱108,864
Earnings (Loss) Per Share			
Basic/diluted, for net income (loss) attributable to equity holders of the Parent from a deconsolidated subsidiary	**(₱0.04)**	₱0.14	₱0.08

The net cash flows from (used in) the activities of Cirrus are as follows (in thousands):

	Period Ended October 19, 2017	Years Ended December 31, 2016	December 31, 2015
Operating	**₱206,562**	₱304,444	₱927,193
Investing	**(3,637)**	(1,441)	(38,281)
Financing	**(161,618)**	(312,284)	(909,597)
Net cash inflow (outflow)	**₱41,307**	(₱9,281)	(₱20,685)

8. Cash and Cash Equivalents

	2017	2016
Cash on hand and with banks	**₱1,636,218,697**	₱1,803,257,745
Short-term investments	**1,619,315,971**	600,481,773
	₱3,255,534,668	₱2,403,739,518

Cash with banks earn interest at the respective bank deposit rates ranging from 0.10% to 1.25%, 0.25% to 1.25% and 0.13% to 0.25% in 2017, 2016 and 2015, respectively. Short-term investments with interest rates ranging from 0.16% to 2.64%, 0.16% to 0.55% and 0.16% to 0.55% in 2017, 2016 and 2015, respectively, are made for varying periods of up to three months depending on the immediate cash requirements of the Group (see Note 23).

9. FVPL Investments

	2017	2016
Bonds	**₱833,776,158**	₱744,616,051
Funds and equities	**214,351**	3,345,600
Others	**22,089,650**	21,718,480
	₱856,080,159	₱769,680,131

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.

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 3.38% to 9.00%, 3.50% to 13.13% and 4.24% to 13.13% in 2017, 2016 and 2015, respectively.

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

	Unrealized Valuation Gains (Losses) in Market Value as at December 31		**Gains (Losses) on Increase (Decrease) in Market Value of FVPL Investments**
	2017	2016	**in 2017**
Bonds	**(₱16.9)**	**(₱22.2)**	**₱5.3**
Funds and equities	**0.1**	**(0.4)**	**0.5**
Others	**1.5**	**2.0**	**(0.5)**
Total	**(15.3)**	**(20.6)**	**5.3**
Add realized gain on sale of FVPL investments			**5.4**
Net gain on increase in market value of FVPL investments			**₱10.7**

	Unrealized Valuation Gains (Losses) in Market Value as at December 31		Gains (Losses) on Increase (Decrease) in Market Value of FVPL Investments
	2016	2015	in 2016
Bonds	(₱22.2)	(₱43.8)	₱21.6
Funds and equities	(0.4)	(1.7)	1.3
Others	2.0	2.0	–
Total	(20.6)	(43.5)	22.9
Add realized loss on sale of FVPL investments			(2.3)
Net gain on decrease in market value of FVPL investments			₱20.6

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	Unrealized Valuation Gains (Losses) in Market Value as at December 31		Gains (Losses) on Increase (Decrease) in Market Value of FVPL Investments
	2015	2014	in 2015
Bonds	(₱43.8)	(₱22.7)	(₱21.1)
Funds and equities	(1.7)	0.3	(2.0)
Others	2.0	1.3	0.7
Total	(43.5)	(21.1)	(22.4)
Add realized loss on sale of FVPL investments			(3.3)
Net loss on decrease in market value of FVPL investments			(₱25.7)

There were no outstanding forward transaction as at December 31, 2017, 2016 and 2015.

10. Receivables

	2017	2016
Trade	**₱1,632,172,618**	₱2,001,480,123
Tax credits/refunds	**151,666,043**	139,743,453
Interest receivable	**22,637,770**	21,850,380
Advances to employees	**13,285,580**	14,567,248
Receivables from villa owners	**13,106,894**	11,069,973
Dividend receivable	**3,299,071**	3,299,071
Notes receivable	**–**	32,000,000
Others	**7,679,219**	8,941,158
	1,843,847,195	2,232,951,406
Less allowance for doubtful accounts	**60,398,297**	65,449,513
	₱1,783,448,898	₱2,167,501,893

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

As at December 31, 2016, the Group has notes receivable amounting to ₱32.0 million from ATR Holdings, Inc. The notes bear 7% interest rate per annum, unsecured and currently due and demandable. In 2017, the Group collected the notes receivable.

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.

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

	2017		
	Trade	**Interest and Others**	**Total**
At January 1	**₱63,025,260**	**₱2,424,253**	**₱65,449,513**
Provision for the year (Note 23)	**18,477,727**	**–**	**18,477,727**
Write-off	**(23,528,943)**	**–**	**(23,528,943)**
At December 31	**₱57,974,044**	**₱2,424,253**	**₱60,398,297**

	2016		
	Trade	Interest and Others	Total
At January 1	₱70,073,188	₱2,424,253	₱72,497,441
Provision for the year (Note 23)	26,082,261	–	26,082,261
Write-off and translation adjustment	(33,130,189)	–	(33,130,189)
At December 31	₱63,025,260	₱2,424,253	₱65,449,513

11. Inventories

	2017	2016
At cost:		
Raw materials	**₱96,975,868**	₱109,764,434
Materials in transit	**15,868,813**	5,277,159
Food and beverage	**13,367,144**	18,747,134
Aircraft parts in transit	**8,636,559**	7,378,912
Reel inventory	**4,176,818**	3,645,904
	139,025,202	144,813,543
At net realizable value:		
Finished goods - net of allowance for inventory obsolescence of ₱22.0 million in 2017 and ₱26.9 million in 2016	**288,445,978**	233,969,537
Work in process - net of allowance for inventory obsolescence of ₱10.7 million in 2017 and ₱7.0 million in 2016	**160,067,404**	102,095,274
Spare parts and operating supplies - net of allowance for inventory obsolescence of ₱36.4 million in 2017 and ₱36.1 million in 2016	**106,947,233**	76,943,164
Raw materials - net of allowance for inventory obsolescence of ₱2.6 million in 2017 and ₱12.2 million in 2016	**89,390,888**	89,312,869
Aircraft spare parts and supplies - net of allowance for inventory losses of ₱7.2 million in 2017 and ₱5.1 million in 2016	**28,097,694**	25,240,149
Construction-related materials - net of allowance for inventory obsolescence of ₱5.6 million in 2017 and ₱1.5 million in 2016	**5,385,704**	11,542,383
	678,334,901	539,103,376
	₱817,360,103	₱683,916,919

Net reversals for inventory losses recognized in 2017 amounted to ₱4.3 million while provision for inventory losses recognized in 2016 and 2015 amounted to ₱14.1 million and ₱7.1 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 at December 31, 2017 and 2016.

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 or renovation of villas.

12. AFS Investments

	2017	2016
Quoted equity shares	**₱7,003,083,175**	₱5,671,746,053
Unquoted equity shares	**1,209,743,564**	1,402,973,236
Bonds and convertible note	**684,500,101**	847,825,052
Funds and equities	**468,836,089**	254,471,051
Proprietary shares	**194,320,323**	184,210,321
	9,560,483,252	8,361,225,713
Less current portion of AFS bonds	**30,165,459**	47,728,517
	₱9,530,317,793	₱8,313,497,196

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 at December 31, 2017 and 2016 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 2.47% to 7.38% in 2017, 3.50% to 7.38% in 2016 and 3.88% to 8.35% in 2015. Maturity dates range from July 16, 2018 to November 11, 2024 for bonds held as at December 31, 2017 and August 8, 2017 to October 15, 2025 for bonds held as at December 31, 2016.

As at December 31, 2017 and 2016, the Company has AFS investments amounting to ₱2,327.8 million and ₱2,273.7 million, respectively, that are pledged as collateral for its long-term debt (see Note 19).

In 2017, 2016 and 2015, gain on sale of AFS investments amounted to ₱433.2 million, ₱555.6 million and ₱1,091.2 million, respectively.

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

a. 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 ₱99.2 million gain on fair value adjustment in its investment in KSA which is presented in other comprehensive income.

On June 15, 2016, the Company acquired additional shares in KSA amounting to ₱236.5 million. This increased the Company’s stake in KSA from 11.30% in 2015 to 14.28% in 2016.

As at December 31, 2017 and 2016, the Company’s investment in KSA amounted to ₱752.9 million (see Note 29).

The Company received cash dividends from KSA amounting to ₱114.2 million in 2017 and 2016 and ₱68.5 million in 2015.

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

In December 2015, IQHPC invested US$1.0 million (₱47.1 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$0.75 million (₱36.5 million). In November 2016, IQHPC transferred its investment of 399,544 shares of common stock in YmAbs to AI.

On January 6, 2017 and September 25, 2017, AI made additional investment to YmAbs amounting to US$0.3 million (₱15.7 million) and US$1.0 million (₱50.1 million), respectively.

As at December 31, 2017 and 2016, the Group's total investment in YmAbs, inclusive of foreign exchange adjustment, amounted to ₱152.2 million and ₱87.0 million, respectively.

c. Madaket, Inc. (Madaket)

In May 2017, AI invested US$1.0 million (₱49.7 million) in equity shares at Madaket Inc., the owner of Madaket Healthcare. Madaket developed Electronic Data Interchange Enrollment, a service platform that automates healthcare provider data management processes in the United States.

d. Element Data, Inc. (Element Data)

In June 2017, AI invested US$1.0 million (₱49.5 million) in Series Seed preferred shares of Element Data, a Seattle, Washington-based Artificial Intelligence Company. Its Decision Intelligence platform incorporates a deep learning knowledge-graph with an active sense-and-response architecture, powering a decision intelligence engine that understands complex interdependencies between data and people.

In October 2017, Element Data acquired all of the intellectual property of the Group's investment in BM, an associate of the Group.

In December 2017, AI invested additional US$1.0 million (₱50.6 million) in Series Seed preferred shares of Element Data.

Total investment in Element Data, inclusive of foreign exchange adjustment, amounted to ₱99.9 million as at December 31, 2017.

e. Sierra Madre Philippines I LP (Sierra Madre)

In 2017, AI entered into an equity investment agreement with Sierra Madre, a newly formed private equity fund staffed by experienced local operators and private equity professionals. The fund will focus on providing growth capital to small and mid-sized Philippine companies. As at December 31, 2017, total investment in Sierra Madre amounted to US$0.2 million (₱12.2 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 (GRESC). Under this agreement, the Company committed to lend up to ₱172.0 million for the exploration phase of the three sites.

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.

As at December 31, 2016, total amount of investment amounted to ₱82.9 million, net of allowance for impairment amounting to ₱58.0 million.

In 2017, the Company recognized impairment loss of ₱82.9 million bringing the investment balance to nil as at December 31, 2017 (see Note 23).

g. Enderun College, 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 approximates its fair value as at December 31, 2014.

In 2015, the Company recognized ₱58.6 million gain on fair value adjustment in its investment in Enderun presented in other comprehensive income.

In 2017, the Company sold its shares in Enderun for ₱370.0 million which resulted to a gain of ₱83.8 million (inclusive of the fair value adjustment of ₱58.6 million previously recorded under other comprehensive income).

The carrying value of the investment in Enderun amounted to nil and ₱344.8 million as at December 31, 2017 and 2016, respectively (see Note 29).

The Company received cash dividends from Enderun amounting to ₱4.8 million, ₱21.9 million and ₱9.4 million in 2017, 2016 and 2015, respectively.

As at December 31, 2016, investment in Enderun was classified as AFS investments because the Company had no significant influence over Enderun (see Note 4).

h. 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 ₱12.5 million which resulted to a gain of ₱1.5 million.

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

	2017	2016
Beginning balance	**₱1,899,776,724**	₱686,254,240
Gain recognized directly in equity - net of tax	**1,520,649,950**	1,175,213,241
Amount removed from equity and recognized in consolidated statements of income - net of tax	**(417,154,729)**	38,309,243
Ending balance	**₱3,003,271,945**	₱1,899,776,724

In 2017, 2016 and 2015, the Group recognized impairment losses on its quoted and unquoted AFS debt and equity investments amounting to ₱125.6 million, ₱590.9 million, and ₱805.2 million, respectively (see Note 23).

13. Investments and Advances

	2017	2016
Investments at equity - net of valuation allowances	**₱1,570,106,166**	₱1,941,304,352
Advances - net of allowance for doubtful accounts of ₱564.8 million in 2017 and 2016	**81,733,969**	2,269,627
	₱1,651,840,135	₱1,943,573,979

Advances to Vicinetum amounted to ₱1.4 million as at December 31, 2017 and 2016, net of allowance for doubtful accounts of ₱564.8 million in 2017 and 2016.

On November 22, 2017, the Company and a stockholder of Fremont Holdings Inc. (FHI), entered into a conditional deed of sale for the Company's purchase of 12.75% stake in FHI. The Company made an advance payment of ₱77.4 million for the said transaction.

Investments at equity consist of:

	2017	2016
Acquisition cost:		
Common shares	**₱309,200,939**	₱199,199,033
Preferred shares	**2,066,437,018**	2,059,988,045
Total	**2,375,637,957**	2,259,187,078
Accumulated equity in net earnings - net of valuation allowance	**(1,054,606,791)**	(557,507,726)
Effect of foreign exchange differences	**249,075,000**	239,625,000
	₱1,570,106,166	₱1,941,304,352

The significant transactions involving the Group's investments in associates in 2017 and 2016 follow:

<u>AGP International Holdings Ltd. (AGPI)</u>
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 at December 31, 2017 and 2016, the carrying value of the investment amounted to ₱1,448.7 million and ₱1,941.3 million, respectively.

AGPI is looking to raise equity to fund projects as of February 22, 2018. The Group recognized a valuation allowance of ₱500.0 million, net of AI's share in the earnings of AGPI in 2017.

The following are the significant financial information of AGPI as at and for the years ended December 31, 2017 and 2016 (in millions):

	2017	2016
Equity	**₱8,223.5**	₱7,385.2
Net income	**844.3**	1,447.7

AIMP

In 2013, the Company invested ₱18.8 million in 15,000,000 common shares and ₱18.8 million in 18,750,000 cumulative, non-voting, redeemable and non-convertible preferred shares in AIMP. These investments gave the Company a total of 10% interest in the entity.

On July 6, 2017, the Company invested additional ₱91.3 million equivalent to 15,000,000 common shares, resulting to an increase in ownership from 10% to 20%, which allowed the Company to exercise significant influence over AIMP.

On December 22, 2017, AIMP redeemed the 12,300,000 preferred shares held by the Company for ₱15.6 million, inclusive of dividends accumulating to the Company amounting to ₱3.3 million.

As at December 31, 2017 and 2016, the carrying value of the investment in AIMP amounted to ₱119.4 million presented under investment at equity and ₱37.5 million presented under AFS investment, respectively.

The Group recognized equity in net earnings amounting to ₱2.9 million in 2017.

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 (₱22.5 million). In March 2016, AI invested an additional US$0.437 million (₱20.5 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 (₱39.2 million) for a 20.5% shareholding in BM. The increased ownership allows AI to exercise significant influence over BM.

In 2016, AI provided impairment loss on its investment in BM amounting to ₱62.2 million presented under "Equity in net earnings - net of valuation allowance" in the consolidated statement of income. In 2015, AI recognized impairment loss on its AFS investment in BM amounting to ₱57.2 million (see Note 23).

As at December 31, 2017 and 2016, the net carrying value of AI's investment in BM amounted to nil.

Prople Limited
In November 2013, AI invested US$4.0 million (₱175.9 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 (₱22.6 million) and US$0.2 million (₱10.6 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, AI provided impairment loss on its investment in Prople amounting to ₱10.6 million presented under "Equity in net earnings - net of valuation allowance" in the consolidated statements of income. In 2015, AI recognized impairment loss on its AFS investment in Prople amounting to ₱197.9 million (see Note 23).

As at December 31, 2017 and 2016, 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 at December 31, 2017 and 2016 have no contingent liabilities or capital commitments.

14. Property and Equipment

	2017					
	Land, Buildings and Improvements	**Flight Ground, Machinery and Other Equipment**	**Furniture, Fixtures and Office Equipment**	**Transportation Equipment**	**Construction in Progress**	**Total**
Cost						
January 1	**₱2,666,305,570**	**₱853,239,755**	**₱438,201,026**	**₱183,866,266**	**₱37,517,163**	**₱4,179,129,780**
Additions	**21,210,943**	**23,562,066**	**67,288,333**	**28,124,048**	**149,246,622**	**289,432,012**
Reclassification	**11,514,697**	**145,100,011**	**1,127,646**	**9,729,729**	**(167,472,083)**	–
Retirement/disposals	**(10,744,379)**	–	**(36,657,135)**	**(13,360,972)**	–	**(60,762,486)**
December 31	**2,688,286,831**	**1,021,901,832**	**469,959,870**	**208,359,071**	**19,291,702**	**4,407,799,306**
Accumulated Depreciation and Amortization						
January 1	**695,524,285**	**403,883,303**	**308,722,871**	**122,268,282**	–	**1,530,398,741**
Depreciation and amortization	**80,392,277**	**106,259,575**	**42,730,011**	**22,707,069**	–	**252,088,932**
Retirement/disposals	**(10,060,411)**	–	**(21,756,403)**	**(11,060,352)**	–	**(42,877,166)**
December 31	**765,856,151**	**510,142,878**	**329,696,479**	**133,914,999**	–	**1,739,610,507**
Net Book Value	**₱1,922,430,680**	**₱511,758,954**	**₱140,263,391**	**₱74,444,072**	**₱19,291,702**	**₱2,668,188,799**

	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

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 ₱252.1 million, ₱234.1 million and ₱236.8 million in 2017, 2016 and 2015, respectively (see Note 21).

15. Investment Properties

	2017	2016
January 1	**₱234,877,835**	₱260,569,744
Additions	**1,643,800**	640,000
Disposals	**–**	(26,331,909)
December 31	**₱236,521,635**	₱234,877,835

The Group’s investment properties include 144.4 hectares of land in Palawan, 36.9 hectares of land in Cebu, and 97.4 hectares of land 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 investment 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 at November and December 2017, the aggregate fair market values of investment properties amounted to ₱960.4 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 2017, 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 2017, 2016 and 2015.

16. Other Noncurrent Assets and Other Noncurrent Liabilities

Other noncurrent assets as at December 31 include:

	2017	2016
Fund for villa operations and capital expenditures (Note 30)	**₱91,846,387**	₱85,261,048
Deposit to supplier (Note 30)	**56,461,954**	35,191,266
Computer software	**13,845,662**	–
Deferred nurse cost	**2,099,165**	3,242,209
Refundable deposits	**691,203**	2,096,322
Others	**3,361,271**	3,215,933
	₱168,305,642	₱129,006,778

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 30).

Other noncurrent liabilities also include ₱140.7 million and ₱161.2 million as at December 31, 2017 and 2016, respectively, which include the related liability for the fund asset recognized above and other liabilities arising from funds for future infrastructure and utility development of villas and funds for replacement of power generating units and desalination plant.

17. Notes Payable

Notes payable represent unsecured, short-term, interest-bearing liabilities of Cirrus amounting to ₱91.9 million as at December 31, 2016.

Details of the Group’s short-term borrowing transactions are as follows:

a. Cirrus obtained a loan with Branch Banking and Trust Company, a foreign bank domiciled in the U.S., 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 at December 31, 2016 amounted to US$1.8 million (₱91.9 million). As at December 31, 2016, Cirrus has an available credit line which amounted to US$3.2 million (₱156.7 million).

b. The Company availed of loans from local banks totaling to nil and ₱554.0 million in 2017 and 2016, respectively. Terms of the loans is 11 to 30 days with rates ranging from 2.6% to 7%. As at December 31, 2016, the loans were fully paid.

c. The Group’s unavailed loan credit line from banks amounted to ₱3,075.0 million and ₱3,025.0 million as at December 31, 2017 and 2016, respectively.

d. Total interest expense from these loans recognized in the consolidated statements of income amounted to ₱5.4 million in 2017, ₱2.3 million in 2016 and ₱21.7 million in 2015 (see Note 23).

18. Accounts Payable and Accrued Expenses

	2017	2016
Trade payables	**₱506,798,981**	₱441,446,000
Accrued expenses (Note 32)	**186,358,796**	214,192,989
Payable to contractors	**54,985,469**	34,627,981
Refundable deposits	**53,394,572**	181,519,584
Payable to government agencies	**33,520,019**	41,795,677
Payable to villa owners	**29,256,688**	14,417,593
Other payables	**44,616,802**	41,798,985
	₱908,931,327	₱969,798,809

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 and bonus to a key officer related to the sale of Cirrus, among others.

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

19. Long-term Debt

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

	2017	2016
Anscor	**₱1,011,082,500**	₱1,566,180,000
PDP	**681,428,571**	942,857,143
IAI	**26,213,250**	36,544,200
	1,718,724,321	2,545,581,343
Less current portion	**611,283,871**	629,350,200
	₱1,107,440,450	₱1,916,231,143

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 AGPI. 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 ₱2,327.8 million and ₱2,273.7 million as at December 31, 2017 and 2016, 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. As at December 31, 2017 and 2016, the Company is in compliance with the debt covenants. A portion of the pledged shares are expected to be released in 2018 (see Note 12).

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, 2017 and 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.

   On December 19, 2016, the pledge over the shares of stock for 1,121,000 shares of PDIPI held by Anscor was released by the bank.

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

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

	2017	2016
Beginning balance	**₱942,857,143**	₱1,114,285,714
Payments	**(261,428,571)**	(171,428,571)
Ending balance	**681,428,572**	942,857,143
Less current portion	**151,428,572**	171,429,000
Noncurrent portion	**₱530,000,000**	₱771,428,143

c. In 2014, IAI converted the short-term loan amounting to US$1.05 million (₱47.0 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.

Total interest expense recognized in the consolidated statements of income amounted to ₱84.8 million, ₱105.0 million and ₱94.9 million in 2017, 2016 and 2015, respectively (see Note 23).

20. **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 at December 31, 2017 and 2016 totaled 1,217,173,254 and 1,232,593,254, respectively. The Company's number of equity holders as at December 31, 2017 and 2016 is 11,175 and 11,225, 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 Philippine SEC authorized the licensing of 910,476,302 common shares at the subscription price of ₱2.50 per share.

In 2017, 2016 and 2015, the Company declared the following cash dividends:

	2017	2016	2015
Cash dividends per share	**₱0.20**	₱0.20	₱0.10
Month of declaration	**February**	March	May
Total cash dividends	**₱500.0 million**	₱500.0 million	₱250.0 million
Share of a subsidiary	**₱255.6 million**	₱253.5 million	₱125.8 million

As at December 31, 2017 and 2016, the Company's dividends payable amounted to ₱252.6 million and ₱242.2 million, respectively. Dividends payable represents mainly dividend checks that were returned by the post office and which remained outstanding as at December 31, 2017 and 2016 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:

Date 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 in the years 2011 to 2014, which were due for expirations, were extended for additional three years in 2017 and 2016.

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

- Balance of gross deferred income tax assets amounting ₱74.1 million and ₱89.7 million as at December 31, 2017 and 2016, respectively.

- Shares in the undistributed retained earnings of subsidiaries amounting to ₱3.0 billion and ₱2.7 billion as at December 31, 2017 and 2016, 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 at December 31, 2017 and 2016, Anscorcon holds 1,282,826,746 shares and 1,267,406,746 shares, respectively, of the Company. Anscorcon purchased the Company's shares amounting to ₱98.0 million (15,420,000 shares) and ₱6.8 million (1,106,100 shares) in 2017 and 2016, respectively.

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

Cost of goods sold consists of:

	2017	2016	2015
Materials used and changes in inventories (Note 11)	**₱5,676,034,719**	₱4,780,202,671	₱4,547,877,135
Salaries, wages and employee benefits (Note 22)	**103,673,725**	100,910,214	90,045,965
Repairs and maintenance	**96,049,867**	126,373,261	102,892,525
Utilities	**95,680,984**	82,975,821	88,514,624
Depreciation and amortization (Note 14)	**81,484,916**	78,018,330	80,706,067
Transportation and travel	**7,269,253**	5,460,042	5,590,431
Insurance	**1,963,935**	1,968,394	2,489,433
Dues and subscriptions	**1,678,179**	1,676,767	1,680,190
Others	**5,448,347**	10,746,797	11,977,260
	₱6,069,283,925	₱5,188,332,297	₱4,931,773,630

Cost of services rendered consists of:

	2017	2016	2015
Salaries, wages and employee benefits (Note 22)	**₱1,289,293,587**	₱1,587,150,307	₱1,177,618,229
Resort operating costs	**133,218,885**	101,640,624	105,012,101
Recruitment services	**92,755,902**	123,367,404	89,437,777
Dues and subscriptions	**81,585,965**	106,726,263	65,420,731
Insurance	**81,553,473**	123,475,477	90,683,928
Transportation and travel	**42,361,989**	50,954,088	36,144,655
Fuel cost	**38,697,088**	26,581,852	33,328,482
Depreciation and amortization (Note 14)	**36,007,747**	27,405,992	28,409,146
Materials and supplies - resort operations	**33,887,885**	29,936,594	30,502,161
Repairs and maintenance	**31,669,833**	24,344,528	22,173,010
Outside services	**31,292,147**	36,347,026	43,162,954
Housing cost	**21,435,435**	30,138,144	31,219,222
Commissions	**14,433,118**	12,422,708	15,260,469
Variable nurse costs	**4,301,692**	7,748,434	7,461,184
Others	**32,979,684**	24,339,165	33,268,392
	₱1,965,474,430	₱2,312,578,606	₱1,809,102,441

Operating expenses consist of:

	2017	2016	2015
Salaries, wages and employee benefits (Note 22)	**₱477,471,625**	₱370,375,345	₱340,945,122
Advertising	**137,259,575**	109,709,523	116,267,925
Depreciation and amortization (Note 14)	**134,596,269**	128,644,433	127,652,687
Professional and directors' fees	**101,609,174**	124,630,473	94,483,322
Shipping and delivery expenses	**73,042,079**	84,507,245	79,891,698
Taxes and licenses	**63,332,683**	140,391,738	67,625,106
Utilities	**59,820,387**	55,643,818	68,855,836
Commissions	**52,724,604**	41,995,138	40,094,155
Transportation and travel	**46,511,932**	52,910,938	21,025,407
Repairs and maintenance	**37,356,821**	36,002,550	41,432,321
Insurance	**27,054,456**	29,866,029	26,148,572
Rental (Note 30)	**19,774,667**	21,633,810	18,756,512
Security services	**18,834,745**	18,152,937	18,307,777
Communications	**18,264,179**	19,187,297	19,212,844
Donation and contribution	**11,892,819**	8,162,186	7,632,540
Meetings and conferences	**11,770,509**	10,414,427	3,783,380
International processing cost	**10,332,545**	14,422,025	7,356,938
Association dues	**9,194,886**	7,714,913	7,690,415
Entertainment, amusement and recreation	**7,729,117**	12,757,890	18,550,777
Office supplies	**6,237,676**	6,482,155	7,263,853
Medical expenses	**6,137,045**	3,889,441	3,632,848
Computer programming	**4,592,662**	6,537,040	3,209,205
Others	**45,571,296**	43,738,301	28,755,833
	₱1,381,111,751	₱1,347,769,652	₱1,168,575,073

In 2017, 2016 and 2015, the Company paid bonus to its non-executive directors amounting to ₱10.4 million, ₱9.0 million and ₱13.4 million, respectively.

As approved in 2004, the directors are given bonus representing no more than 1.0% of previous year's net income.

22. Personnel Expenses

	2017	2016	2015
Salaries and wages	**₱1,783,523,136**	₱1,987,758,372	₱1,479,276,277
Pension costs (Note 24)	**16,747,851**	15,698,052	16,230,854
Social security premiums, meals and other employee benefits	**70,167,950**	54,979,442	113,102,185
	₱1,870,438,937	₱2,058,435,866	₱1,608,609,316

In 2017, 2016 and 2015, the Company declared and paid bonuses to its executive officers amounting to ₱48.7 million, ₱41.3 million and ₱66.3 million, respectively.

Annual bonus of no more than 3.0% of the preceding year's net income is given to executive officers as approved in 2004.

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

Interest income consists of:

	2017	2016	2015
Debt instruments (Notes 9 and 12)	**₱78,484,323**	₱79,517,862	₱73,314,316
Cash and cash equivalents (Note 8)	**13,675,637**	5,512,222	4,679,094
Funds and equities	**1,926,566**	3,326,334	5,309,052
Others	**4,792,053**	6,955,209	12,957
	₱98,878,579	₱95,311,627	₱83,315,419

Interest income on debt instruments is net of bond discount amortization amounting to ₱1.7 million in 2017, ₱0.5 million in 2016 and ₱0.4 million in 2015.

Interest expense consists of:

	2017	2016	2015
Long-term debt (Note 19)	**₱84,832,172**	₱104,959,908	₱94,940,763
Notes payable (Note 17)	**5,385,859**	2,259,110	21,652,492
Others	**306,006**	1,788,116	5,979
	₱90,524,037	₱109,007,134	₱116,599,234

Other income (charges) consists of:

	2017	2016	2015
Valuation allowances on:			
AFS investments (Note 12)	**(₱125,550,564)**	(₱590,899,207)	(₱805,238,727)
Receivables (Note 10)	**(18,477,727)**	(26,082,261)	(32,110,190)
Construction materials and other supplies	**(5,363,689)**	–	–
Other current and noncurrent assets	**–**	(1,584,786)	(3,774,453)
Write-off of noncurrent assets	**(105,662,888)**	–	–
Deal-related expenses	**(99,183,573)**	–	–
Sale of real property	**19,162,207**	–	–
Service fee	**9,910,777**	–	59,050,000
Rental income	**6,709,294**	7,542,788	3,771,910
Recovery of valuation allowances (Notes 10, 11 and 12)	**–**	16,509,318	–
Others	**31,105,632**	60,029,550	24,701,343
	(₱287,350,531)	(₱534,484,598)	(₱753,600,117)

Before the sale of Cirrus on October 19, 2017, Cirrus wrote off its investments in NT and Cirrus Allied.

Deal-related expenses pertain to the management bonuses, legal and advisory fees incurred in relation to the sale of the subsidiary (see Note 7).

In 2015, a subsidiary entered into a contract and received a fee of ₱59.0 million for various services rendered.

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

24. **Pension**

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 Company.

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 at December 31, 2017 and 2016 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 7.88% in 2017 and from 2.13% to 9.13% in 2016 and have maturities from May 23, 2018 to December 7, 2026 in 2017 and from September 4, 2016 to October 24, 2037 in 2016.

c. Investments in corporate debt instruments, consisting of both short-term and long-term corporate notes and land bonds, which bear interest ranging from 0.18% to 8.00% in 2017 and 2.13% to 8.50% in 2016 and have maturities from January 3, 2018 to July 19, 2031 in 2017 and from May 22, 2017 to April 20, 2025 in 2016; and

d. Investments in equity securities, which consist of 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 at December 31, 2017 and 2016, the Company's defined benefit retirement fund (Fund) has investments in shares of stock of the Company with a cost of ₱46.8 million and ₱39.9 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 ₱4.7 million and ₱3.2 million in 2017 and 2016, respectively.

As at December 31, 2017 and 2016, the Fund's carrying value and fair value amounted to ₱499.2 million and ₱448.6 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.

	2017	2016	2015
Retirement benefit cost:			
Current service cost	**₱19,689,927**	₱18,559,744	₱19,132,392
Net interest	**(2,942,076)**	(2,861,692)	(2,901,538)
Net benefit expense (Note 22)	**₱16,747,851**	₱15,698,052	₱16,230,854
Actual return on plan assets	**₱38,487,657**	₱5,905,193	₱1,824,388

Changes in net retirement plan asset are as follows:

	2017	2016	2015
Net retirement plan asset, beginning	**₱60,191,266**	₱59,482,997	₱65,533,724
Current service cost	**(14,782,486)**	(13,968,281)	(13,310,014)
Net interest	**3,133,176**	3,015,453	3,221,383
	(11,649,310)	(10,952,828)	(10,088,631)
Actuarial changes arising from:			
Remeasurement of plan assets	**17,799,154**	(13,230,751)	(17,100,815)
Experience adjustments	**29,303,887**	8,514,257	7,386,456
Changes in financial assumptions	**11,077,214**	–	99,446
Changes in the effect of asset ceiling	**(23,307,335)**	5,045,756	2,473,743
	34,872,920	329,262	(7,141,170)
Contribution	**10,291,808**	10,917,120	11,179,074
Transfer from net retirement benefits payable	–	414,715	–
Net retirement plan asset, end	**₱93,706,684**	₱60,191,266	₱59,482,997

Changes in net retirement benefits payable are as follows:

	2017	2016	2015
Net retirement benefits payable, beginning	**(₱4,211,769)**	(₱6,666,773)	(₱9,054,911)
Current service cost	**(4,907,441)**	(4,591,463)	(5,822,378)
Net interest	**(191,100)**	(153,761)	(319,845)
	(5,098,541)	(4,745,224)	(6,142,223)
Actuarial changes arising from:			
Changes in financial assumptions	**(5,204,141)**	2,184,750	4,190,933
Experience adjustments	**1,732,226**	(52,784)	(4,826,719)
Remeasurement of plan assets	**(1,439,886)**	(1,593,549)	(581,257)
Changes in the effect of asset ceiling	–	43,978	–
	(4,911,801)	538,417	(1,217,043)

(Forward)

	2017	2016	2015
Withdrawal of plan assets	**(₱1,575,169)**	₱–	₱–
Contribution	**6,367,740**	7,032,548	9,747,404
Transfer to net retirement plan asset	**–**	(414,715)	–
Reduction in net retirement benefits payable for disposed subsidiary (Note 7)	**245,466**	–	–
Net retirement benefits payable, end	**(₱9,184,074)**	(₱4,211,769)	(₱6,666,773)

Computation of net retirement plan assets (liabilities):

2017

	Net Retirement Plan Assets	Net Retirement Liabilities	Total
Present value of defined benefit obligation	**(₱337,512,482)**	**(₱48,917,890)**	**(₱386,430,372)**
Fair value of plan assets	**459,480,261**	**39,733,816**	**499,214,077**
Surplus (deficit)	**121,967,779**	**(9,184,074)**	**112,783,705**
Effect of the asset ceiling	**(28,261,095)**	**–**	**(28,261,095)**
Retirement plan assets (liabilities)	**₱93,706,684**	**(₱9,184,074)**	**₱84,522,610**

2016

	Net Retirement Plan Assets	Net Retirement Liabilities	Total
Present value of defined benefit obligation	(₱346,015,862)	(₱41,890,705)	(₱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 assets (liabilities)	₱60,191,266	(₱4,211,769)	₱55,979,497

Changes in the present value of defined benefit obligation:

	2017	2016
Defined benefit obligation, beginning	**₱387,906,567**	₱364,530,873
Interest cost	**18,954,472**	17,433,766
Current service cost	**19,689,927**	18,559,744
Benefits paid from plan assets	**(2,965,942)**	(1,971,593)
Remeasurement in other comprehensive income:		
Actuarial gain - changes in financial assumptions	**(5,873,073)**	(2,184,750)
Actuarial gain - experience adjustments	**(31,036,113)**	(8,461,473)
Reduction in net retirement benefits payable for disposed subsidiary	**(245,466)**	–
Defined benefit obligation, ending	**₱386,430,372**	₱387,906,567

Changes in the fair value of plan assets:

	2017	2016
Fair value of plan assets, beginning	**₱448,607,983**	₱426,724,715
Interest income	**22,128,389**	20,729,493
Contributions	**16,659,548**	17,949,668
Remeasurement gain (loss)	**16,359,268**	(14,824,300)
Benefits paid from plan assets	**(2,965,942)**	(1,971,593)
Withdrawal of plan asset	**(1,575,169)**	–
Fair value of plan assets, ending	**₱499,214,077**	₱448,607,983

Changes in the effect of asset ceiling:

	2017	2016
Beginning balance	**₱4,721,919**	₱9,377,618
Changes in the effect of asset ceiling	**23,307,335**	(5,089,734)
Interest on the effect of asset ceiling	**231,841**	434,035
Ending balance	**₱28,261,095**	₱4,721,919

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

	2017	2016
Debt instruments	**₱224,377,096**	₱185,013,512
Equity instruments	**123,004,213**	92,751,984
Unit investment trust funds	**80,194,287**	109,446,594
Cash and cash equivalents	**31,326,832**	45,425,257
Others	**40,311,649**	15,970,636
	₱499,214,077	₱448,607,983

The financial instruments with quoted prices in active market amounted to ₱346.2 million and ₱299.5 million as at December 31, 2017 and 2016, 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 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:

2017	**Change in Rates**	**Effect on Present Value of Defined Benefit Obligation Increase (Decrease)**
Discount rates		
	-3.60% to -4.00%	**₱13,017,482**
	+3.20% to +3.70%	**(11,807,861)**
Future salary increases		
	+2.60% to +7.30%	**₱12,584,029**
	-2.40% to -6.30%	**(11,238,844)**

2016	Change in Rates	Effect on Present Value of Defined Benefit Obligation Increase (Decrease)
Discount rates	-0.70% to -4.00%	₱3,566,736
	+0.60% to +4.40%	(3,876,060)
Future salary increases	+1.10% to +8.40%	₱6,874,329
	-1.00% to -7.20%	(6,004,623)

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:

2017	**Change in Rates**	**Effect on Present Value of Defined Benefit Obligation Increase (Decrease)**
Discount rates	**-3.80% to -8.30%**	**₱3,343,818**
	+3.60% to +10.90%	**(2,935,521)**
Future salary increase	**+2.80% to +11.70%**	**₱2,910,634**
	-2.70% to -10.30%	**(2,615,653)**

2016	Change in Rates	Effect on Present Value of Defined Benefit Obligation Increase (Decrease)
Discount rates	-4.10% to -8.10%	₱897,356
	+4.60% to +9.10%	(712,052)
Future salary increase	+4.10% to +8.40%	₱1,380,422
	-3.80% to -7.40%	(1,240,425)

The Group expects to make contributions amounting to ₱20.9 million to its defined benefit pension plans in 2018.

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

	2017	2016
Discount rate	**4.90% to 5.98%**	4.64% to 5.86%
Future salary increases	**4.00% to 6.00%**	3.00% to 5.00%

The weighted average duration of the defined benefit obligation as at December 31, 2017 and 2016 ranges from 3.4 to 11.8 years and 1.8 to 11.8 years, respectively.

Shown below is the maturity analysis of the expected future benefit payments as at December 31, 2017:

Year	**2017**
2018	**₱175,842,889**
2019	**96,288,530**
2020	**20,884,755**
2021	**3,590,974**
2022	**8,188,879**
2023 to 2027	**123,157,721**

25. Income Taxes

The provision for (benefit from) income tax consists of:

	2017	2016	2015
Current	**₱257,289,929**	₱338,260,726	₱272,752,008
Deferred	**(6,546,821)**	85,435,341	36,645,647
	₱250,743,108	₱423,696,067	₱309,397,655

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

	2017		2016	
	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	**₱26,319,100**	**₱–**	₱26,498,106	₱6,145,889
Allowance for inventory losses	**22,019,349**	**–**	24,772,634	–
Accrued expenses	**9,187,922**	**–**	8,608,406	3,972,777
Unamortized past service cost	**2,241,396**	**1,390,161**	1,630,587	1,621,856
Unrealized foreign exchange loss	**958,847**	**6,357,105**	1,309,770	6,194,707
Retirement benefits payable	**887,045**	**–**	1,448,372	–
Market adjustment on FVPL	**–**	**2,537,240**	–	5,228,502
Others	**2,184,932**	**–**	2,229,188	–
	63,798,591	**10,284,506**	66,497,063	23,163,731
Deferred income tax liabilities on:				
Retirement plan assets	**(2,693,409)**	**(3,156,397)**	(2,961,335)	(3,113,386)
Unrealized foreign exchange gains	**(107,418)**	**–**	(667,578)	–
Uncollected management fee	**–**	**(11,108,875)**	–	(8,462,334)
Fair value adjustment	**–**	**(332,403,041)**	–	(356,389,025)
Goodwill amortization of Cirrus*	**–**	**–**	–	(182,916,257)
	(2,800,827)	**(346,668,313)**	(3,628,913)	(550,881,002)
	60,997,764	**(336,383,807)**	62,868,150	(527,717,271)
Recognized in the consolidated other comprehensive income:				
Deferred income tax liabilities on:				
Unrealized valuation gains on AFS investments	**(1,047,565)**	**(61,047,854)**	(944,264)	(59,686,616)
Cumulative actuarial gains	**1,132,280**	**(23,082,658)**	380,955	(12,756,171)
	84,715	**(84,130,512)**	(563,309)	(72,442,787)
	₱61,082,479	**(₱420,514,319)**	₱62,304,841	(₱600,160,058)

[(1)] Pertain to PDP, SSRLI, ASAC, APHI, AHI and Sutton
[(2)] Pertain to Anscor, Anscorcon and AI
**Pertain to Cirrus which was sold on October 19, 2017.*

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:

	2017	2016
Allowances for:		
Impairment losses	**₱2,153,181,275**	₱1,527,630,711
Doubtful accounts	**537,467,964**	569,379,331
Inventory losses	–	3,877,877
NOLCO	**311,590,136**	269,860,049
Accrued pension benefits and others	**6,409,266**	16,256,984
Provision for probable losses and lawsuits	**5,721,158**	5,721,158
Unrealized foreign exchange losses	**2,364,044**	11,473,695
MCIT	**7,066,379**	4,745,193

The Company and other subsidiaries domiciled in the Philippines are subjected to the Philippine statutory tax rate of 30% in 2017, 2016 and 2015 while a foreign subsidiary is subject to U.S. federal tax rate of 34% in 2017, 2016 and 2015.

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

	2017	2016	2015
Provision for income tax at statutory tax rates	**₱561,741,275**	₱634,196,025	₱501,797,840
Additions to (reductions from) income taxes resulting from:			
Gain on sale of AFS investments, marketable equity securities and other investments subjected to final tax	**(48,101,133)**	(165,363,218)	(322,201,613)
Income tax at 5% GIT	**(76,130,168)**	(94,108,256)	(72,567,282)
Movement in unrecognized deferred income tax assets	**186,081,397**	66,327,305	262,898,352
Dividend income not subject to income tax	**(76,936,509)**	(65,639,343)	(62,895,499)
Expired NOLCO and MCIT	**33,575,544**	38,513,380	21,800,602
Nontaxable income	**(7,203,562)**	(9,622,892)	–
Interest income already subjected to final tax	**(3,671,966)**	(1,006,593)	(335,147)
Equity in net earnings of associates not subject to income tax	**(870,281)**	–	(46,186,157)
Nontaxable gain on sale of a foreign subsidiary	**(329,358,484)**	–	–
Others	**11,616,995**	20,399,659	27,086,559
	₱250,743,108	₱423,696,067	₱309,397,655

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

Period of Recognition	Availment period	Amount	Additions	Applied	Expired	Balance
2014	2015-2017	₱107,543,065	₱–	₱–	(₱107,543,065)	₱–
2015	2016-2018	159,571,086	–	–	–	159,571,086
2016	2017-2019	8,996,020	–	–	–	8,996,020
2017	2018-2020	–	143,023,030	–	–	143,023,030
		₱276,110,171	₱143,023,030	₱–	(₱107,543,065)	₱311,590,136

MCIT

Period of Recognition	Availment period	Amount	Additions	Applied	Expired	Balance
2014	2015-2017	₱1,312,624	₱–	₱–	(₱1,312,624)	₱–
2015	2016-2018	657,686	–	–	–	657,686
2016	2017-2019	4,577,596	–	–	–	4,577,596
2017	2018-2020	–	1,831,097	–	–	1,831,097
		₱6,547,906	₱1,831,097	₱–	(₱1,312,624)	₱7,066,379

Tax Reform for Acceleration and Inclusion Act (TRAIN) Law

RA No.10963 or the TRAIN Law was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as at the reporting date. Although the TRAIN Law changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the consolidated financial statement balances as at the reporting date.

26. Earnings Per Share - Basic / Diluted

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

	2017	2016	2015
Net income attributable to equity holders of the parent	**₱1,580,819,946**	₱1,522,796,705	₱1,282,782,660
Weighted average number of shares (Note 20)	**1,224,247,737**	1,232,679,551	1,244,599,629
Earnings per share	**₱1.29**	₱1.24	₱1.03

The Company does not have potentially dilutive common stock equivalents in 2017, 2016 and 2015.

27. 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 13 and 30, the Group grants/receives cash advances to/from its associates and affiliates.

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

	2017	2016	2015
Short-term employee benefits (Note 22)	**₱172.3**	₱165.6	₱154.7
Retirement benefits (Note 24)	**7.7**	8.1	7.6
Total	**₱180.0**	₱173.7	₱162.3

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

28. 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 Company's investment objectives consist mainly of:

a) maintaining a bond portfolio that earns adequate cash yields, and

b) 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, price risk of mutual funds, foreign currency risk, copper price risk and operating and regulatory risk. These risks are monitored by the Company'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, Corporate Development 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 below.

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.

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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:

	2017	2016
Cash in banks	**₱1,634,711,899**	₱1,803,068,523
Short-term investments*	**1,619,315,971**	670,981,773
FVPL investments - bonds	**833,776,158**	744,616,051
AFS investments - debt instruments	**684,500,101**	847,825,052
	4,772,304,129	4,066,491,399
Loans and receivables:		
Trade	**1,574,198,574**	1,938,454,863
Interest receivable	**22,046,675**	21,259,285
Advances to employees	**13,285,580**	14,567,248
Receivable from villa owners	**13,106,894**	11,069,973
Dividend receivable	**3,299,071**	3,299,071
Notes receivable	**–**	32,000,000
Others**	**5,577,573**	6,839,512
	1,631,514,367	2,027,489,952
	₱6,403,818,496	₱6,093,981,351

**Including short-term investments amounting to ₱70.5 million presented under "Other current assets" as at December 31, 2016.*
***Excluding advances to suppliers amounting to ₱0.3 million as at December 31, 2017 and 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 tables below show the credit quality by class of financial asset based on the Group's credit rating system:

	Financial Assets that are Neither Past Due nor Impaired				
2017	**High Grade**	**Standard Grade**	**Past Due but Not Impaired**	**Impaired**	**Total**
Cash in banks	**₱1,634,711,899**	**₱–**	**₱–**	**₱–**	**₱1,634,711,899**
Short-term investments	**1,619,315,971**	**–**	**–**	**–**	**1,619,315,971**
FVPL investments - bonds	**40,742,880**	**793,033,278**	**–**	**–**	**833,776,158**
AFS investments - debt instruments	**–**	**684,500,101**	**–**	**140,906,039**	**825,406,140**
Receivables:					
Trade	**–**	**877,859,446**	**696,339,128**	**57,974,044**	**1,632,172,618**
Interest receivable	**–**	**22,046,675**	**–**	**591,095**	**22,637,770**
Advances to employees	**9,633,694**	**3,651,886**	**–**	**–**	**13,285,580**
Receivable from villa owners	**–**	**13,106,894**	**–**	**–**	**13,106,894**
Dividend receivable	**–**	**3,299,071**	**–**	**–**	**3,299,071**
Others	**–**	**2,074,877**	**3,502,696**	**1,833,158**	**7,410,731**
	₱3,304,404,444	**₱2,399,572,228**	**₱699,841,824**	**₱201,304,336**	**₱6,605,122,832**

**Excluding advances to suppliers amounting to ₱0.3 million as at December 31, 2017.*

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2016	Financial Assets that are Neither Past Due nor Impaired				
	High Grade	Standard Grade	Past Due but Not Impaired	Impaired	Total
Cash in banks	₱1,803,068,523	₱–	₱–	₱–	₱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	–	1,430,210,918	508,243,945	63,025,260	2,001,480,123
Notes receivables	–	32,000,000	–	–	32,000,000
Interest receivable	–	21,259,285	–	591,095	21,850,380
Advances to employees	10,766,272	3,800,976	–	–	14,567,248
Receivable from villa owners	–	11,069,973	–	–	11,069,973
Dividend receivable	–	3,299,071	–	–	3,299,071
Others**	3,039	6,070,411	766,062	1,833,158	8,672,670
	₱2,563,576,087	₱3,021,395,257	₱509,010,007	₱123,449,513	₱6,217,430,864

**Including short-term investments amounting to ₱70.5 million presented under "Other current assets."*
****Excluding advances to suppliers amounting to ₱0.3 million as at December 31, 2016.*

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.

	Financial Assets that are Past Due but Not Impaired				
Trade and Others	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
December 31, 2017	**₱348,594,046**	**₱182,217,259**	**₱33,119,417**	**₱135,911,102**	**₱699,841,824**
December 31, 2016	288,083,008	130,946,255	69,093,076	20,887,668	509,010,007

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 as at December 31 based on undiscounted contractual payments as well as the financial assets used for liquidity management.

December 31, 2017	**Within 6 months**	**6 to 12 months**	**Over 1 up to 5 years**	**Over 5 years**	**Total**
Cash on hand and with banks	**₱1,636,218,697**	**₱–**	**₱–**	**₱–**	**₱1,636,218,697**
Short-term investments	**1,619,315,971**	**–**	**–**	**–**	**1,619,315,971**
FVPL investments					
bonds	**60,165,650**	**72,419,915**	**496,213,101**	**204,977,492**	**833,776,158**
AFS investments -					
bonds	**–**	**30,165,460**	**257,473,349**	**396,861,292**	**684,500,101**
Receivables*	**1,534,249,339**	**50,019,898**	**37,272,961**	**9,972,169**	**1,631,514,367**
	₱4,849,949,657	**₱152,605,273**	**₱790,959,411**	**₱611,810,953**	**₱6,405,325,294**
Accounts payable and accrued expenses**	**₱793,412,880**	**₱81,998,428**	**₱–**	**₱–**	**₱875,411,308**
Long-term debt	**211,008,430**	**400,275,441**	**1,107,440,450**	**–**	**1,718,724,321**
Dividends payable	**252,554,370**	**–**	**–**	**–**	**252,554,370**
	₱1,256,975,680	**₱482,273,869**	**₱1,107,440,450**	**₱–**	**₱2,846,689,999**

**Excluding non-financial assets amounting to ₱151.9 million.*
***Excluding non-financial liabilities amounting to ₱33.5 million.*

December 31, 2016	Within 6 months	6 to 12 months	Over 1 up to 5 years	Over 5 years	Total
Cash on hand and with 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 to ₱70.5 million under "Other current assets."*
***Excluding non-financial assets amounting to ₱140.0 million.*
****Excluding non-financial liabilities amounting to ₱41.8 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, foreign currency risk, copper price risk and operating and regulatory 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 demonstrates 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)
2017	**+150**	**(₱14.04)**
	-150	**14.04**
2016	+150	(22.22)
	-150	22.22

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 financial liabilities held as at December 31, 2017 and 2016. 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 table below shows the impact on income before income tax and equity 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. The impact of change in interest rates are as follows (in millions):

	Change in	Increase (Decrease)	
2017	**Interest Rates (in bps)**	**Effect on Income Before Tax**	**Effect on Equity**
AFS investments	**+100**	**₱–**	**(₱18.08)**
	-100	**–**	**19.60**
FVPL investments	**+100**	**(19.56)**	**–**
	-100	**20.64**	**–**

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

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 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 shows the impact on income before income tax and equity of the estimated future return of the stock investments using a Beta-based sensitivity approach. The impact of the change in equity prices is as follows (in millions):

		Increase (Decrease)	
AFS Investments	**Change in PSE Price Index**	**Effect on Income Before Tax**	**Effect on Equity**
2017	**+11.86%**	**₱–**	**₱444.67**
	-11.86%	**–**	**(444.67)**
2016	+18.44%	–	593.35
	-18.44%	–	(593.35)

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 +/-11.86% and +/-18.44% in 2017 and 2016, respectively. There are no outstanding stock investments listed in PSE that are classified as FVPL as at December 31, 2017 and 2016.

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 shows the impact on income before income tax and equity 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. The impact of the change in mutual fund prices are as follows (in millions):

		Increase (Decrease)	
Mutual Funds	**Change in NAV**	**Effect on Income Before Tax**	**Effect on Equity**
2017	**+10.00%**	**₱–**	**₱23.60**
	-10.00%	**–**	**(23.60)**
2016	+10.00%	1.06	18.20
	-10.00%	(1.06)	(18.20)

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, SSRLI 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. It assumes that all other variables remain constant. The impact of the change in currency rates are as follows (in millions):

2017	**Change in Currency Rate**	**Effect on Income Before Tax and Equity Increase (Decrease)**
US Dollar	**+3.49%**	**(₱3.37)**
	-3.49%	**3.37**
Indonesian Rupiah	**+2.89%**	**(5.14)**
	-2.89%	**5.14**

2016	Change in Currency Rate	Effect on Income Before Tax and Equity Increase (Decrease)
US Dollar	+4.41%	(₱7.30)
	-4.41%	7.30
Australian Dollar	+11.40%	(0.85)
	-11.40%	0.85

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 ₱403.1 million with an average quantity of about 1,284 metric tons in 2017 and ₱326.4 million with an average quantity of about 1,318 metric tons in 2016.

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 of the reasonably possible change in metal prices, as they affect prices of copper rods, with all other variables held constant. The impact of the change in copper prices are as follows (in millions):

	% Change in Copper Rod Prices	Effect on Income Before Income Tax and Equity Increase (Decrease)
2017	**+10.24%**	**(₱45.97)**
	-10.24%	**45.97**
2016	+10.80%	(38.00)
	-10.80%	38.00

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.

Capital Management

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, 2017 and 2016.

29. **Financial Instruments**

Categorization of Financial Instruments

December 31, 2017	**Loans and Receivables**	**Financial Assets at FVPL**	**AFS Investments**	**Total**
Cash and short-term investments	**₱3,255,534,668**	**₱–**	**₱–**	**₱3,255,534,668**
FVPL investments	**–**	**856,080,159**	**–**	**856,080,159**
AFS investments	**–**	**–**	**9,560,483,252**	**9,560,483,252**
Receivables*	**1,631,514,367**	**–**	**–**	**1,631,514,367**
	₱4,887,049,035	**₱856,080,159**	**₱9,560,483,252**	**₱15,303,612,446**

**Excluding non-financial assets amounting to ₱151.9 million*

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 investments amounting to ₱70.5 million under "Other current assets."*
*** Excluding non-financial assets amounting to ₱140.0 million*

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, 2017		December 31, 2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FVPL investments:				
Bonds and convertible note	**₱833,776,158**	**₱833,776,158**	₱744,616,051	₱744,616,051
Funds and equities	**214,351**	**214,351**	3,345,600	3,345,600
Others	**22,089,650**	**22,089,650**	21,718,480	21,718,480
	856,080,159	**856,080,159**	769,680,131	769,680,131
AFS investments:				
Quoted equity shares	**7,003,083,175**	**7,003,083,175**	5,671,746,053	5,671,746,053
Bonds and convertible note	**684,500,101**	**684,500,101**	847,825,052	847,825,052
Funds and equities	**468,836,089**	**468,836,089**	254,471,051	254,471,051
Proprietary shares	**194,320,323**	**194,320,323**	184,210,323	184,210,323
Unquoted shares	**752,935,232**	**752,935,232**	1,097,757,074	1,097,757,074
	9,103,674,920	**9,103,674,920**	8,056,009,553	8,056,009,553
	₱9,959,755,079	**₱9,959,755,079**	₱8,825,689,684	₱8,825,689,684

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 at December 31, 2017 and 2016, AFS investments amounting to ₱456.8 million and ₱305.2 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 tables provide the Group's fair value measurement hierarchy of its assets:

As at December 31, 2017:

		Fair value Measurement Using		
	Total	**Quoted Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
FVPL investments:				
Bonds	**₱833,776,158**	**₱833,776,158**	**₱–**	**₱–**
Funds and equities	**214,351**	**214,351**	**–**	**–**
Others	**22,089,650**	**22,089,650**	**–**	**–**
	856,080,159	**856,080,159**	**–**	**–**
AFS investments:				
Quoted equity shares	**7,003,083,175**	**7,003,083,175**	**–**	**–**
Bonds and convertible note	**684,500,101**	**684,500,101**	**–**	**–**
Funds and equities	**468,836,089**	**468,836,089**	**–**	**–**
Proprietary shares	**194,320,323**	**152,320,323**	**42,000,000**	**–**
Unquoted shares	**752,935,232**	**–**	**–**	**752,935,232**
	9,103,674,920	**8,308,739,688**	**42,000,000**	**752,935,232**
	₱9,959,755,079	**₱9,164,819,847**	**₱42,000,000**	**₱752,935,232**

As at December 31, 2016:

		Fair value Measurement Using		
	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
FVPL investments:				
Bonds	₱744,616,051	₱744,616,051	₱–	₱–
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 note	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
	₱8,825,689,684	₱7,727,932,610	₱–	₱1,097,757,074

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

2017:

	Valuation Technique	Significant Unobservable inputs	Range	Sensitivity of Input to Fair Value
KSA	DCF Model	Dividend payout is ₱110.0 million with 3% annual increase	0% to 5%	0%: fair value of ₱607 5%: fair value of ₱926
		Liquidity discount of 20%	10% to 30%	10%: fair value of ₱861 30%: fair value of ₱670
		Cost of equity of 14.50%	13% to 15%	13%: fair value of ₱880 15%: fair value of ₱733

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 ₱100.0 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

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 1 January 2016	**₱345**	**₱516**	**₱861**
Purchases	–	237	237
As at 31 December 2016	**₱345**	**₱753**	**₱1,098**
Sales	(345)	–	(345)
As at 31 December 2017	**₱–**	**₱753**	**₱753**

For the years ended December 31, 2017 and 2016, there were no transfers from Level 1, Level 2 and Level 3 fair value measurements.

30. **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 at December 31, 2017 and 2016, IQHPC has outstanding Service Agreements with different U.S. hospitals and one with a staffing agency. Service income recognized in 2017, 2016 and 2015 amounted to ₱7.4 million, ₱11.1 million and ₱3.6 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 2016 and 2017, the lease agreement was renewed for a one-year term.

   Rent expense in 2017, 2016 and 2015 amounted to ₱3.3 million, ₱3.0 million and ₱2.8 million, respectively (see Note 21).

d. In October 2015, 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. The sublease agreement was renewed and extended until June 15, 2016.

   In 2017, CGI entered into an agreement to sublease a portion of its leased office space to Cirrus Global Services, Inc. for a period of one year commencing August 1, 2017.

   Rent income from the sublease agreement in 2017, 2016 and 2015 amounted to ₱0.9 million, ₱0.4 million and ₱0.7 million, respectively (see Note 23).

e. 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. Total deferred revenues as at December 31, 2017 and 2016 amounted to ₱9.5 million and ₱8.6 million, respectively.

Service income recognized in 2017, 2016 and 2015 amounted to ₱10.3 million, ₱51.3 million and ₱18.1 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 ₱2.0 billion, ₱2.6 billion and ₱1.9 billion in 2017, 2016 and 2015, respectively. The service income recognized in 2017 is from the period ended October 19, 2017 (see Note 7).

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

	2016
Within one year	₱9,141,751
After one year but not more than five years	11,115,307
	₱20,257,058

   Rent expense in 2017, 2016 and 2015 amounted to ₱9.2 million, ₱10.7 million and ₱10.7 million, respectively (see Note 21).

c. On June 30, 2017, Cirrus invested in CGSI which handles the general and administrative services of the nurse staffing entities. CGSI, as part of the Cirrus Group, was subsequently sold through a merger agreement on October 19, 2017 (see Note 7).

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 the 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 at December 31, 2017 and 2016 amounted to ₱59.4 million and ₱35.2 million,

respectively, and included as part of "Other noncurrent assets" account in the consolidated balance sheets (see Note 16).

b. IAI conducts its operations from leased facilities with ASAC which include the aircraft hangar or ramp, battery shop, parking lots, mechanics' quarters and the administrative office. The lease agreement is for a period of two years commencing on September 1, 2009 and was subsequently renewed. The renewed lease agreement will terminate in August 31, 2019.

   The same shall be renewable upon mutual agreement if either party receives no notice of termination. Rent expense recognized in operations amounted to ₱3.2 million in 2017, ₱3.1 million in 2016 and ₱2.9 million in 2015.

c. IAI entered into a lease or concessionaire agreement with Manila International Airport Authority (MIAA) which granted the Company to operate as an aircraft hangar and conduct fixed base operations within the leased premises. The agreement shall be effective for a period of one (1) year commencing on January 1, 2016. IAI will continue to operate at Ninoy Aquino International Airport (NAIA) Complex by virtue of the Certificate of Public Convenience and Necessity (CPCN) to operate Domestic Scheduled Air Transportation Services issued on January 31, 2017 and valid from March 1, 2017 up to February 28, 2022.

   The IAI is still operating at NAIA Complex as of February 22, 2018.

<u>SSRLI and PRI</u>

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 19).

   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$5.9 million (₱255.9 million) cash consideration plus the fair value of the 46.79% investment amounting to ₱302.7 million. Goodwill recognized from the acquisition amounted to ₱99.3 million (see Note 6).

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. Effective January 1, 2016, the monthly fee increased from US$4,000 to US$15,000.

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 Amanresorts Services Limited (ASL) 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 ₱76.0 million, ₱58.0 million and ₱51.8 million in 2017, 2016 and 2015, respectively.

e. PRI entered into an agreement with IAI wherein the latter will provide regular air transport service. IAI shall charge PRI a fixed round trip rate, subject to an annual review by both parties, with a guarantee that all IAI's operating cost will be covered. The agreement has a duration of three years and was executed effective July 1, 2011. The agreement was renewed for another 3 years on February 13, 2015. The duration of the contract may be extended upon such terms and condition as may be mutually agreed by both parties.

   On February 15, 2018, both parties entered into a renewal agreement which shall have a duration of not less than three years unless otherwise pre-terminated.

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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 and 2017, 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:

	2017	2016
Not later than one year	**₱2,677,109**	₱1,727,167
Later than one year but not later than 5 years	**4,461,848**	–
	₱7,138,957	₱1,727,167

   Rent relating to the lease amounted to ₱2.7 million in 2017, ₱2.6 million in 2016 and ₱2.5 million in 2015.

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 21, 2017. On December 15, 2016, the agreement with APHI was transferred to AHI. On January 3, 2017, the monthly fee was reduced to ₱0.3 million, exclusive of VAT, from January to March 31, 2017.

   On May 31, 2017, AHI and SSRLI entered into a management contract in which SSRLI shall pay a fixed monthly fee amounting to ₱0.3 million, exclusive of VAT, effective June 1, 2017 until September 30, 2017. The monthly fee was reduced to ₱0.2 million, exclusive of VAT for October 2017.

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 ₱120.8 million, ₱96.0 million and ₱75.1 million in 2017, 2016 and 2015, 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 at December 31, 2017 and 2016, the restricted fund amounted to ₱91.9 million and ₱85.3 million, respectively, which is included under "Other noncurrent assets" and "Other noncurrent liabilities" in the consolidated balance sheets (see Note 16).

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 upon mutual agreement of both parties was increased to ₱42.8 million.

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

	2017	2016
Within one year	**₱42,800,000**	₱42,800,000
After one year but not more than five years	**171,200,000**	171,200,000
More than five years	**363,800,000**	406,600,000
	₱577,800,000	₱620,600,000

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 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 2017, 2016 and 2015, SSRLI recognized handling fee, included under "Services revenue" account which amounted to ₱4.7 million, ₱7.6 million and ₱56.5 million, respectively.

k. SSRLI enters into memorandum of agreements with the buyers of villa. 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.

l. Starting 2013, SSRLI has property development in progress, which pertains to the costs related to the development of various projects. As at December 31, 2017 and 2016, total property development in progress amounted to ₱3.2 million. These pertain to projects that are to be completed within one year and are, thus, presented as current assets.

m. In 2017, SSRLI redeemed Class A preferred stock of 46,284,261 shares and Class B preferred stock of 30,915,739 shares amounting to ₱77.2 million.

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 ₱41.5 million and ₱28.2 million (eliminated in the consolidated balance sheets) as at December 31, 2017 and 2016, respectively (see Notes 10 and 27). Management fees amounted to ₱67.6 million, ₱88.3 million and ₱71.0 million (eliminated in the consolidated statement of income) in 2017, 2016 and 2015, respectively.

b. 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:

	2017	2016
Not later than 1 year	**₱5,461,854**	₱6,577,643
More than 1 year but not later than 5 years	**240,000**	3,766,386
	₱5,701,854	₱10,344,029

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.

31. Changes in Liabilities Arising from Financing Activities

	January 1, 2017	Cash flows for Repayments	Dividend Declaration	Foreign Exchange Movement	December 31, 2017
Notes payable	₱ 91,948,200	(₱91,948,200)	₱–	₱–	₱–
Long-term debt	2,545,581,343	(838,534,464)	–	11,677,442	1,718,724,321
Dividends payable	242,208,406	(489,654,036)	500,000,000	–	252,554,370
Total liabilities from financing activities	₱2,879,737,949	(₱1,420,136,700)	₱500,000,000	₱11,677,442	₱1,971,278,691

32. 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 at December 31, 2017, the refund process has remained pending.

   ASAC recognized accruals amounting to ₱1.1 million as at December 31, 2017 and 2016 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 at December 31, 2017 and 2016, management has recognized provisions for losses amounting to ₱5.7 million (see Note 18) that may be incurred from these lawsuits.

c. Some subsidiaries of the Group have claims, commitments, litigations and contingent liabilities that arise in their normal course of their operations which are not reflected in the consolidated financial statements. Management is of the opinion that as at December 31, 2017 and 2016, losses, if any, from these commitments and contingencies will not have a material effect on the consolidated financial statements.

d. On April 20, 2016, the BOD and stockholders of the Cirrus authorized the re-acquisition of its own 28 common stocks for a total purchase price amounting to US$0.2 million.

33. Subsequent Event

On February 22, 2018, Anscor's BOD approved the declaration of cash dividends amounting to ₱1,250.0 million (₱0.50 per share, of which ₱0.20 per share is regular dividend and ₱0.30 per share is special dividend) to stockholders of record as of March 26, 2018, payable on April 18, 2018. Net cash dividend payable amounts to ₱608.5 million which excludes dividend for shares held by a subsidiary.