

ANNEX “B”

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017, 2016 and 2015



SAN MIGUEL CORPORATION

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

The management of San Miguel Corporation (the "Company"), is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2017, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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


EDUARDO M. COJUANGCO, JR.
Chairman and Chief Executive Officer


RAMON S. ANG
President and Chief Operating Officer


FERDINAND K. CONSTANTINO
Senior Vice President and
Chief Finance Officer/Treasurer

Signed this 15th day of March 2018

ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES)
Mandaluyong City) S. S.

Before me, a Notary Public for and in Mandaluyong City this 15th day of March 2018, personally appeared the following:

<u>Name</u>	<u>Passport No.</u>	<u>Date/Place of Issue</u>
Mr. Eduardo M. Cojuangco, Jr.	EC3542719	02/27/15/DFA-Manila
Mr. Ramon S. Ang	EC3542718	02/27/15/DFA-Manila
Mr. Ferdinand K. Constantino	P0341304A	09/22/16/DFA-NCR East

known to me to be the same persons who executed the foregoing instrument and that they acknowledged to me that the same is their free and voluntary act and deed and that of the corporation they represent.

IN WITNESS WHEREOF, I have hereunto affixed my notarial seal at the date and place first above written.

Doc. No. 282
Page No. 88
Book No. IV
Series of 2018.




PAULA KATHERINA A. GAN
Commission No. 0308-17
Notary Public for Mandaluyong City
Until Dec. 31, 2018
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 55988
PTR No. 3389412; 01/03/18; Mandaluyong City
IBP Lifetime Member No. 013353; 02/05/15; Q.C.
MCLE Compliance No. V - 0013241; 03/08/16; Pasig C

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017, 2016 and 2015



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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
San Miguel Corporation
No. 40 San Miguel Avenue
Mandaluyong City

Opinion

We have audited the consolidated financial statements of San Miguel Corporation and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes, comprising significant accounting policies and other explanatory information.

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 (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' 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 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.

Revenue recognition (P826,086 million).

Refer to Notes 7, 25 and 33 of the consolidated financial statements.

The risk

Revenue is an important measure used to evaluate the performance of the Group and is generated from various sources. It is accounted for when sales transactions are completed, when goods are delivered or services are rendered to the customers and all economic risks of the Group are transferred. While revenue recognition and measurement are not complex for the Group, revenues may be inappropriately recognized in order to improve business results and achieve revenue growth in line with the objectives of the Group, thus increasing the risk of material misstatement.

Our response

We performed the following audit procedures, among others, on revenue recognition:

- We evaluated and assessed the revenue recognition policies of the Group in accordance with Philippine Accounting Standard 18, *Revenue*.
- We evaluated and assessed the design and operating effectiveness of the key controls of the revenue process.
- We involved our information technology specialists, as applicable, to assist in the audit of automated controls, including interface controls among different information technology applications for the evaluation of the design and operating effectiveness of controls over the recording of revenue transactions.
- We vouched, on a sampling basis, sales transactions to supporting documentation such as sales invoices and delivery documents to ascertain that the revenue recognition criteria is met.
- We tested, on a sampling basis, sales transactions for the last month of the financial year and also the first month of the following financial year to supporting documentation such as sales invoices and delivery documents to assess whether these transactions are recorded in the appropriate financial year.
- We tested, on sampling basis, journal entries posted to revenue accounts to identify unusual or irregular items.
- We tested, on a sampling basis, credit notes issued after the financial year, to identify and assess any credit notes that relate to sales transactions recognized during the financial year.

Valuation of Goodwill (P60,124 million).

Refer to Notes 4, 5, 17 and 38 of the consolidated financial statements.

The risk

The Group has embarked on a diversification strategy and has expanded into new businesses through a number of acquisitions and investments resulting in the recognition of a significant amount of goodwill. The goodwill of the acquired businesses are reviewed annually to evaluate whether events or changes in circumstances affect the recoverability of the Group's investments.

The methods used in the annual impairment test of goodwill are complex and judgmental in nature, utilizing assumptions on future market and/or economic conditions. The assumptions used include future cash flow projections, growth rates, discount rates and sensitivity analyses, with a greater focus on more recent trends and current market interest rates, and less reliance on historical trends.

Our response

We performed the following audit procedures, among others, on the valuation of goodwill:

- We assessed management's determination of the recoverable amounts based on fair value less costs to sell or a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined for each individual cash-generating unit.
- We tested the reasonableness of the discounted cash flow model by comparing the Group's assumptions to externally derived data such as relevant industry information, projected economic growth, cost of inflation and discount rates. Our own valuation specialist assisted us in evaluating the models used and assumptions applied.
- We performed sensitivity analyses on the key assumptions used in the models.



Valuation of Other Intangible Assets (P134,438 million).

Refer to Notes 4, 5 and 17 of the consolidated financial statements.

The risk

The methods used in the annual impairment test for other intangible assets with indefinite useful lives and tests of impairment indicators for other intangible assets with finite useful lives are complex and judgmental in nature, utilizing assumptions on future market and/or economic conditions. These assumptions include future cash flow projections, growth rates, discount rates and sensitivity analyses, with a greater focus on more recent trends and current market interest rates, and less reliance on historical trends.

Our response

We performed the following audit procedures, among others, on the valuation of other intangible assets:

- We evaluated and assessed management's methodology in identifying any potential indicators of impairment.
- We assessed management's determination of the recoverable amounts based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined for each individual cash-generating unit.
- We tested the reasonableness of the discounted cash flow model by comparing the Group's assumptions to externally derived data such as relevant industry information, projected economic growth, cost of inflation and discount rates. Our own valuation specialist assisted us in evaluating the models used and assumptions applied.
- We performed sensitivity analyses on the key assumptions used in the models.

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 auditors' report thereon. The SEC Form 20-IS, 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 auditors' 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 PFRS, 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.

Auditors' 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 auditors' 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 PSA 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 PSA, 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 auditors' 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 auditors' 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 group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 auditors' report is Noel A. Baladiang.

R.G. MANABAT & CO.

NOEL A. BALADIANG

Partner

CPA License No. 106166

SEC Accreditation No. 1473-A, Group A, valid until April 30, 2018

Tax Identification No. 223-804-972

BIR Accreditation No. 08-001987-33-2017

Issued September 5, 2017; valid until September 4, 2020

PTR No. 6615125MD

Issued January 3, 2018 at Makati City

March 15, 2018
Makati City, Metro Manila

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(In Millions)

	Note	2017	2016
ASSETS			
Current Assets			
Cash and cash equivalents	5, 8, 40, 41	P206,073	P203,153
Trade and other receivables - net	4, 5, 6, 9, 33, 35, 40, 41	116,040	114,525
Inventories	4, 5, 10	102,575	83,241
Current portion of biological assets - net	4, 16	3,422	3,122
Prepaid expenses and other current assets	4, 5, 11, 13, 40, 41	78,228	75,202
		506,338	479,243
Assets held for sale	6	-	184
Total Current Assets		506,338	479,427
Noncurrent Assets			
Investments and advances - net	4, 12	35,537	32,512
Available-for-sale financial assets	4, 13, 40, 41	42,069	42,068
Property, plant and equipment - net	4, 5, 14, 34	523,586	504,711
Investment property - net	4, 15	7,162	7,295
Biological assets - net of current portion	4, 16	2,695	2,263
Goodwill - net	4, 5, 17, 38	60,124	58,113
Other intangible assets - net	4, 5, 17	134,438	125,165
Deferred tax assets	4, 5, 23	18,412	20,267
Other noncurrent assets - net	4, 5, 18, 33, 34, 35, 40, 41	49,282	35,003
Total Noncurrent Assets		873,305	827,397
		P1,379,643	P1,306,824
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	19, 30, 33, 38, 40, 41	P149,863	P189,277
Accounts payable and accrued expenses	4, 5, 20, 33, 34, 35, 40, 41	136,993	121,602
Finance lease liabilities - current portion	4, 30, 34, 38, 40, 41	16,889	16,392
Income and other taxes payable	5	16,653	16,967
Dividends payable	33, 36, 38	4,429	3,992
Current maturities of long-term debt - net of debt issue costs	21, 30, 33, 38, 40, 41	36,944	31,378
Total Current Liabilities		361,771	379,608
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	21, 30, 33, 38, 40, 41	362,548	297,222
Deferred tax liabilities	5, 23	20,674	17,229
Finance lease liabilities - net of current portion	4, 30, 34, 38, 40, 41	138,008	153,848
Other noncurrent liabilities	4, 5, 22, 33, 34, 35, 40, 41	25,580	22,136
Total Noncurrent Liabilities		546,810	490,435

Forward



	Note	2017	2016
Equity	24, 36, 37, 39		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - common		P16,435	P16,425
Capital stock - preferred		10,187	10,187
Additional paid-in capital		177,750	177,641
Equity reserves	5	(4,799)	(7,700)
Retained earnings:			
Appropriated		66,890	56,906
Unappropriated		143,335	135,984
Treasury stock		(109,501)	(109,501)
		300,297	279,942
Non-controlling Interests	2, 5	170,765	156,839
Total Equity		471,062	436,781
		P1,379,643	P1,306,824

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Millions, Except Per Share Data)

	<i>Note</i>	2017	2016	2015
SALES	7, 25, 33	P826,086	P685,314	P672,243
COST OF SALES	26	644,221	514,021	532,067
GROSS PROFIT		181,865	171,293	140,176
SELLING AND ADMINISTRATIVE EXPENSES	27	(70,823)	(71,639)	(59,627)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	19, 21, 30, 33, 34	(35,714)	(34,803)	(32,518)
INTEREST INCOME	31, 33, 35	4,525	3,693	4,286
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	12	297	203	(120)
GAIN (LOSS) ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	5, 6, 12, 13, 14, 15, 18	879	154	(79)
OTHER INCOME (CHARGES) - Net	21, 32, 40, 41	154	(11,426)	(6,506)
INCOME BEFORE INCOME TAX		81,183	57,475	45,612
INCOME TAX EXPENSE	23, 42	26,369	17,053	16,781
INCOME FROM CONTINUING OPERATIONS		54,814	40,422	28,831
INCOME AFTER INCOME TAX FROM DISCONTINUED OPERATIONS	6	-	11,818	162
NET INCOME		P54,814	P52,240	P28,993
Attributable to:				
Equity holders of the Parent Company		P28,225	P29,289	P12,448
Non-controlling interests	5	26,589	22,951	16,545
		P54,814	P52,240	P28,993
Earnings Per Common Share from Continuing Operations				
Attributable to Equity Holders of the Parent Company	37			
Basic		P8.78	P4.49	P2.50
Diluted		8.77	4.49	2.49

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Millions)

	<i>Note</i>	2017	2016	2015
NET INCOME		P54,814	P52,240	P28,993
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Equity reserve for retirement plan	35	(1,720)	3,642	(4,529)
Income tax benefit (expense)		510	(1,066)	1,320
Share in other comprehensive income (loss) of associates and joint ventures - net	12	44	(18)	(121)
		(1,166)	2,558	(3,330)
Items that may be reclassified to profit or loss				
Gain (loss) on exchange differences on translation of foreign operations		4,518	(105)	(4,884)
Net gain on available-for-sale financial assets	13	91	502	75
Income tax expense		(3)	(5)	(13)
		4,606	392	(4,822)
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		3,440	2,950	(8,152)
TOTAL COMPREHENSIVE INCOME - Net of tax		P58,254	P55,190	P20,841
Attributable to:				
Equity holders of the Parent Company		P30,308	P30,388	P6,969
Non-controlling interests	5	27,946	24,802	13,872
		P58,254	P55,190	P20,841

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Millions)

	Note	Equity Attributable to Equity Holders of the Parent Company											Non-controlling Interests	Total Equity	
		Equity Reserves									Total				
		Capital Stock		Additional Paid-in Capital	Reserve for Retirement Plan	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Retained Earnings						
		Common	Preferred						Appropriated	Unappropriated		Treasury Stock			
As of January 1, 2017		P16,425	P10,187	P177,641	(P1,756)	P214	(P180)	(P5,978)	P56,906	P135,984	(P67,093)	(P42,408)	P279,942	P156,839	P436,781
Gain on exchange differences on translation of foreign operations		-	-	-	-	-	2,872	-	-	-	-	-	2,872	1,646	4,518
Share in other comprehensive income (loss) of associates and joint ventures - net	12	-	-	-	(3)	(25)	56	-	-	-	-	-	28	16	44
Net gain on available-for-sale financial assets	13	-	-	-	-	88	-	-	-	-	-	-	88	-	88
Equity reserve for retirement plan	35	-	-	-	(905)	-	-	-	-	-	-	-	(905)	(305)	(1,210)
Other comprehensive income (loss)		-	-	-	(908)	63	2,928	-	-	-	-	-	2,083	1,357	3,440
Net income		-	-	-	-	-	-	-	-	28,225	-	-	28,225	26,589	54,814
Total comprehensive income (loss)		-	-	-	(908)	63	2,928	-	-	28,225	-	-	30,308	27,946	58,254
Issuance of common shares	24	10	-	109	-	-	-	-	-	-	-	-	119	-	119
Net addition (reduction) to non-controlling interests and others	5, 12	-	-	-	-	-	-	818	-	(239)	-	-	579	2,789	3,368
Appropriations - net	24	-	-	-	-	-	-	-	9,984	(9,984)	-	-	-	-	-
Cash dividends and distributions:	36														
Common		-	-	-	-	-	-	-	-	(3,334)	-	-	(3,334)	(8,216)	(11,550)
Preferred		-	-	-	-	-	-	-	-	(7,317)	-	-	(7,317)	(1,495)	(8,812)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	(7,098)	(7,098)
As of December 31, 2017	24	P16,435	P10,187	P177,750	(P2,664)	P277	P2,748	(P5,160)	P66,890	P143,335	(P67,093)	(P42,408)	P300,297	P170,765	P471,062

Forward

Equity Attributable to Equity Holders of the Parent Company															
		Capital Stock		Additional Paid-in Capital	Equity Reserves			Other Equity Reserve	Retained Earnings		Treasury Stock		Total	Non- controlling Interests	Total Equity
	Note	Common	Preferred		Reserve for Retirement Plan	Fair Value Reserve	Translation Reserve		Appro- priated	Unappro- priated	Common	Preferred			
As of January 1, 2016		P16,417	P10,187	P177,871	(P3,546)	(P222)	P947	(P798)	P48,927	P127,855	(P67,093)	(P72,408)	P238,137	P146,740	P384,877
Gain (loss) on exchange differences on translation of foreign operations		-	-	-	-	-	(1,157)	-	-	-	-	-	(1,157)	1,052	(105)
Share in other comprehensive income (loss) of associates and joint ventures - net	12	-	-	-	22	(74)	30	-	-	-	-	-	(22)	4	(18)
Net gain (loss) on available-for-sale financial assets	13	-	-	-	-	510	-	-	-	-	-	-	510	(13)	497
Equity reserve for retirement plan	35	-	-	-	1,768	-	-	-	-	-	-	-	1,768	808	2,576
Other comprehensive income (loss)		-	-	-	1,790	436	(1,127)	-	-	-	-	-	1,099	1,851	2,950
Net income		-	-	-	-	-	-	-	-	29,289	-	-	29,289	22,951	52,240
Total comprehensive income (loss)		-	-	-	1,790	436	(1,127)	-	-	29,289	-	-	30,388	24,802	55,190
Issuance of common shares	24	8	-	63	-	-	-	-	-	-	-	-	71	-	71
Reissuance of treasury shares		-	-	(293)	-	-	-	-	-	-	-	30,000	29,707	-	29,707
Net addition (reduction) to non- controlling interests and others	5, 12	-	-	-	-	-	-	(5,180)	-	(3,010)	-	-	(8,190)	1,460	(6,730)
Appropriations - net	24	-	-	-	-	-	-	-	7,979	(7,979)	-	-	-	-	-
Cash dividends and distributions:	36														
Common		-	-	-	-	-	-	-	-	(3,332)	-	-	(3,332)	(7,956)	(11,288)
Preferred		-	-	-	-	-	-	-	-	(6,839)	-	-	(6,839)	(1,495)	(8,334)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	(6,712)	(6,712)
As of December 31, 2016	24	P16,425	P10,187	P177,641	(P1,756)	P214	(P180)	(P5,978)	P56,906	P135,984	(P67,093)	(P42,408)	P279,942	P156,839	P436,781

Forward

	Note	Equity Attributable to Equity Holders of the Parent Company											Non-controlling Interests	Total Equity	
		Equity Reserves								Total					
		Capital Stock		Additional Paid-in Capital	Reserve for Retirement Plan	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Retained Earnings		Treasury Stock				
		Common	Preferred						Appropriated		Unappropriated	Common			Preferred
As of January 1, 2015		P16,415	P10,187	P178,101	(P1,216)	(P184)	P4,058	P761	P52,088	P120,571	(P67,093)	(P72,788)	P240,900	P149,020	P389,920
Loss on exchange differences on translation of foreign operations		-	-	-	-	-	(3,111)	-	-	-	-	-	(3,111)	(1,773)	(4,884)
Share in other comprehensive loss of associates and joint ventures - net	12	-	-	-	(40)	(66)	-	-	-	-	-	-	(106)	(15)	(121)
Net gain on available-for-sale financial assets	13	-	-	-	-	28	-	-	-	-	-	-	28	34	62
Equity reserve for retirement plan	35	-	-	-	(2,290)	-	-	-	-	-	-	-	(2,290)	(919)	(3,209)
Other comprehensive loss		-	-	-	(2,330)	(38)	(3,111)	-	-	-	-	-	(5,479)	(2,673)	(8,152)
Net income		-	-	-	-	-	-	-	-	12,448	-	-	12,448	16,545	28,993
Total comprehensive income (loss)		-	-	-	(2,330)	(38)	(3,111)	-	-	12,448	-	-	6,969	13,872	20,841
Issuance of common shares	24	2	-	25	-	-	-	-	-	-	-	-	27	-	27
Reissuance of treasury shares		-	-	-	-	-	-	-	-	-	-	54,456	54,456	-	54,456
Redemption of Subseries "2-A" preferred shares		-	-	(255)	-	-	-	-	-	-	-	(54,076)	(54,331)	-	(54,331)
Net reduction to non-controlling interests and others	5, 12	-	-	-	-	-	-	(1,559)	-	-	-	-	(1,559)	(1,968)	(3,527)
Reversal of appropriations - net	24	-	-	-	-	-	-	-	(3,161)	3,161	-	-	-	-	-
Cash dividends and distributions:	36														
Common		-	-	-	-	-	-	-	-	(3,330)	-	-	(3,330)	(7,544)	(10,874)
Preferred		-	-	-	-	-	-	-	-	(4,995)	-	-	(4,995)	(1,582)	(6,577)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	(5,058)	(5,058)
As of December 31, 2015	24	P16,417	P10,187	P177,871	(P3,546)	(P222)	P947	(P798)	P48,927	P127,855	(P67,093)	(P72,408)	P238,137	P146,740	P384,877

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(In Millions)

	<i>Note</i>	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax from continuing operations		P81,183	P57,475	P45,612
Income before income tax from discontinued operations	6	-	12,765	325
Income before income tax		81,183	70,240	45,937
Adjustments for:				
Interest expense and other financing charges	6, 30	35,714	34,809	32,521
Depreciation, amortization and others - net	6, 28	33,991	50,549	35,912
Interest income	6, 31	(4,525)	(3,707)	(4,315)
Equity in net losses (earnings) of associates and joint ventures	6, 12	(297)	(203)	386
Gain from disposal of discontinued operations	6	-	(13,572)	-
Loss (gain) on sale of investments and property and equipment	5, 6, 12, 13, 14, 15	(879)	(154)	81
Operating income before working capital changes		145,187	137,962	110,522
Changes in noncash current assets, certain current liabilities and others	38	(19,541)	(14,661)	(6,147)
Cash generated from operations		125,646	123,301	104,375
Interest and other financing charges paid		(26,319)	(24,647)	(24,409)
Income taxes paid		(20,099)	(19,461)	(14,525)
Net cash flows provided by operating activities		79,228	79,193	65,441
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	14	(38,693)	(40,649)	(59,973)
Increase in other noncurrent assets and others		(30,023)	(15,515)	(8,833)
Additions to investments and advances and available-for-sale financial assets	12, 13	(2,908)	(8,038)	(3,544)
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	38	(2,568)	(1,905)	(7,633)
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	6	13,020	37,175	-
Interest received		4,263	3,480	4,136
Proceeds from sale of investments and property and equipment	5, 12, 13, 14, 15, 18	1,930	1,114	2,607
Dividends received from associates and available-for-sale financial assets	12, 13	1,355	1,081	96
Cash and cash equivalents acquired from business combination, net of cash paid	38	-	-	14,415
Net cash flows used in investing activities		(53,624)	(23,257)	(58,729)

Forward

	<i>Note</i>	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		P848,320	P667,802	P760,238
Long-term borrowings		203,715	98,130	77,070
Payments of:				
Short-term borrowings		(888,378)	(625,642)	(794,373)
Long-term borrowings		(135,975)	(150,455)	(73,092)
Payments of finance lease liabilities		(24,924)	(23,907)	(22,296)
Cash dividends and distributions paid to non-controlling shareholders		(16,728)	(16,060)	(13,847)
Cash dividends paid	36	(10,295)	(8,278)	(9,802)
Increase (decrease) in non-controlling interests		1,760	(5,515)	(369)
Proceeds from issuance of capital stock	24	119	71	27
Redemption of Series "2A" preferred shares	24	-	-	(54,076)
Redemption of preferred shares of subsidiaries	5	-	-	(40,642)
Proceeds from reissuance of treasury shares	24	-	29,707	54,201
Net proceeds from issuance of preferred shares and undated subordinated capital securities of subsidiaries	5	-	-	28,708
Net cash flows used in financing activities		(22,386)	(34,147)	(88,253)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		(298)	606	3,693
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
		2,920	22,395	(77,848)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
		203,153	180,758	258,606
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	8	P206,073	P203,153	P180,758

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Millions, Except Per Share Data and Number of Shares)

1. Reporting Entity

San Miguel Corporation (SMC or the Parent Company), a subsidiary of Top Frontier Investment Holdings, Inc. (Top Frontier or the Ultimate Parent Company), was incorporated on August 21, 1913. On March 16, 2012, the Philippine Securities and Exchange Commission (SEC) approved the amendment of the Articles of Incorporation and By-Laws of the Parent Company to extend the corporate term of the Parent Company for another fifty (50) years from August 21, 2013, as approved on the March 14, 2011 and June 7, 2011 meetings of the Parent Company's Board of Directors (BOD) and stockholders, respectively.

The Parent Company is a public company under Section 17.2 of the Securities Regulation Code. Its common and preferred shares are listed on The Philippine Stock Exchange, Inc. (PSE).

The accompanying consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiaries (collectively referred to as the Group) and the Group's interests in associates and joint ventures.

The Group is engaged in various businesses, including beverage, food, packaging, energy, fuel and oil, infrastructure and real estate property management and development.

The registered office address of the Parent Company is No. 40 San Miguel Avenue, Mandaluyong City, Philippines.

2. Basis of Preparation

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the BOD on March 15, 2018.

Basis of Measurement

The consolidated financial statements of the Group have been prepared on the historical cost basis except for the following items which are measured on an alternative basis on each reporting date:

Items	Measurement Basis
Derivative financial instruments	Fair value
Financial assets at fair value through profit or loss (FVPL)	Fair value
Available-for-sale (AFS) financial assets	Fair value
Defined benefit retirement asset (liability)	Fair value of the plan assets less the present value of the defined benefit retirement obligation
Agricultural produce	Fair value less estimated costs to sell at the point of harvest

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the functional currency of the Parent Company. All financial information are rounded off to the nearest million (000,000), except when otherwise indicated.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries. The major subsidiaries include the following:

	<u>Percentage of Ownership</u>		Country of Incorporation
	<u>2017</u>	<u>2016</u>	
Beverage Business:			
San Miguel Brewery Inc. (SMB) and subsidiaries [including Iconic Beverages, Inc. (IBI), Brewery Properties Inc. (BPI) and subsidiary, San Miguel Brewing International Ltd. and subsidiaries {including San Miguel Brewery Hong Kong Limited and subsidiaries, PT. Delta Jakarta Tbk. ^(a) and subsidiary, San Miguel (Baoding) Brewery Company Limited (SMBB) ^(a) , San Miguel Brewery Vietnam Limited ^(a) , San Miguel Beer (Thailand) Limited and San Miguel Marketing (Thailand) Limited}]	51.16	51.16	Philippines
Ginebra San Miguel Inc. (GSMI) and subsidiaries [including Distileria Bago, Inc., East Pacific Star Bottlers Phils Inc. (EPSBPI), Ginebra San Miguel International Ltd. (GSMIL), GSM International Holdings Limited (GSMIHL), Global Beverages Holdings Limited and Siam Holdings Limited (SHL)]	78.27	78.27	Philippines
Food Business:			
San Miguel Pure Foods Company Inc. (SMPFC) ^(a) and subsidiaries [including San Miguel Foods, Inc. (SMFI) and subsidiary, San Miguel Mills, Inc. (SMMI) and subsidiaries {including Golden Bay Grain Terminal Corporation (GBGTC)}, The Purefoods-Hormel Company, Inc. (PF-Hormel), Magnolia, Inc. and subsidiaries {including Golden Food & Dairy Creamery Corporation}, San Miguel Super Coffeemix Co., Inc., PT San Miguel Pure Foods Indonesia and San Miguel Pure Foods International, Limited and subsidiary, San Miguel Pure Foods Investment (BVI) Limited and subsidiary, San Miguel Pure Foods (VN) Co., Ltd. (formerly San Miguel Hormel (VN) Co., Ltd.) ^(a)]	85.37	85.37	Philippines

Forward

	Percentage of Ownership		Country of Incorporation
	2017	2016	
Packaging Business:			
San Miguel Yamamura Packaging Corporation (SMYPC) and subsidiaries, SMC Yamamura Fuso Molds Corporation and Can Asia, Inc. (CAI)	65.00	65.00	Philippines
San Miguel Yamamura Packaging International Limited (SMYPIL) and subsidiaries [including San Miguel Yamamura Phu Tho Packaging Company Limited ^(a) , Zhaoqing San Miguel Yamamura Glass Company Limited, Foshan San Miguel Yamamura Packaging Company Limited, San Miguel Yamamura Packaging and Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd., Packaging Research Centre Sdn. Bhd., San Miguel Yamamura Plastic Films Sdn. Bhd., San Miguel Yamamura Australasia Pty Ltd (SMYA) and subsidiaries {including SMYC Pty Ltd formerly Cospak Pty Limited and subsidiary, SMYV Pty Ltd, SMYB Pty Ltd (SMYB) ^(c) , SMYP Pty Ltd (SMYP) ^(b) , Cospak Limited and SMYBB Pty Ltd (SMYBB) ^(d) } and San Miguel Yamamura Glass (Vietnam) Limited and subsidiary]	65.00	65.00	British Virgin Islands (BVI)
Mindanao Corrugated Fibreboard, Inc.	100.00	100.00	Philippines
San Miguel Yamamura Asia Corporation (SMYAC)	60.00	60.00	Philippines
Energy Business:			
SMC Global Power Holdings Corp. (SMC Global) and subsidiaries [including San Miguel Energy Corporation (SMEC) and subsidiaries, South Premiere Power Corp. (SPPC), Strategic Power Devt. Corp. (SPDC), San Miguel Electric Corp. (SMELC), SMC PowerGen Inc. (SPI) and subsidiary, SMC Power Generation Corp., PowerOne Ventures Energy Inc. (PVEI), Albay Power and Energy Corp. (APEC), SMC Consolidated Power Corporation (SCPC), San Miguel Consolidated Power Corporation (SMCPC), and Limay Premiere Power Corp. (LPPC)]	100.00	100.00	Philippines
Fuel and Oil Business:			
SEA Refinery Corporation and subsidiary; Petron Corporation (Petron) and subsidiaries [including Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation (Petrogen), Overseas Ventures Insurance Corporation Ltd. (Ovincor) ^(a) , Limay Energen Corporation, New Ventures Realty Corporation (NVRC) and subsidiaries, Petron Singapore Trading Pte., Ltd. (PSTPL), Petron Global Limited (PGL), Petron Oil and Gas Mauritius Ltd. and subsidiary, Petron Oil & Gas International Sdn. Bhd. and subsidiaries including Petron Fuel International Sdn. Bhd., Petron Oil (M) Sdn. Bhd. and Petron Malaysia Refining & Marketing Bhd. (PMRMB) (collectively Petron Malaysia) ^(a) , Petron Finance (Labuan) Limited, and Petrochemical Asia (HK) Limited (PAHL) and subsidiaries]	100.00	100.00	Philippines

Forward

	Percentage of Ownership		Country of Incorporation
	2017	2016	
Infrastructure Business:			
San Miguel Holdings Corp. doing business under the name and style of SMC Infrastructure (SMHC) ^(a, e) and subsidiaries [including Rapid Thoroughfares Inc. ^(a) and subsidiary, Private Infra Dev Corporation (PIDC) ^(a) , Trans Aire Development Holdings Corp. (TADHC) ^(a) , Optimal Infrastructure Development, Inc. ^(a) , Vertex Tollways Devt. Inc. (Vertex) ^(a) , Universal LRT Corporation (BVI) Limited (ULC BVI) ^(a) , SMC Mass Rail Transit 7 Inc. (SMC MRT 7), ULCOM Company, Inc. (ULCOM) ^(f) , Terramino Holdings, Inc. (THI) ^(a) and subsidiary ^(a) , Manila North Harbour Port, Inc. (MNHPI), Luzon Clean Water Development Corporation (LCWDC) ^(a) and Sleep International (Netherlands) Cooperatief U.A. ^(a) and Wiselink Investment Holdings, Inc. ^(a) {collectively own Cypress Tree Capital Investments, Inc. (Cypress) and subsidiaries including Star Infrastructure Development Corporation (SIDC) and Star Tollway Corporation (collectively the Cypress Group)} ^(a) , Atlantic Aurum Investments B.V. (AAIBV) ^(a) and subsidiaries {including Atlantic Aurum Investments Philippines Corporation (AAIPC) and subsidiaries {including Stage 3 Connector Tollways Holding Corporation (S3HC) and subsidiary, Citra Central Expressway Corp. (CCEC) and Citra Metro Manila Tollways Corporation (CMMTC) and subsidiary, Skyway O&M Corporation, MTD Manila Expressways Inc. (MTDME) and subsidiaries, Alloy Manila Toll Expressways, Inc. (AMTEX), Manila Toll Expressway Systems, Inc. (MATES) and South Luzon Tollway Corporation (SLTC)} ^(a)	100.00	100.00	Philippines
Real Estate Business:			
San Miguel Properties, Inc. (SMPI) ^(a) and subsidiaries [including Excel Unified Land Resources Corporation, SMPI Makati Flagship Realty Corp., Bright Ventures Realty, Inc. and Carnell Realty, Inc.] ^(a)	99.94	99.94	Philippines
Davana Heights Development Corporation (DHDC)	100.00	-	Philippines
Others:			
San Miguel International Limited and subsidiaries [including San Miguel Holdings Limited (SMHL) and subsidiaries {including SMYPIL}]	100.00	100.00	Bermuda
SMC Shipping and Lighterage Corporation (SMCSLC) and subsidiaries [including SL Harbor Bulk Terminal Corporation (SLHBTC), Molave Tanker Corporation (MTC), Balyena Tanker Corporation (BTC) and Narra Tanker Corporation (NTC)]	70.00	70.00	Philippines
San Miguel Equity Investments Inc. (SMEII) and subsidiaries [including South Western Cement Corporation (SWCC) ^(g) , and San Miguel Northern Cement, Inc. (SMNCI) ^(h)	100.00	100.00	Philippines
SMC Stock Transfer Service Corporation	100.00	100.00	Philippines
ArchEn Technologies Inc.	100.00	100.00	Philippines
SMITS, Inc. and subsidiaries ^(a)	100.00	100.00	Philippines
Anchor Insurance Brokerage Corporation (AIBC)	58.33	58.33	Philippines
SMC Asia Car Distributors Corp. (SMCACDC) ⁽ⁱ⁾	65.00	-	Philippines

(a) The financial statements of these subsidiaries were audited by other auditors.

(b) Consolidated to SMYPIL effective February 1, 2017 (Note 5).

(c) Consolidated to SMYPIL effective June 30, 2017 (Note 5).

(d) Consolidated to SMYPIL effective November 1, 2017 (Note 5).

(e) On August 31, 2017, the SEC approved the change in company name to San Miguel Holdings Corp. doing business under the name and style of SMC Infrastructure (formerly: San Miguel Holdings Corp.).

(f) Consolidated to SMHC effective July 1, 2016 (Note 5).

(g) Disposed on December 23, 2016 (Note 5).

(h) Incorporated on October 2, 2017 (Note 5).

(i) Incorporated on July 17, 2017 (Note 5).

A subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The 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.

When the Group has less than 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 and the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not attributable to the Parent Company and are presented in the consolidated statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

Non-controlling interests include the interests not held by the Parent Company in its subsidiaries as follows: SMB, GSMI, SMPFC, SMYPC, SMYPIL, SMYAC, Petron, PIDC, TADHC, AMTEX, MNHPI, AAIBV, SMPI, SMCSLC and AIBC in 2017 and 2016 and SMNCI and SMCACDC in 2017 (Note 5).

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in the consolidated statements of income; and (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income 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.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

Adoption of New and Amended Standards and Interpretation

The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

Amendments to Standards Adopted in 2017

The Group has adopted the following amendments to PFRS starting January 1, 2017 and accordingly, changed its accounting policies in the following areas:

- Disclosure Initiative (*Amendments to PAS 7, Statement of Cash Flows*). The amendments resulted in improved disclosures about the net debt of an entity relevant to the understanding of its cash flows. The amendments require entities to provide disclosures that enable users of the consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g., by providing a reconciliation between the opening and closing balances in the consolidated statements of financial position for liabilities arising from financing activities.
- Recognition of Deferred Tax Assets for Unrealized Losses (*Amendments to PAS 12, Income Taxes*). The amendments clarify that: (a) the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset; (b) the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences; (c) the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and (d) an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.
- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the *Amendments to PFRS 12, Disclosure of Interests in Other Entities*, on clarification of the scope of the standard is applicable to the Group. The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

Except as otherwise indicated, the adoption of amendments to standards did not have a material effect on the consolidated financial statements.

New and Amended Standards and Interpretations Not Yet Adopted

A number of new and amended standards and interpretations are effective for annual periods beginning after January 1, 2017 and have not been applied in preparing the consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements.

The Group will adopt the following new and amended standards and interpretations on the respective effective dates:

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the *Amendments to PAS 28, Investments in Associates*, on measuring an associate or joint venture at fair value is applicable to the Group. The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at FVPL. This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

The amendments are to be applied retrospectively on or after January 1, 2018, with early application permitted.

- PFRS 9 (2014), *Financial Instruments*, replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Group will adopt the new standard on the effective date and will not restate comparative information. The Group has performed an assessment which is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018. The adoption of PFRS 9 will have no significant effect on the classification and measurement of financial assets and liabilities of the Group. The Group does not expect significant impact on its consolidated statement of financial position except for the effect of applying the expected credit loss model in estimating impairment.

- *Applying PFRS 9, with PFRS 4, Insurance Contracts (Amendments to PFRS 4).* The amendments permit an entity to defer application of PFRS 9 in 2018 and continue to apply PAS 39, if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021. The amendments also provide an overlay approach to presentation when applying PFRS 9 for designated financial assets where an entity is permitted to reclassify between profit or loss and other comprehensive income the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39. A financial asset is eligible for designation if it is held for an activity that is connected with contracts in the scope of PFRS 4, and if it is measured at FVPL under PFRS 9, but would not have been under PAS 39. 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.

- *Classification and Measurement of Share-based Payment Transactions (Amendments to PFRS 2, Share-based Payment).* The amendments cover the following areas: (a) Measurement of cash-settled awards: The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments - i.e. the modified grant date method; (b) Classification of awards settled net of withholding tax: The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if: (i) the terms of the arrangement permit or require an entity to settle the transaction by withholding a specified portion of the equity instruments to meet the statutory tax withholding requirement (the net settlement feature); and (ii) the entire share-based payment transaction would otherwise be classified as equity-settled if there were no net settlement feature. The exception does not apply to equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment. (c) Modification of awards from cash-settled to equity-settled. The amendments clarify that when a share-based payment is modified from cash-settled to equity-settled at modification date, the liability for the original cash-settled share-based payment is derecognized and the equity-settled share-based payment is measured at its fair value and recognized to the extent that the goods or services have been received up to that date. The difference between the carrying amount of the liability derecognized, and the amount recognized in equity, is recognized in the consolidated statements of income immediately.

The amendments can be applied prospectively for annual periods beginning on or after January 1, 2018, with retrospective or early application permitted.

- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Group's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall

in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. An entity can apply the new standard using either the retrospective or the cumulative effect method. Under the retrospective method, each comparative period presented is retrospectively adjusted, with a choice of practical expedients. While under the cumulative effect method, the cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative periods, with a choice of practical expedients.

The Group will adopt the new standard on the effective date using the cumulative effect method. The cumulative impact of the adoption will be recognized in retained earnings as of January 1, 2018 and comparative information will not be restated. Based on the assessment, which has been limited to existing facts and circumstances, certain performance obligations will be satisfied over time considering that the Group does not have an alternative use on the assets being created and that it has enforceable right to payment for performance completed to date. The Group will also consider the effects of variable consideration and significant financing component in the transaction price.

- *Transfers of Investment Property (Amendments to PAS 40, Investment Property)*. The amendments clarify the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use - i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. An entity may apply the amendments to transfers that occur after the date of initial application and also reassess the classification of property assets held at that date or apply the amendments retrospectively, but only if it does not involve the use of hindsight.

- *Philippine Interpretation IFRIC 22, Foreign Currency Transactions and Advance Consideration*. The amendments clarify that the transaction date to be used for translation of foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- PFRS 16, *Leases*, supersedes PAS 17, *Leases*, and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. The Group is currently assessing the potential impact of the new standard.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*, clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the consolidated financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Group's chosen tax treatment. If it is not probable that the tax authority will accept the Group's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

The interpretation is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted.

The interpretation was approved by the FRSC on July 12, 2017 but is still subject to the approval by the Board of Accountancy.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (*Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28*). The amendments address an inconsistency in the requirements in PFRS 10 and PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business whether it is housed in a subsidiary or not. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. However on January 13, 2016, the FRSC decided to postpone the effective date until the IASB 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.

- **Prepayment Features with Negative Compensation (*Amendments to PFRS 9*).** The amendments cover the following areas: (a) *Prepayment features with negative compensation*. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination. The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs; and (b) *Modification of financial liabilities*. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss. If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.
- **Long-term Interests (LTI) in Associates and Joint Ventures (*Amendments to PAS 28*).** The amendment requires the application of PFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment explains the annual sequence in which PFRS 9 and PAS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any PAS 28 loss absorption in prior years. If necessary, prior years' PAS 28 loss allocation is adjusted in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI. The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statements of financial position based on current and noncurrent classification. An asset is current when it is: (a) expected to be realized or intended to be sold or consumed in the normal operating cycle; (b) held primarily for the purpose of trading; (c) expected to be realized within 12 months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

A liability is current when it is: (a) expected to be settled in the normal operating cycle; (b) held primarily for trading; (c) due to be settled within 12 months after the reporting period; or (d) 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 assets and liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent.

Financial Assets and Financial Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs.

'Day 1' Difference. Where the transaction price in a non-active market is different from the fair value of 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 the fair value (a 'Day 1' difference) in the consolidated statements of income unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial Assets

The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at FVPL, loans and receivables, AFS financial assets and held-to-maturity (HTM) investments. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group has no financial assets classified as HTM investments as of December 31, 2017 and 2016.

Financial Assets at FVPL. A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair values in accordance with the documented risk management or investment strategy of the Group. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition as at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;
- the assets are part of a group of financial assets which are managed and their performances are 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 recognized.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the consolidated statements of income as incurred. Fair value changes and realized gains or losses are recognized in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest earned is recognized as part of "Interest income" account in the consolidated statements of income. Any dividend income from equity securities classified as at FVPL is recognized in the consolidated statements of income when the right to receive payment has been established.

The Group's derivative assets and financial assets at FVPL are classified under this category (Notes 11, 40 and 41).

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the consolidated statements of income on an accrual basis. 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 periodic amortization is also included as part of "Interest income" account in the consolidated statements of income. Gains or losses are recognized in the consolidated statements of income when loans and receivables are derecognized or impaired.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The Group's cash and cash equivalents, trade and other receivables, noncurrent receivables and deposits, and restricted cash are included under this category (Notes 8, 9, 11, 18, 40 and 41).

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the "Fair value reserve" account in the consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of "Interest income" account in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as dividend income when the right to receive the payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in the consolidated statements of changes in equity are transferred to and recognized in the consolidated statements of income.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any.

The Group's investments in equity and debt securities are classified under this category (Notes 11, 13, 40 and 41).

Financial Liabilities

The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Financial Liabilities at FVPL. Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income.

The Group's derivative liabilities are classified under this category (Notes 20, 40 and 41).

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in "Interest expense and other financing charges" account in the consolidated statements of income. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

The Group's liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, finance lease liabilities and other noncurrent liabilities are included under this category (Notes 19, 20, 21, 22, 34, 40 and 41).

Derivative Financial Instruments and Hedging

Freestanding Derivatives

For the purpose of hedge accounting, hedges are classified as either:

- (a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk);

- (b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or
- (c) hedges of a net investment in foreign operations.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Fair Value Hedge. Derivatives classified as fair value hedges are carried at fair value with corresponding change in fair value recognized in the consolidated statements of income. The carrying amount of the hedged asset or liability is also adjusted for changes in fair value attributable to the hedged item and the gain or loss associated with that remeasurement is also recognized in the consolidated statements of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued and the adjustment to the carrying amount of a hedged financial instrument is amortized immediately.

The Group discontinues fair value hedge accounting if:

- (a) the hedging instrument expires, is sold, is terminated or is exercised;
- (b) the hedge no longer meets the criteria for hedge accounting; or
- (c) the Group revokes the designation.

The Group has no outstanding derivatives accounted for as a fair value hedge as of December 31, 2017 and 2016.

Cash Flow Hedge. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. The ineffective portion is immediately recognized in the consolidated statements of income.

If the hedged cash flow results in the recognition of an asset or a liability, all gains or losses previously recognized directly in the consolidated statements of changes in equity are transferred and included in the initial measurement of the cost or carrying amount of the asset or liability. Otherwise, for all other cash flow hedges, gains or losses initially recognized in the consolidated statements of changes in equity are transferred to the consolidated statements of income in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affects the consolidated statements of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been reported directly in the consolidated statements of changes in equity is retained until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in the consolidated statements of changes in equity is recognized in the consolidated statements of income.

The Group has no outstanding derivatives accounted for as a cash flow hedge as of December 31, 2017 and 2016.

Net Investment Hedge. Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the consolidated statements of income. On disposal of a foreign operation, the cumulative value of any such gains and losses recorded in the consolidated statements of changes in equity is transferred to and recognized in the consolidated statements of income.

The Group has no hedge of a net investment in a foreign operation as of December 31, 2017 and 2016.

Changes in fair values of derivatives that do not qualify for hedge accounting are recognized directly in the consolidated statements of income.

Embedded Derivatives

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group becomes a party to the contract.

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 as at FVPL.

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL.

The Group has not bifurcated any embedded derivatives as of December 31, 2017 and 2016.

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 primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; 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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group’s continuing involvement. In that case, the Group also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group is required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of income.

Impairment of Financial Assets

The Group assesses, at the reporting date, whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in the collective impairment assessment.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The impairment loss for the period is recognized in the consolidated statements of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets. For equity instruments carried at fair value, the Group assesses, at each reporting date, whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Group generally regards fair value decline as being significant when the decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.

If an AFS financial asset is impaired, an amount comprising the difference between the acquisition cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of changes in equity, is transferred from other comprehensive income and recognized in the consolidated statements of income. Impairment losses in respect of equity instruments classified as AFS financial assets are not reversed through the consolidated statements of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

For debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. If, in subsequent period, the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income, the impairment loss is reversed through the consolidated statements of income.

If there is an objective evidence that an impairment loss on 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 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. Such impairment loss shall not be reversed.

Classification of Financial Instruments between Liability and Equity

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

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole or in part, the amount separately determined as the fair value of the liability component on the date of issue.

Debt Issue Costs

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest rate method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in the consolidated statements of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Inventories

Finished goods, goods in process, materials and supplies, raw land inventory and real estate projects are valued at the lower of cost and net realizable value.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Finished goods and goods in process	- at cost, which includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; finished goods also include unrealized gain (loss) on fair valuation of agricultural produce; costs are determined using the moving-average method.
Petroleum products (except lubes and greases), crude oil, and other products	- at cost, which includes duties and taxes related to the acquisition of inventories; costs are determined using the first-in, first-out method.
Lubes and greases, polypropylene and solvents	- at cost, which includes duties and taxes related to the acquisition of inventories; costs are determined using the moving-average method.
Raw land inventory	- at cost, which includes acquisition costs of raw land intended for sale or development and other costs and expenses incurred to effect the transfer of title of the property; costs are determined using the specific identification of individual costs.
Real estate projects	- at cost, which includes acquisition costs of property and other costs and expenses incurred to develop the property; costs are determined using the specific identification of individual costs.
Materials, supplies and others	- at cost, using the specific identification method, first-in, first-out method or moving-average method.
Coal	- at cost, using the specific identification method or moving-average method.

Finished Goods. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Goods in Process. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Petroleum Products, Crude Oil, Lubes and Greases, and Aftermarket Specialties. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to complete and/or market and distribute.

Materials and Supplies, including Coal. Net realizable value is the current replacement cost.

Any write-down of inventories to net realizable value and all losses of inventories are recognized as expense in the year of write-down or loss occurrence. The amount of reversals, if any, of write-down of inventories arising from an increase in net realizable value are recognized as reduction in the amount of inventories recognized as expense in the year in which the reversal occurs.

Containers (i.e., Returnable Bottles and Shells). These are stated at deposit values less any impairment in value. The excess of the acquisition cost of the containers over their deposit value is presented as “Deferred containers” under “Other noncurrent assets” account in the consolidated statements of financial position and is amortized over the estimated useful lives of two to ten years. Amortization of deferred containers is included under “Selling and administrative expenses” account in the consolidated statements of income.

Real Estate Projects. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Raw Land Inventory. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Biological Assets and Agricultural Produce

The Group’s biological assets include breeding stocks, growing hogs, cattle and poultry livestock and goods in process which are grouped according to their physical state, transformation capacity (breeding, growing or laying), as well as their particular stage in the production process.

The carrying amounts of the biological assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

The Group’s agricultural produce, which consists of grown broilers and marketable hogs and cattle harvested from the Group’s biological assets, are measured at their fair value less estimated costs to sell at the point of harvest. The fair value of grown broilers is based on the quoted prices for harvested mature grown broilers in the market at the time of harvest. For marketable hogs and cattle, the fair value is based on the quoted prices in the market at any given time.

The Group, in general, does not carry any inventory of agricultural produce at any given time as these are either sold as live broilers, hogs and cattle or transferred to the different poultry or meat processing plants and immediately transformed into processed or dressed chicken and carcass.

Amortization is computed using the straight-line method over the following estimated productive lives of breeding stocks:

	Amortization Period
Hogs - sow	3 years or 6 births, whichever is shorter
Hogs - boar	2.5 - 3 years
Cattle	2.5 - 3 years
Poultry breeding stock	40 - 44 weeks

Business Combination

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

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 at the acquisition date.

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 at the acquisition date fair value and any resulting gain or loss is recognized in the consolidated statements of income.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in the consolidated statements of income. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the consolidated statements of income. Costs related to the acquisition, other than those associated with the issuance of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in the consolidated statements of income.

▪ *Goodwill in a Business Combination*

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- o represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- o is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

Impairment is determined 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, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or 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. An impairment loss with respect to goodwill is not reversed.

- *Intangible Assets Acquired in a Business Combination*

The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in the consolidated statements of income.

Transactions under Common Control

Transactions under common control entered into in contemplation of each other and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using book value accounting.

Non-controlling Interests

The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the identifiable net assets of the subsidiary.

Investments in Shares of Stock of Associates and Joint Ventures

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

The Group's investments in shares of stock of associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in shares of stock of an associate or joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize the changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Group's share in profit or loss of an associate or joint venture is recognized as "Equity in net earnings (losses) of associates and joint ventures" account in the consolidated statements of income. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate or joint venture arising from changes in the associate or joint venture's other comprehensive income. The Group's share on these changes is recognized as "Share in other comprehensive income (loss) of associates and joint ventures" account in the consolidated statements of comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in the shares of stock of an associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in shares of stock of an associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in shares of stock of an associate or joint venture and then recognizes the loss as part of "Equity in net earnings (losses) of associates and joint ventures" account in the consolidated statements of income.

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

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO). Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Capital projects in progress (CPIP) represents the amount of accumulated expenditures on unfinished and/or ongoing projects. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CPIP is not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization, which commence when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 50
Buildings and improvements	2 - 50
Power plants	10 - 43
Refinery and plant equipment	4 - 33
Service stations and other equipment	2 - 33
Equipment, furniture and fixtures	2 - 40
Leasehold improvements	5 - 50
	or term of the lease, whichever is shorter

The remaining useful lives, residual values, and depreciation and amortization methods are reviewed and adjusted periodically, if appropriate, to ensure that such periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the consolidated statements of income in the period of retirement and disposal.

Investment Property

Investment property consists of property held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property, except for land, is measured at cost including transaction costs less accumulated depreciation and amortization and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Depreciation and amortization, which commence when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 50
Buildings and improvements	2 - 50
Machinery and equipment	3 - 40

The useful lives, residual values and depreciation and amortization method are reviewed and adjusted, if appropriate, at each reporting date.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains and losses on the retirement and disposal of investment property are recognized in the consolidated statements of income in the period of retirement and disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. 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, plant and equipment up to the date of change in use.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in the consolidated statements of income in the year in which the related expenditures are incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of other intangible assets with finite lives:

	Number of Years
Toll road concession rights	26 - 36 or unit of usage
Airport concession right	25
Power concession right	25
Port concession right	25
Water concession right	30
Leasehold and land use rights	20 - 50 or term of the lease, whichever is shorter
Mineral rights and evaluation assets	Life of mine or expiration of right, whichever is shorter
Computer software and licenses	2 - 10

The Group assessed the useful lives of licenses and trademarks and brand names to be indefinite. Based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the assets are expected to generate cash inflows for the Group.

Licenses and trademarks and brand names with indefinite useful lives are tested for impairment annually, either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated statements of income when the asset is derecognized.

Service Concession Arrangements

Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the entities in the Group can provide with the infrastructure, to whom it can provide them, and at what price; and (b) the grantor controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the infrastructure at the end of the term of the arrangement are accounted for under Philippine Interpretation IFRIC 12, *Service Concession Arrangements*. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of the Interpretation if the conditions in (a) are met.

The Interpretation applies to both: (i) infrastructure that the entities in the Group construct or acquire from a third party for the purpose of the service arrangement; and (ii) existing infrastructure to which the grantor gives the entities in the Group access for the purpose of the service arrangement.

Infrastructures within the scope of the Interpretation are not recognized as property, plant and equipment of the Group. Under the terms of the contractual arrangements within the scope of the Interpretation, an entity acts as a service provider. An entity constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

An entity recognizes and measures revenue in accordance with PAS 11 and PAS 18 for the services it performs. If an entity performs more than one service under a single contract or arrangement, consideration received or receivable is allocated by reference to the relative fair values of the services delivered when the amounts are separately identifiable.

When an entity provides construction or upgrade services, the consideration received or receivable by the entity is recognized at fair value. An entity accounts for revenue and costs relating to construction or upgrade services in accordance with PAS 11. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to estimated total costs for each contract. The applicable entities account for revenue and costs relating to operation services in accordance with PAS 18.

An entity recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. An entity recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the applicable entity has contractual obligations to fulfill as a condition of its license: (i) to maintain the infrastructure to a specified level of serviceability; or (ii) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures the contractual obligations in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date.

In accordance with PAS 23, *Borrowing Costs*, borrowing costs attributable to the arrangement are recognized as expenses in the period in which they are incurred unless the applicable entities have a contractual right to receive an intangible asset (a right to charge users of the public service). In this case, borrowing costs attributable to the arrangement are capitalized during the construction phase of the arrangement.

The following are the concession rights covered by the service concession arrangements entered into by the Group:

- *Airport Concession Right.* The Group's airport concession right pertains to the right granted by the Republic of the Philippines (ROP) to TADHC: (i) to operate the Caticlan Airport (the Airport Project or the Boracay Airport); (ii) to design and finance the Airport Project; and (iii) to operate and maintain the Boracay Airport during the concession period. This also includes the present value of the annual franchise fee, as defined in the Concession Agreement, payable to the ROP over the concession period of 25 years. Except for the portion that relates to the annual franchise fee, which is recognized immediately as intangible asset, the right is earned and recognized by the Group as the project progresses (Note 4).

The airport concession right is carried at cost less accumulated amortization and any impairment in value. Amortization is computed using the straight-line method over the remaining concession period and assessed for impairment whenever there is an indication that the asset may be impaired.

The airport concession right is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gain or loss from derecognition of the airport concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

- *Toll Road Concession Rights.* The Group's toll road concession rights represent the costs of construction and development, including borrowing costs, if any, during the construction period of the following projects:
 - o South Luzon Expressway (SLEX);
 - o Ninoy Aquino International Airport (NAIA) Expressway;
 - o Metro Manila Skyway (Skyway);
 - o Tarlac-Pangasinan-La Union Toll Expressway (TPLEX);
 - o Southern Tagalog Arterial Road (STAR); and
 - o North Luzon Expressway (NLEX) - SLEX Link (Skyway Stage 3).

In exchange for the fulfillment of the Group's obligations under the Concession Agreement, the Group is given the right to operate the toll road facilities over the concession period. Toll road concession rights are recognized initially at the fair value of the construction services. Following initial recognition, the toll road concession rights are carried at cost less accumulated amortization and any impairment losses. Subsequent expenditures or replacement of parts of it are normally recognized in the consolidated statements of income as these are incurred to maintain the expected future economic benefits embodied in the toll road concession rights. Expenditures that will contribute to the increase in revenue from toll operations are recognized as an intangible asset.

The toll road concession rights are amortized using the straight-line method over the term of the Concession Agreement. The toll road concession rights are assessed for impairment whenever there is an indication that the toll road concession rights may be impaired.

The toll road concession rights will be derecognized upon turnover to the ROP. There will be no gain or loss upon derecognition of the toll road concession rights as these are expected to be fully amortized upon turnover to the ROP.

- *Port Concession Right.* The Group's port concession right pertains to the right granted by the Philippine Ports Authority (PPA) to MNHPI to manage, operate, develop and maintain the Manila North Harbor for 25 years reckoning on the first day of the commencement of operations renewable for another 25 years under such terms and conditions as the parties may agree. This includes the present value of the annual franchise fee, as defined in the Concession Agreement, payable to the PPA over 25 years. Except for the portion that relates to the annual franchise fee, which is recognized immediately as intangible asset, the right is earned and recognized by MNHPI as the project progresses. Port concession right is recognized initially at cost. Following initial recognition, the port concession right is carried at cost less accumulated amortization and any impairment losses. Subsequent expenditures related to port facility arising from the concession contracts or that increase future revenues are recognized as additions to the intangible asset and are stated at cost.

The port concession right is amortized using the capacity-based amortization over the concession period and assessed for impairment whenever there is an indication that the asset may be impaired.

The port concession right is derecognized on disposal or when no further economic benefits are expected from its use or disposal. Gain or loss from derecognition of the port concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

- *Water Concession Right.* The Group's water concession right pertains to the right granted by the Metropolitan Waterworks and Sewerage System (MWSS) to LCWDC as the concessionaire of the supply of treated bulk water, planning, financing, development, design, engineering, and construction of facilities including the management, operation and maintenance in order to alleviate the chronic water shortage and provide potable water needs of the Province of Bulacan. The Concession Agreement is for a period of 30 years and may be extended for up to 50 years. The Group's water concession right represents the upfront fee, cost of design, construction and development of the Bulacan Bulk Water Supply Project. The service concession right is not yet amortized until the construction is completed.

The carrying amount of the water concession right is reviewed for impairment annually, or more frequently when an indication of impairment arises during the reporting year.

The water concession right will be derecognized upon turnover to MWSS. There will be no gain or loss upon derecognition of the water concession right, as this is expected to be fully amortized upon turnover to MWSS.

- *Power Concession Right.* The Group's power concession right pertains to the right granted by the ROP to SMC Global, through APEC, to operate and maintain the franchise of Albay Electric Cooperative, Inc. (ALECO). On January 24, 2014, SMC Global and APEC entered into an Assignment Agreement whereby APEC assumed all the rights, interests and obligations under the Concession Agreement effective January 2, 2014. The power concession right is carried at cost less accumulated amortization and any accumulated impairment losses.

The power concession right is amortized using the straight-line method over the concession period which is 25 years and assessed for impairment whenever there is an indication that the asset may be impaired.

The power concession right is derecognized on disposal or when no further economic benefits are expected from its use or disposal. Gain or loss from derecognition of the power concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

- *MRT 7 Project.* The Group's capitalized project costs incurred for the MRT 7 Project is recognized as a financial asset as it does not convey to the Group the right to control the use of the public service infrastructure but only an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services.

The Group can finance, design, test, commission, construct and operate and maintain the MRT 7 Project on behalf of the ROP in accordance with the terms specified in the Concession Agreement.

As payment, the ROP shall pay fixed amortization payment on a semi-annual basis in accordance with the scheduled payment described in the Concession Agreement (Note 34).

The amortization period and method are reviewed at least at each reporting date. Changes in the terms of the Concession Agreement or the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statements of income in the expense category consistent with the function of the intangible asset.

Mineral Rights and Evaluation Assets

The Group's mineral rights and evaluation assets have finite lives and are carried at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in the consolidated statements of income as incurred.

Amortization of mineral rights and evaluation assets is recognized in the consolidated statements of income based on the units of production method utilizing only recoverable coal reserves as the depletion base. In applying the units of production method, amortization is normally calculated using the quantity of material extracted from the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proved and probable reserves.

The amortization of mining rights will commence upon commercial operations.

Gain or loss from derecognition of mineral rights and evaluation assets is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

Deferred Exploration and Development Costs

Deferred exploration and development costs comprise of expenditures which are directly attributable to:

- Researching and analyzing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods; and
- Compiling pre-feasibility and feasibility studies.

Deferred exploration and development costs also include expenditures incurred in acquiring mineral rights and evaluation assets, entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Exploration assets are reassessed on a regular basis and tested for impairment provided that at least one of the following conditions is met:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

If the project proceeds to development stage, the amounts included within deferred exploration and development costs are transferred to property, plant and equipment.

Impairment of Non-financial Assets

The carrying amounts of investments and advances, property, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill, licenses and trademarks and brand names with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable

amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired 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 statements of income. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. An impairment loss with respect to goodwill is not reversed.

Cylinder Deposits

The Group purchases liquefied petroleum gas cylinders which are loaned to dealers upon payment by the latter of an amount equivalent to 90% of the acquisition cost of the cylinders.

The Group maintains the balance of cylinder deposits at an amount equivalent to three days worth of inventory of its biggest dealers, but in no case lower than P200 at any given time, to take care of possible returns by dealers.

At the end of each reporting date, cylinder deposits, shown under "Other noncurrent liabilities" account in the consolidated statements of financial position, are reduced for estimated non-returns. The reduction is recognized directly in the consolidated statements of income.

Fair Value Measurements

The Group measures a number of financial and non-financial assets and liabilities at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past events; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Capital Stock and Additional Paid-in Capital

Common Shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Preferred Shares

Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the option of the Parent Company, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the BOD of the Parent Company.

Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in the consolidated statements of income as accrued.

Additional Paid-in Capital

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Parent Company, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Retained Earnings

Retained earnings represent the accumulated net income or losses, net of any dividend distributions and other capital adjustments. Appropriated retained earnings represent that portion which is restricted and therefore not available for any dividend declaration.

Treasury Shares

Own equity instruments which are reacquired are carried at cost and deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of the Parent Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

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

Revenue from Sale of Goods

Revenue from sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery, and the amount of revenue can be measured reliably.

Revenue from Power Generation and Trading

Revenue from power generation and trading is recognized in the period when actual power or capacity is generated, transmitted and/or made available to the customers, net of related discounts and adjustments.

Revenues from retail and other power-related services are recognized upon the supply of electricity to the customers. The Uniform Filing Requirements on the rate unbundling released by the Energy Regulatory Commission (ERC) on October 30, 2001 specified the following bill components: (a) generation charge, (b) transmission charge, (c) system loss charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) currency exchange rate adjustments, where applicable, and (h) interclass and life subsidies. Feed-in tariffs allowance, Value-added Tax (VAT), local franchise tax and universal charges are billed and collected on behalf of the national and local government and do not form part of the Group's revenue. Generation, transmission and system loss charges, which are part of revenues, are pass-through charges.

Revenue from Toll Operations

Revenue from toll operations is recognized upon the use by the road users of the toll road and is paid by way of cash or charge against Radio Frequency Identification (RFID) account.

Revenue from Airport Operations

Landing, take-off and parking fees are recognized upon rendering of the service which is the period from landing up to take-off of aircrafts.

Terminal fees are recognized upon receipt of fees charged to passengers on departure.

Revenue from Agricultural Produce

Revenue from initial recognition of agricultural produce is measured at fair value less estimated costs to sell at the point of harvest. Fair value is based on the relevant market price at the point of harvest.

Revenue from Shipping and Port Operations

Revenue from terminal fees is recognized based on the quantity of items declared by vessels entering the port multiplied by a predetermined rate.

Revenue from freight services is recognized upon completion of every voyage contracted with customers during the period multiplied by a predetermined rate.

Revenue from port services is recognized based on the actual quantity of items handled during the period multiplied by a predetermined rate.

Revenue from Sale of Real Estate

Revenue from sale of real estate projects is recognized under the full accrual method. Under this method, revenue and cost is recognized in full when 10% or more of the contract price is received and development of the real estate property (i.e., lot, house and lot or townhouse) has reached 100% completion at which point the buyer may already occupy and use the property.

Payments received from buyers which do not meet the revenue recognition criteria are presented under "Accounts payable and accrued expenses" account in the consolidated statements of financial position.

Revenue and cost relative to forfeited or back-out sales are reversed in the current year as they occur. The resulting gain or loss from the back-out sales are presented as part of "Other income (charges)" account in the consolidated statements of income.

Revenue from Services

Revenue from sale of services is recognized when the related services are rendered.

Revenue from Sale of Raw Land

Revenue from sale of undeveloped land or raw land is recognized under the full accrual method. Under this method, the Group recognizes in full the revenue and cost from sale of undeveloped land when 10% or more of the contract price is received.

Payments received from buyers which do not meet the revenue recognition criteria are presented under "Accounts payable and accrued expenses" account in the consolidated statements of financial position.

Others

Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

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

Rent income from operating lease is recognized on a straight-line basis over the related lease terms. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

Revenue from customer loyalty programme is allocated between the customer loyalty programme and the other component of the sale. The amount allocated to the customer loyalty programme is deducted from revenue at the time points are awarded to the customer. A deferred liability account is set up until the Group has fulfilled its obligations to supply the discounted products under the terms of the programme or when it is no longer probable that the points under the programme will be redeemed.

Gain or loss on sale of investments in shares of stock is recognized when the Group disposes of its investment in shares of stock of a subsidiary, associate and joint venture, AFS financial assets and financial assets at FVPL. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount, including the carrying amount of goodwill, if any.

Construction revenue is recognized by reference to the stage of completion of the construction activity at the reporting date. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Construction revenue related to the Group's recognition of intangible asset on the right to operate the Boracay Airport, which is the consideration receivable from the ROP relative to the Airport Project, is earned and recognized as the Airport Project progresses. The Group recognizes the corresponding amount as intangible asset as it recognizes the construction revenue. The Group assumes no profit margin in earning the right to operate the Boracay Airport.

The Group uses the cost to cost percentage-of-completion method to determine the appropriate amount of revenue to be recognized in a given period. The stage of completion is measured by reference to the costs incurred related to the Airport Project up to the end of the reporting period as a percentage of total estimated cost of the Airport Project.

Costs and Expenses

Costs and expenses are decreases in economic benefits during the reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

Share-based Payment Transactions

Under the Parent Company's Long-term Incentive Plan for Stock Options (LTIP) and the Group's Employee Stock Purchase Plan (ESPP), executives and employees of the Parent Company and certain subsidiaries receive remuneration in the form of share-based payment transactions, whereby the executives and employees render services as consideration for equity instruments of the Group. Such transactions are handled centrally by the Parent Company.

Share-based transactions in which the Parent Company grants option rights to its equity instruments directly to the employees of the Parent Company and certain subsidiaries are accounted for as equity-settled transactions.

The cost of LTIP is measured by reference to the option fair value at the date when the options are granted. The fair value is determined using Black-Scholes option pricing model. In valuing LTIP transactions, any performance conditions are not taken into account, other than conditions linked to the price of the shares of the Parent Company. ESPP is measured by reference to the market price at the time of the grant less subscription price.

The cost of share-based payment transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employees become fully entitled to the award (the vesting date). The cumulative expenses recognized for share-based payment transactions at each reporting date until the vesting date reflect the extent to which the vesting period has expired and the Parent Company's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the 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 an extension is granted, unless the term of the renewal or extension was initially included in the lease term;

- (c) there is a change in the determination of whether fulfillment is dependent on a specific 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 gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

Finance Lease

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the consolidated statements of financial position as finance lease liabilities.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are recognized in the consolidated statements of income.

Capitalized leased assets are depreciated over the estimated useful lives of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating Lease

Group as Lessee. Leases which do not transfer to the Group substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

Group as Lessor. Leases where the Group does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. 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.

Research and Development Costs

Research costs are expensed as incurred. Development costs incurred on an individual project are carried forward when their future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Employee Benefits

Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Costs

The net defined benefit retirement liability or asset is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, 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 economic benefits available in the form of reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit retirement plan is actuarially determined using the projected unit credit method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning projected salaries of employees. Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to profit or loss in subsequent period.

Defined benefit costs comprise the following:

- Service costs
- Net interest on the defined benefit retirement liability or asset
- Remeasurements of defined benefit retirement 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 statements of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

Net interest on the net defined benefit retirement liability or asset is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the net defined benefit retirement liability or asset. Net interest on the net defined benefit retirement liability or asset is recognized as expense or income in the consolidated statements of income.

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

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the consolidated statements of income. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

Foreign Currency

Foreign Currency Translations

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

Nonmonetary assets and nonmonetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date the fair value was determined. Nonmonetary items in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in the consolidated statements of income, except for differences arising on the translation of AFS financial assets, a financial liability designated as an effective hedge of the net investment in a foreign operation or qualifying cash flow hedges, which are recognized in other comprehensive income.

Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in other comprehensive income and presented in the "Translation reserve" account in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in shares of stock of an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income and presented in the "Translation reserve" account in the consolidated statements of changes in equity.

Taxes

Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. The Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred Tax. Deferred tax is recognized using the liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or 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 profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises 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 profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year 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 reporting date.

Current tax and deferred tax are recognized in the consolidated statements of income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

VAT. Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Income and other taxes payable" accounts in the consolidated statements of financial position.

Non-cash Distribution to Equity Holders of the Parent Company and Assets Held for Sale

The Group classifies noncurrent assets, or disposal groups comprising assets and liabilities as held for sale or distribution, if their carrying amounts will be recovered primarily through sale or distribution rather than through continuing use. The assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell or distribute, except for some assets which are covered by other standards. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on remeasurement are recognized in the consolidated statements of income. Gains are not recognized in excess of any cumulative impairment losses.

The criteria for held for sale or distribution is regarded as met only when the sale or distribution is highly probable and the asset or disposal group is available for immediate sale or distribution in its present condition. Actions required to complete the sale or distribution should indicate that it is unlikely that significant changes to the sale or distribution will be made or that the decision on distribution or sale will be withdrawn. Management must be committed to the sale or distribution within one year from date of classification.

The Group recognizes a liability to make non-cash distributions to equity holders of the Parent Company when the distribution is authorized and no longer at the discretion of the Parent Company. Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurements recognized directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets to be distributed is recognized in the consolidated statements of income.

Intangible assets, property, plant and equipment and investment property once classified as held for sale or distribution are not amortized or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

Assets and liabilities classified as held for sale or distribution are presented separately as current items in the consolidated statements of financial position.

Discontinued Operations

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

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Basic and Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of dividends on preferred shares, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

Diluted EPS is computed in the same manner, adjusted for the effect of all potential dilutive debt or equity instruments.

Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 7 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in the consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

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

4. Use of Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates 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. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

In the process of applying the accounting policies, the Group has made the following judgments, apart from those involving estimations, which have an effect on the amounts recognized in the consolidated financial statements:

Measurement of Biological Assets. Breeding stocks are carried at accumulated costs net of amortization and any impairment in value while growing hogs, cattle and poultry livestock and goods in process are carried at accumulated costs. The costs and expenses incurred up to the start of the productive stage are accumulated and amortized over the estimated productive lives of the breeding stocks. The Group uses this method of valuation since fair value cannot be measured reliably. The Group's biological assets or any similar assets prior to point of harvest have no active market available in the Philippine poultry and hog industries. Further, the existing sector benchmarks are determined to be irrelevant and the estimates (i.e., revenues due to highly volatile prices, input costs and efficiency values) necessary to compute for the present value of expected net cash flows comprise a wide range of data which will not result in a reliable basis for determining the fair value.

Finance Lease - Group as Lessee. In accounting for its Independent Power Producer Administration (IPPA) Agreements with the Power Sector Assets and Liabilities Management Corporation (PSALM), the Group's management has made a judgment that the IPPA Agreements are agreements that contain a lease.

MNHPI and SMYA also entered into leases of equipment needed for business operations.

The Group's management has made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants and equipment. Accordingly, the Group accounted for the agreements as finance lease and recognized the power plants, equipment and finance lease liabilities at the present value of the agreed monthly payments (Notes 14 and 34).

Finance lease liabilities recognized in the consolidated statements of financial position amounted to P154,897 and P170,240 as of December 31, 2017 and 2016, respectively (Note 34).

The combined carrying amounts of power plants and equipment under finance lease amounted to P172,739 and P177,930 as of December 31, 2017 and 2016, respectively (Notes 14 and 34).

Operating Lease Commitments - Group as Lessor/Lessee. The Group has entered into various lease agreements either as a lessor or a lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the property leased out on operating leases while the significant risks and rewards for property leased from third parties are retained by the lessors.

Rent income recognized in the consolidated statements of income amounted to P1,307, P1,378 and P1,173 in 2017, 2016 and 2015, respectively (Note 34).

Rent expense recognized in the consolidated statements of income amounted to P4,992, P2,895 and P3,593 in 2017, 2016 and 2015, respectively (Notes 26, 27 and 34).

Applicability of Philippine Interpretation IFRIC 12. In accounting for the Group's transactions in connection with its Concession Agreement with the ROP, significant judgment was applied to determine the most appropriate accounting policy to use.

Management used Philippine Interpretation IFRIC 12 as guide and determined that the Concession Agreement is within the scope of the interpretation since it specifically indicated that the ROP will regulate what services the Group must provide, at what prices these services will be offered, and that at the end of the concession period, the entire infrastructure, as defined in the Concession Agreement, will be turned over to the ROP (Note 34).

Management determined that the consideration receivable from the ROP, in exchange for the fulfillment of the Group's obligations under the Concession Agreement, may either be an intangible asset in the form of a right (license) to charge fees to users or financial asset in the form of an unconditional right to receive cash or another financial asset. Judgment was further exercised by management in determining the cost components of acquiring the right. Further reference to the terms of the Concession Agreement (Note 34) was made to determine such costs.

- a. *Airport Concession Right.* The Group's airport concession right consists of:
 - (i) Airport Project cost; (ii) present value of infrastructure retirement obligation (IRO); and (iii) present value of total franchise fees over 25 years and its subsequent amortization.
 - (i) The Airport Project cost is recognized as part of intangible assets as the construction progresses. The cost to cost method was used as management believes that the actual cost of construction is most relevant in determining the amount that should be recognized as cost of the intangible asset at each reporting date as opposed to cost plus and other methods of percentage-of-completion.
 - (ii) The present value of the IRO is recorded under construction in progress (CIP) - airport concession arrangements and transferred to the related intangible assets upon completion of the Airport Project and to be amortized simultaneously with the cost related to the Airport Project because only at that time will significant maintenance of the Boracay Airport would commence.

(iii) The present value of the obligation to pay annual franchise fees over 25 years has been immediately recognized as part of intangible assets because the right related to it has already been granted and is already being enjoyed by the Group as evidenced by its taking over the operations of the Boracay Airport during the last quarter of 2010. Consequently, management has started amortizing the related value of the intangible asset and the corresponding obligation has likewise been recognized.

- b. *Toll Road Concession Rights.* The Group's toll road concession rights represent the costs of construction and development, including borrowing costs, if any, during the construction period of the following projects: (i) SLEX; (ii) NAIA Expressway; (iii) Skyway; (iv) TPLEX; (v) STAR; and (vi) Skyway Stage 3.

Pursuant to the Concession Agreements, any stage or phase or ancillary facilities thereof, of a fixed and permanent nature, shall be owned by the ROP.

- c. *Port Concession Right.* The Group's port concession right represents the right to manage, operate, develop and maintain the Manila North Harbor.
- d. *Water Concession Right.* The Group's water concession right represents the right to collect charges from water service providers and third party purchasers availing of a public service, grant control or regulate the price and transfer significant residual interest of the water treatment facilities at the end of the Concession Agreement.
- e. *Power Concession Right.* The Group's power concession right represents the right to operate and maintain the franchise of ALECO; i.e., the right to collect electricity fees from the consumers of ALECO. At the end of the concession period, all assets and improvements shall be returned to ALECO and any additions and improvements to the system shall be transferred to ALECO.
- f. *MRT 7 Project.* The Concession Agreement related to the MRT 7 Project does not convey to the Group the right to control the use of the public service infrastructure but only an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. Management determined that the consideration receivable from the ROP, in exchange for the fulfillment of the obligation under the Concession Agreement, is a financial asset in the form of an unconditional right to receive cash or another financial asset.

Difference in judgment in respect to the accounting treatment of the transactions would materially affect the assets, liabilities and operating results of the Group.

Recognition of Profit Margin on the Airport and Toll Road Concession Arrangements. The Group has not recognized any profit margin on the construction of the airport and toll road projects as it believes that the fair value of the intangible asset reasonably approximates the cost. The Group also believes that the profit margin of its contractors on the rehabilitation of the existing airport and its subsequent upgrade is enough to cover any difference between the fair value and the carrying amount of the intangible asset.

Recognition of Revenue from Sale of Real Estate and Raw Land. The Group recognizes its revenue from sale of real estate projects and raw land in full when 10% or more of the total contract price is received and when development of the real estate property is 100% completed. Management believes that the revenue recognition criterion on percentage of collection is appropriate based on the Group's collection history from customers and number of back-out sales in prior years.

Buyer's interest in the property is considered to have vested when the payment of at least 10% of the contract price has been received from the buyer and the Group ascertained the buyer's commitment to complete the payment of the total contract price.

Distinction Between Investment Property and Owner-occupied Property. The Group determines whether a property qualifies as investment property or owner-occupied property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other assets used in marketing or administrative functions. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in marketing or for administrative purposes. If the portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Classification of Redeemable Preferred Shares. Based on the features of the preferred shares of TADHC, particularly mandatory redemption, management determined that the shares are, in substance, financial liabilities. Accordingly, these were classified as part of "Other noncurrent liabilities" account in the consolidated statements of financial position (Note 22).

Evaluating Control over its Investees. Determining whether the Group has control in an investee requires significant judgment. Although the Group owns less than 50% of the voting rights of BPI, NVRC and MNHPI in 2017 and BPI and NVRC in 2016 (Note 5), management has determined that the Group controls these entities by virtue of its exposure and rights to variable returns from its involvement in these investees and its ability to affect those returns through its power over the investees.

The Group receives substantially all of the returns related to BPI's operations and net assets and has the current ability to direct BPI's activities that most significantly affect the returns. The Group controls BPI since it is exposed, and has rights, to variable returns from its involvement with BPI and has the ability to affect those returns through such power over BPI.

The Group has the power, in practice, to govern the financial and operating policies of NVRC, to appoint or remove the majority of the members of the BOD of NVRC and to cast majority votes at meetings of the BOD of NVRC. The Group controls NVRC since it is exposed, and has rights, to variable returns from its involvement with NVRC and has the ability to affect those returns through its power over NVRC.

The Group assessed that it still controls MNHPI, even after the sale of Petron's 34.83% equity interest in 2017 (Note 5), because it has the power to govern the financial and operating policies, appoint or remove the majority members of the BOD and cast majority votes at BOD meetings given that it is the single largest stockholder at 43.33% equity interest. Also, the Group established that it has: (i) power over MNHPI; (ii) it is exposed and has rights to variable returns from its involvement with MNHPI; and (iii) it has ability to use its power over MNHPI to affect the amount of MNHPI's returns. Accordingly, MNHPI remained to be a subsidiary of the Group and still consolidated as of December 31, 2017.

Classification of Joint Arrangements. The Group has determined that it has rights only to the net assets of the joint arrangements based on the structure, legal form, contractual terms and other facts and circumstances of the arrangement. As such, the Group classified its joint arrangements in Thai San Miguel Liquor Co. Ltd. (TSML), Thai Ginebra Trading (TGT), Angat Hydropower Corporation (Angat Hydro) and KWPP Holdings Corporation (KWPP) as joint ventures (Note 12).

Adequacy of Tax Liabilities. The Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Classifying Financial Instruments. The Group exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

Contingencies. The Group is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and lawsuits has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these pending claims and lawsuits will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 44).

Estimates and Assumptions

The key estimates and assumptions used in the consolidated financial statements are based upon the Group's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Fair Value Measurements. A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has the overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques (Note 3).

If the inputs used to measure the fair value of an asset or a liability can be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy based on the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Notes 10, 11, 12, 13, 15, 16, 17, 18, 20, 35 and 41.

Allowance for Impairment Losses on Trade and Other Receivables, and Noncurrent Receivables and Deposits. Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers and counterparties, the current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The amount and timing of the recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in the allowance for impairment losses would increase the recorded selling and administrative expenses and decrease current and noncurrent assets.

The allowance for impairment losses on trade and other receivables, and noncurrent receivables and deposits, included as part of "Other noncurrent assets" account in the consolidated statements of financial position, amounted to P13,987 and P14,116 as of December 31, 2017 and 2016, respectively (Notes 9 and 18).

The carrying amount of trade and other receivables, and noncurrent receivables and deposits amounted to P130,583 and P124,593 as of December 31, 2017 and 2016, respectively (Notes 9, 18, 40 and 41).

Write-down of Inventory. The Group writes-down the cost of inventory to net realizable value whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The write-down of inventories amounted to P2,069 and P1,726 as of December 31, 2017 and 2016, respectively (Note 10).

The carrying amount of inventories amounted to P102,575 and P83,241 as of December 31, 2017 and 2016, respectively (Note 10).

Impairment of AFS Financial Assets. AFS financial assets are assessed as impaired when there has been a significant or prolonged decline in the fair value below cost or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities, and the future cash flows and the discount factors for unquoted equities.

No impairment loss was recognized in 2017 and 2016.

The carrying amount of AFS financial assets amounted to P42,268 and P42,139 as of December 31, 2017 and 2016, respectively (Notes 11, 13, 40 and 41).

Estimated Useful Lives of Property, Plant and Equipment, Investment Property and Deferred Containers. The Group estimates the useful lives of property, plant and equipment, investment property and deferred containers based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, investment property and deferred containers 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, estimation of the useful lives of property, plant and equipment, investment property and deferred containers is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment, investment property and deferred containers would increase the recorded cost of sales and selling and administrative expenses and decrease noncurrent assets.

Property, plant and equipment, net of accumulated depreciation and amortization amounted to P536,001 and P516,079 as of December 31, 2017 and 2016, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P212,683 and P190,920 as of December 31, 2017 and 2016, respectively (Note 14).

Investment property, net of accumulated depreciation and amortization amounted to P7,170 and P7,303 as of December 31, 2017 and 2016, respectively. Accumulated depreciation and amortization of investment property amounted to P1,110 and P1,278 as of December 31, 2017 and 2016, respectively (Note 15).

Deferred containers, net of accumulated amortization, included as part of "Other noncurrent assets" account in the consolidated statements of financial position amounted to P7,949 and P7,141 as of December 31, 2017 and 2016, respectively (Note 18). Accumulated amortization of deferred containers amounted to P15,076 and P13,315 as of December 31, 2017 and 2016, respectively.

Estimated Useful Lives of Intangible Assets. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

Intangible assets with finite useful lives amounted to P131,721 and P122,658 as of December 31, 2017 and 2016, respectively. Accumulated amortization of intangible assets with finite useful lives amounted to P31,958 and P26,358 as of December 31, 2017 and 2016, respectively (Note 17).

Estimated Useful Lives of Intangible Assets - Airport, Toll Road, Port and Power Concession Rights. The Group estimates the useful lives of airport, toll road, port and power concession rights based on the period over which the assets are expected to be available for use. The Group has not included any renewal period on the basis of uncertainty of the probability of securing renewal contract at the end of the original contract term as of the reporting date.

The amortization period and method are reviewed when there are changes in the expected term of the contract or the expected pattern of consumption of future economic benefits embodied in the asset.

The combined carrying amounts of toll road, airport, power, port and water concession rights amounted to P127,522 and P119,051 as of December 31, 2017 and 2016, respectively (Note 17).

Impairment of Goodwill, Licenses and Trademarks and Brand Names with Indefinite Useful Lives. The Group determines whether goodwill, licenses and trademarks and brand names are impaired at least annually. This requires the estimation of value in use of the cash-generating units to which the goodwill is allocated and the value in use of the licenses and trademarks and brand names. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and from the licenses and trademarks and brand names and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amount of goodwill amounted to P60,124 and P58,113 as of December 31, 2017 and 2016, respectively (Note 17).

The combined carrying amounts of licenses and trademarks and brand names amounted to P2,717 and P2,507 as of December 31, 2017 and 2016, respectively (Note 17).

Acquisition Accounting. At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the group of assets acquired.

The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions concerning the determination of the fair values of acquired intangible assets and property, plant and equipment, as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

The carrying amount of goodwill arising from business combinations amounted to P1,162 and P4 in 2017 and 2016, respectively (Notes 5, 17 and 38).

Estimating Coal Reserves. Coal reserve estimates are based on measurements and geological interpretation obtained from natural outcrops, trenches, tunnels and drill holes. In contrast with “coal resource” estimates, profitability of mining the coal during a defined operating period or “mine-life” is a necessary attribute of “coal reserve”.

The Philippine Department of Energy (DOE) is the government agency authorized to implement coal operating contracts (COC) and regulate the operation of contractors pursuant to DOE Circular No. 81-11-10: Guidelines for Coal Operations in the Philippines. For the purpose of the five-year development and production program required for each COC, the agency classifies coal reserves, according to increasing degree of uncertainty, into (i) positive (ii) probable, and (iii) inferred. The DOE also prescribes the use of “total in-situ reserves” as the sum of positive reserves and two-thirds of probable reserve; and “mineable reserve” as 60% of total in-situ reserve for underground, and 85% for surface (including open-pit) coal mines.

Recoverability of Deferred Exploration and Development Costs. A valuation allowance is provided for estimated unrecoverable deferred exploration and development costs based on the Group’s assessment of the future prospects of the mining properties, which are primarily dependent on the presence of economically recoverable reserves in those properties.

The Group’s mining activities are all in the exploratory stages as of December 31, 2017. All related costs and expenses from exploration are currently deferred as mine exploration and development costs to be amortized upon commencement of commercial operations. The Group has not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded the recoverable amounts as of December 31, 2017 and 2016.

Deferred exploration and development costs included as part of “Other noncurrent assets” account in the consolidated statements of financial position amounted to P699 and P694 as of December 31, 2017 and 2016, respectively (Notes 18 and 34).

Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group’s assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P18,412 and P20,267 as of December 31, 2017 and 2016, respectively (Note 23).

Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on investments and advances, property, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Accumulated impairment losses on property, plant and equipment and investment property amounted to P12,423 and P11,376 as of December 31, 2017 and 2016, respectively (Notes 14 and 15).

The combined carrying amounts of investments and advances, property, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets amounted to P710,597 and P678,124 as of December 31, 2017 and 2016, respectively (Notes 12, 14, 15, 16, 17 and 18).

Present Value of Defined Benefit Retirement Obligation. The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 35 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions.

While it is believed that the assumptions of the Group are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the defined benefit retirement obligation of the Group.

The present value of defined benefit retirement obligation amounted to P32,209 and P28,595 as of December 31, 2017 and 2016, respectively (Note 35).

Asset Retirement Obligation. The Group has ARO arising from refinery, power plants, leased service stations, terminals, blending plant and leased properties. Determining ARO requires estimation of the costs of dismantling, installing and restoring leased properties to their original condition. The Group determined the amount of the ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 6.659% to 9.055% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The ARO amounted to P2,838 and P2,324 as of December 31, 2017 and 2016, respectively (Note 22).

Present Value of Annual Franchise Fee and IRO - Airport Concession Arrangement. Portion of the amount recognized as airport concession right as of December 31, 2017 and 2016 pertains to the present value of the annual franchise fee payable to the ROP over the concession period. The recognition of the present value of the IRO is temporarily lodged in CIP - airport concession arrangements until the completion of the Airport Project.

The present values of the annual franchise fee and IRO were determined based on the future value of the obligations discounted at the Group's internal borrowing rate at 9% which is believed to be a reasonable approximation of the applicable credit-adjusted risk-free market borrowing rate.

A significant change in such internal borrowing rate used in discounting the estimated cost would result in a significant change in the amount of liabilities recognized with a corresponding effect in profit or loss.

The present value of the annual franchise fees payable to the ROP over 25 years is discounted using the 9% internal borrowing rate, included as part of "Airport concession right" under "Other intangible assets" account amounted to P132 and P126 as of December 31, 2017 and 2016, respectively (Note 17).

The cost of infrastructure maintenance and restoration represents the present value of TADHC's IRO recognized and is presented as part of IRO under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts amounting to P2 and P74 in 2017 and P31 and P41 in 2016, respectively (Notes 20 and 22).

Percentage-of-Completion - Airport and Toll Road Concession Arrangements. The Group determines the percentage-of-completion of the contract by computing the proportion of actual contract costs incurred to date, to the latest estimated total airport and toll road project cost. The Group reviews and revises, when necessary, the estimate of airport and toll road project cost as it progresses, to appropriately adjust the amount of construction cost and revenue recognized at the end of each reporting period (Notes 17 and 32).

Accrual for Repairs and Maintenance - Toll Road Concession Arrangements. The Group recognizes accruals for repairs and maintenance based on estimates of periodic costs, generally estimated to be every five to eight years or the expected period to restore the toll road facilities to a level of serviceability and to maintain its good condition before the turnover to the ROP. This is based on the best estimate of management to be the amount expected to be incurred to settle the obligation, discounted using a pre-tax discount rate that reflects the current market assessment of the time value of money.

The accrual for repairs and maintenance, included as part of "IRO" under "Other noncurrent liabilities" account in the consolidated statements of financial position, amounted to P732 and P748 as of December 31, 2017 and 2016, respectively (Note 22).

The current portion included as part of "Accounts payable and accrued expenses" account amounted to P188 and P199 as of December 31, 2017 and 2016, respectively (Note 20).

5. Investments in Subsidiaries

The following are the developments relating to the Group's investments in shares of stock of subsidiaries:

Food

- SMPFC

On November 3, 2017, the BOD of the Parent Company approved the subscription to additional 4,242,549,130 common shares of stock of SMPFC (the "New Shares").

The additional subscription to the common shares of stock of SMPFC by the Parent Company will be issued out of the increase in authorized capital stock of SMPFC after the reduction of the par value of SMPFC common shares from P10.00 to P1.00 per share, and the corresponding amendment of the Articles of Incorporation of SMPFC. The New Shares will be listed at the PSE.

The subscription amount for the New Shares is P336,349 which is the transaction value based on the independent valuation expert report of ING Bank N.V.

The subscription to the New Shares shall be paid in full through the execution of a Deed of Exchange between the Parent Company and SMPFC to convey 7,859,319,270 common shares of SMB and 216,972,000 common shares of GSML held by the Parent Company. This will result in the consolidation of the Food and Beverage Business units of the Parent Company under SMPFC to be renamed as San Miguel Food and Beverage, Inc.

The above corporate actions were approved by the stockholders of SMPFC in a special meeting held on January 18, 2018.

The completion of the transaction is subject to certain regulatory approvals as of March 15, 2018.

Fuel and Oil

- Petron

- a) Additional Investment in PAHL

On March 18, 2016, Petron subscribed to additional 43,125,482 ordinary shares of PAHL for a total consideration of US\$28, thereby increasing the ownership interest of Petron in PAHL from 47.25% to 50.26%.

On July 25, 2016, Petron acquired the remaining 273,000,000 ordinary shares and 102,142,858 "B" ordinary shares of PAHL from Petron Corporation Employees' Retirement Plan (PCERP) for a total consideration of P1,921, making PAHL a wholly-owned subsidiary of Petron.

As a result, the Group's non-controlling interests decreased by P1,185 equivalent to the carrying amount of the additional equity interest in PAHL. The difference between the additional equity interest and the consideration paid was recognized in other equity reserve.

b) Sale of 34.83% Equity Interest in MNHPI

On September 21, 2017, Petron signed the Share Purchase Agreement with International Container Terminal Services, Inc. for the sale of 10,449,000 shares of stocks or 34.83% equity interest in MNHPI for a total consideration of P1,750.

On October 30, 2017, all conditions for the completion of the sale had been complied with and the purchase price had been paid.

The Group retained the 43.33% ownership and control through SMHC's stake in MNHPI (Note 4).

As a result, the Group's non-controlling interests increased by P1,093 equivalent to the carrying amount of the share in the net assets sold. The difference between the carrying amount of the share in the net assets sold and the consideration received was recognized in other equity reserve.

Infrastructure

▪ SMHC

On December 8, 2016, the BOD and stockholders of SMHC resolved and approved to increase its authorized capital stock from P35,000 divided into 35,000,000 common shares to P71,500 consisting of 71,500,000 common shares, both with a par value of P1,000.00 per share. The Parent Company, in a Deed of Subscription executed on the same date, subscribed to 9,125,000 common shares for a total subscription price of P13,688. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 29, 2016. As of December 31, 2016, the Parent Company has deposit for future subscription amounting to P13,231. The application for the increase in authorized capital stock was approved by the SEC on July 10, 2017. The balance of the subscription price amounting to P457 was paid by the Parent Company in 2017.

On July 27, 2017, the Parent Company, in a Deed of Subscription executed on the same date, subscribed to an additional 10,875,000 common shares of SMHC for a total subscription price of P16,312 or P1,500.00 per common share. The subscription price was paid in full in 2017.

▪ ULC BVI

On June 16, 2016, the Parent Company through its wholly-owned subsidiary, SMHC, executed an Amended and Restated Share Sale and Purchase Agreement with Universal LRT Corporation Limited (ULC HK) and Mr. Salvador B. Zamora II and various parties, for the purchase of: (i) an additional 49% equity interest in ULC BVI; and (ii) 100% equity interest in ULCOM. The total consideration for the acquisition of ULC BVI and ULCOM is US\$100, which amount consists of payment for the shares as well as the outstanding shareholder advances made by each of ULC HK and Mr. Zamora to ULC BVI and ULCOM, respectively. The amount of the shareholder advances is approximately US\$4.

ULC BVI holds the exclusive right, obligation and privilege to finance, design, construct, supply, complete and commission the Metro Rail Transit Line 7 Project (MRT 7 Project) by virtue of the Concession Agreement dated, June 18, 2008 with the ROP, through the Department of Transportation and Communications (now the Department of Transportation or the "DOTr"). ULCOM is the designated Facility Operator and Maintenance Provider of the MRT 7 Project.

The additional investment in ULC BVI and the acquisition of ULCOM was completed on July 1, 2016. With the completion of such acquisition, SMHC now owns 100% interest in ULC BVI and ULCOM.

The recognized goodwill amounting to P4 pertains to the excess of the consideration paid over the fair value of the assets acquired and liabilities assumed as of the acquisition date.

As a result, the Group's non-controlling interests decreased by P1,047 equivalent to the carrying amount of the additional equity interest in ULC BVI. The difference between the additional equity interest and the consideration paid was recognized in other equity reserve.

- TADHC

On April 26, 2016, the application for the increase in authorized capital stock filed by TADHC in 2015 was approved by the SEC.

In 2016, SMHC subscribed to 8,000,000 common shares of TADHC at P150.00 per share for a total consideration of P1,200.

On September 13, 2016, the BOD and stockholders of TADHC resolved and approved the increase in authorized capital stock from P2,520 divided into 25,000,000 common shares and 200,000 preferred shares to P4,520 divided into 45,000,000 common shares and 200,000 preferred shares, both with a par value of P100.00 per share. As at December 31, 2016, the application for the increase in authorized capital stock of TADHC has already been filed with the SEC and was subsequently approved on February 1, 2017.

On various dates in 2017, SMHC subscribed to a total of 19,800,000 common shares at P150.00 per share for a total consideration of P2,970.

Packaging

- SMYP

On February 1, 2017, the Parent Company through SMYA acquired 100% ownership interest in Portavin Holdings Pty Ltd and its subsidiaries (Portavin) for a total consideration of P762. Portavin operates as the leading wine services supplier in Australia. On September 22, 2017, Portavin changed its name to SMYP Pty Ltd.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	<i>Note</i>	2017
Assets		
Cash		P13
Trade and other receivables - net		573
Inventories		107
Prepaid expenses and other current assets		19
Property, plant and equipment - net	<i>14</i>	452
Deferred tax assets		47
Liabilities		
Accounts payable and accrued expenses		(856)
Income and other taxes payable		(56)
Total Identifiable Net Assets at Fair Value	<i>38</i>	P299

The fair value of trade and other receivables amounted to P573. The gross amount of the receivables is P615, of which P42 is expected to be uncollectible as at the acquisition date (Note 9).

The recognized goodwill amounting to P463 pertains to the excess of the consideration paid over the fair values of assets acquired and liabilities assumed as of the acquisition date.

- **SMYB**

On June 30, 2017, the Parent Company through SMYA acquired 100% ownership interest in Barossa Bottling Services Pty Ltd (Barossa) for a total consideration of P442. Barossa is a specialist contract wine bottling and packaging facility servicing artisan wineries in Australia. On February 27, 2018, Barossa changed its name to SMYB Pty Ltd.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	<i>Note</i>	2017
Assets		
Cash		P5
Trade and other receivables - net		72
Inventories		15
Property, plant and equipment - net	<i>14</i>	41
Liabilities		
Accounts payable and accrued expenses		(45)
Income and other taxes payable		(5)
Total Identifiable Net Assets at Fair Value	<i>38</i>	P83

The fair value of trade and other receivables amounted to P72. None of the receivables has been impaired and the full amount is expected to be collected.

The recognized goodwill amounting to P359 pertains to the excess of the consideration paid over the fair values of assets acquired and liabilities assumed as of the acquisition date.

- SMYBB

On November 1, 2017, the Parent Company through SMYA acquired 100% ownership in Best Bottlers Pty. Ltd. (Best Bottlers) for a total consideration of P658. Best Bottlers is an Australian wine bottling and packaging facility specializing in various formats of contract filing. On November 30, 2017, Best Bottlers changed its name to SMYBB Pty Ltd.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	<i>Note</i>	2017
Assets		
Cash		P8
Trade and other receivables - net		252
Inventories		50
Prepaid expenses and other current assets		7
Property, plant and equipment - net	<i>14</i>	321
Liabilities		
Accounts payable and accrued expenses		(275)
Income and other taxes payable		(2)
Deferred tax liabilities		(43)
Total Identifiable Net Assets at Fair Value	<i>38</i>	P318

The fair value of trade and other receivables amounted to P252. The gross amount of the receivables is P266, of which P14 is expected to be uncollectible as at the acquisition date (Note 9).

The recognized goodwill amounting to P340 pertains to the excess of the consideration paid over the fair values of assets acquired and liabilities assumed as of the acquisition date.

Goodwill arising from the acquisition of Portavin, Barossa and Best Bottlers is attributable to the benefit of expected synergies with the Group's packaging business, revenue growth and future development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable net assets.

The Group is currently completing the purchase price allocation exercise on the acquisition of Portavin, Barossa and Best Bottlers in 2017. The identifiable assets and liabilities are based on provisional amounts as at the acquisition date, which is allowed under PFRS 3, *Business Combinations*, within 12 months from the acquisition date.

If the foregoing acquisitions have occurred on January 1, 2017, management estimates that consolidated revenue would have been P827,330 and consolidated net income for the period would have been P54,832. In determining these amounts, management assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2017.

Real Estate

- **SMPI**

The BOD and stockholders of SMPI, in their meetings held on November 5, 2015 and December 17, 2015, respectively, approved to increase its authorized capital stock from P1,280 divided into 128,000,000 common shares to P15,000 divided into 1,500,000,000 common shares, both with a par value of P10.00 per share. Of the total increase in authorized capital stock, the Parent Company subscribed to 450,000,000 common shares for a total subscription price of P9,000 or P20.00 per share. As of December 31, 2016, the subscription price was fully paid by the Parent Company.

The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on February 12, 2016 and was approved on March 11, 2016.

On June 29, 2017, the Parent Company subscribed to additional 27,985,000 common shares of SMPI for a total subscription price of P560 or P20.00 per share. The subscription price was fully paid in 2017.

- **DHDC**

On May 22, 2017, the Parent Company incorporated DHDC, a wholly-owned subsidiary, with an authorized capital stock of P100 divided into 100,000,000 shares with a par value of P1.00 per share. The Parent Company subscribed and paid in full the initial authorized capital stock of DHDC for a total subscription price of P100 or P1.00 per share.

On September 12, 2017, the BOD and stockholders of DHDC resolved and approved the increase in authorized capital stock from P100 divided into 100,000,000 common shares to P2,100 divided into 2,100,000,000 common shares, both with a par value of P1.00 per share.

On September 18, 2017, DHDC and the Parent Company executed a Deed of Subscription to subscribe to an additional 500,000,000 common shares from the increase in authorized capital stock, for a total subscription price of P750 or P1.50 per common share. As of December 31, 2017, the Parent Company has paid P625 of the subscription price.

The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock of DHDC was filed with the SEC on November 2, 2017 and was approved on November 22, 2017.

DHDC was incorporated primarily to purchase, acquire, own, lease, hold, subdivide, sell, exchange, lease and hold for investment or otherwise, real estate of all kinds, including buildings, houses, apartments and other structures.

Others

- SWCC

On December 23, 2016, SMEII and Eagle Cement Corporation (ECC) entered into a Deed of Absolute Sale of Shares whereby ECC acquired the entire ownership interest of SMEII in SWCC. On the same date, SMEII and ECC executed the Deed of Assignment of Receivables covering the receivables of SMEII from SWCC amounting to P209.

The Group recognized a gain amounting to P56 from the sale of SMEII's 100% ownership interest in SWCC to ECC.

- SMNCI

On October 2, 2017, SMNCI was incorporated with an authorized capital stock of P10,000 divided into 10,000,000,000 shares, with a par value of P1.00 per share. As of December 31, 2017, the Parent Company through SMEII has investments in SMNCI representing 70% equity interest.

SMNCI is engaged in the business of manufacturing, developing, processing, exploiting, importing, exporting, buying, selling or otherwise dealing in such goods as cement and other goods of similar nature and/or other products.

- SMCACDC

On July 17, 2017, SMCACDC was incorporated with an authorized capital stock of P1,000 divided into 10,000,000 shares with a par value of P100.00 per share. As of December 31, 2017, the investment of the Parent Company in SMCACDC amounted to P325, representing 65% equity interest.

SMCACDC was organized primarily to import, buy, sell, distribute, deal in and conduct a general sales agency in all kinds of automobiles and all other kinds of motor vehicles and means of transportation, including spare parts, accessories, tires, tubes, batteries and other supplies, materials and appliances used in motor vehicles.

On August 7, 2017, the BOD and stockholders of SMCACDC resolved and approved to increase its authorized capital stock from P1,000 divided into 10,000,000 common shares with a par value of P100.00 per share to P6,000 divided into 10,000,000 common shares with a par value of P100.00 per common share and 5,000,000 preferred shares with a par value of P1,000.00 per preferred share. Out of the increase in authorized capital stock, SMCACDC shall subscribe to 3,500,000 preferred shares at the subscription price of P1,000.00 per preferred share or a total subscription amount of P3,500.

SMCACDC commenced operations as the sole importer and distributor of BMW vehicles, spare parts and accessories in the Philippines on December 1, 2017.

The details of the Group's material non-controlling interests are as follows:

	December 31, 2017			December 31, 2016		
	Petron	SMB	SMPFC	Petron	SMB	SMPFC
Percentage of non-controlling interests	31.74%	48.84%	14.63%	31.74%	48.84%	14.63%
Carrying amount of non-controlling interests	P63,207	P29,998	P21,521	P58,624	P24,999	P20,447
Net income attributable to non-controlling interests	P8,619	P10,388	P2,022	P6,947	P8,848	P1,849
Other comprehensive income (loss) attributable to non-controlling interests	P1,117	P246	(P42)	P573	P785	P27
Dividends paid to non-controlling interests	P5,153	P5,639	P995	P4,919	P5,112	P1,188

The following are the audited condensed financial information of investments in subsidiaries with material non-controlling interests:

	December 31, 2017			December 31, 2016		
	Petron	SMB	SMPFC	Petron	SMB	SMPFC
Current assets	P145,490	P38,953	P44,865	P125,818	P33,256	P40,779
Noncurrent assets	192,540	70,330	37,009	193,075	68,335	26,236
Current liabilities	(124,495)	(12,717)	(32,989)	(158,808)	(14,531)	(23,542)
Noncurrent liabilities	(113,916)	(35,782)	(737)	(71,265)	(36,302)	(286)
Net assets	P99,619	P60,784	P48,148	P88,820	P50,758	P43,187
Sales	P434,624	P113,255	P117,449	P343,840	P97,160	P111,586
Net income	P14,087	P20,711	P6,906	P10,822	P17,658	P5,976
Other comprehensive income (loss)	2,506	613	(177)	2,378	1,408	193
Total comprehensive income	P16,593	P21,324	P6,729	P13,200	P19,066	P6,169
Cash flows provided by operating activities	P15,753	P26,601	P12,254	P29,269	P21,652	P7,216
Cash flows used in investing activities	(11,211)	(6,047)	(14,322)	(19,165)	(5,467)	(8,440)
Cash flows provided by (used in) financing activities	(4,715)	(14,299)	1,572	(12,025)	(10,297)	(524)
Effect of exchange rate changes on cash and cash equivalents	(145)	27	-	372	277	4
Net increase (decrease) in cash and cash equivalents	(P318)	P6,282	(P496)	(P1,549)	P6,165	(P1,744)

6. Discontinued Operations and Assets Held for Sale

i. Vega Telecoms, Inc. (Vega)

On May 30, 2016, the Parent Company entered into agreements with Philippine Long Distance Telephone Company (PLDT) and Globe Telecom, Inc. (Globe) for the sale of 100% ownership interest in Vega for a total amount of P30,004. Vega, through its subsidiaries holds the telecommunications assets of the Parent Company. In addition, advances by the Parent Company to Vega amounting to P22,077 was also assigned to PLDT and Globe. In 2016, the Parent Company received P39,061 or 75% of the proceeds from the sale of shares and assignment of advances. The remaining balance of P13,020, presented as part of "Non-trade" under "Trade and other receivables" account in the 2016 consolidated statement of financial position was paid on May 30, 2017 (Note 9).

On May 30, 2016, the Parent Company, PLDT and Globe filed a notice with the PCC to inform them of the execution of the agreement among the parties (the Notice). The Notice was filed pursuant to memorandum circulars issued by the PCC that transactions of which the PCC is notified during the period prior to the adoption of the implementing rules and regulations of the Philippine Competition Act shall be deemed approved. On June 7, 2016, the PCC required the Parent Company, PLDT and Globe to provide additional information regarding the transaction and advised them that the notice which they filed are insufficient and thus have to be re-filed with the PCC. Consequently, the PCC advised the Parent Company, PLDT and Globe that the transaction is not deemed approved by the PCC.

Both PLDT and Globe filed their respective petitions for certiorari and prohibition with the Court of Appeals to enjoin the PCC from proceeding with the evaluation of the transaction and not considering the transaction to be deemed approved.

An application for a Temporary Restraining Order (TRO) against the PCC made by Globe was denied by the 6th Division of the appellate court. The two petitions have since been consolidated.

On August 26, 2016, the Court of Appeals 12th Division issued a writ of preliminary injunction barring the PCC and its agents from conducting the review. After the PCC filed its Comment to the petitions on October 4, 2016, the Court of Appeals, in its Order dated October 19, 2016, directed all parties to submit their respective memoranda within a non-extendible 15-day period from notice. Thereafter, the petitions shall be deemed submitted for resolution.

On April 21, 2017, PCC filed a Petition for Certiorari with prayer for a TRO and/or writ of preliminary injunction against the Court of Appeals 12th Division and PLDT. The petition asks the Supreme Court to: (a) issue a TRO or writ of preliminary injunction to (i) restrain the Court of Appeals from consolidating the case in the Court of Appeals 12th Division with the case filed by Globe, (ii) restrain the Court of Appeals from enforcing the preliminary injunction issued against the PCC which prevents it from proceeding with the pre-acquisition review of the acquisition by PLDT and Globe of the telecommunications business of the Parent Company, and (iii) restrain PLDT from consummating and implementing the acquisition; (b) dissolve the writ of preliminary injunction issued by the Court of Appeals against PCC; and (c) make permanent the writ of preliminary injunction restraining PLDT from further proceeding with the final payment or performing any action of consummation of the acquisition while the case before the Court of Appeals and the pre-acquisition review and investigation by PCC of the Acquisition are pending.

The Parent Company is not a party nor is it impleaded in the case filed by the PCC before the Supreme Court, and neither is it a party in the case pending before the Court of Appeals.

On October 23, 2017, the Court of Appeals denied the petition for certiorari and application for the issuance of an injunction filed by the PCC, upholding the acquisition by PLDT and Globe of the telecommunications business of the Parent Company.

As of December 31, 2017, the Supreme Court has not issued a TRO or a writ of preliminary injunction in relation to the case.

As required by PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, the financial performance of Vega and its subsidiaries for the period January 1 to May 30, 2016 and for the period ended December 31, 2015, were presented as a separate item under "Income after income tax from discontinued operations" account in the consolidated statements of income.

The result of discontinued operations is presented below:

	Note	2016	2015
Net sales		P818	P1,743
Cost of sales		389	856
Gross profit		429	887
Selling and administrative expenses		(1,380)	(2,692)
Interest expense and other financing charges	30	(6)	(3)
Interest income	31	14	29
Equity in net losses of an associate		-	(266)
Loss on sale of property and equipment		-	(2)
Other income – net		136	2,372
Income (loss) before income tax		(807)	325
Income tax expense		175	163
Income (loss) from discontinued operations		(982)	162
Gain on sale of investment - net of tax of P772		12,800	-
Net income from discontinued operations		P11,818	P162
Attributable to:			
Equity holders of the Parent Company	37	P11,756	P83
Non-controlling interests		62	79
		P11,818	P162

Basic and diluted earnings per common share from discontinued operations, attributable to shareholders of the Parent Company, are presented in Note 37.

Cash flows provided by (used in) discontinued operations are presented below:

	2016	2015
Net cash flows used in operating activities	(P419)	(P2,881)
Net cash flows provided by (used in)		
investing activities	33,512	(3,082)
Net cash flows provided by (used in)		
financing activities	(1,220)	1,220
Net cash flows provided by (used in)		
discontinued operations	P31,873	(P4,743)

The effect of disposal on the financial position follows:

	2016
Assets	
Cash and cash equivalents	P1,877
Trade and other receivables - net	516
Inventories	258
Prepaid expenses and other current assets	4,265
Property, plant and equipment - net	13,141
Goodwill - net	734
Other intangible assets - net	23,843
Deferred tax assets	103
Other noncurrent assets - net	165
Liabilities	
Accounts payable and accrued expenses	(2,665)
Income and other taxes payable	(241)
Deferred tax liabilities	(257)
Other noncurrent liabilities	(2,401)
Reserve for retirement plan	14
Non-controlling interests	(852)
Net assets disposed of	P38,500
	2016
Cash consideration received	P39,061
Transaction cost	(9)
Cash and cash equivalents disposed of	(1,877)
Net cash flows	P37,175

ii. SPI

On September 15, 2016, the BOD of SPI approved the plan to sell certain machinery and equipment to Northern Cement Corporation (NCC) and ECC. Accordingly, the carrying amount which is the fair value of the machinery and equipment amounting to P184 was reclassified to "Assets held for sale" account in the 2016 consolidated statement of financial position. The sale was completed in 2017.

7. Segment Information

Operating Segments

The reporting format of the Group's operating segments is determined based on the Group's risks and rates of return which are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products produced and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's reportable segments are beverage, food, packaging, energy, fuel and oil and infrastructure.

The beverage segment produces and markets alcoholic and non-alcoholic beverages.

The food segment includes, among others, feeds production, poultry and livestock farming, processing and selling of poultry and meat products, processing and marketing of value-added refrigerated processed meats and canned meat products, manufacturing and marketing of flour, flour mixes and bakery ingredients, butter, margarine, cheese, milk, ice cream, jelly snacks and desserts, specialty oils, salad aids, snacks and condiments, importation and marketing of coffee and coffee-related products, and grain terminal handling.

The packaging segment is involved in the production and marketing of packaging products including, among others, glass containers, glass molds, polyethylene terephthalate (PET) bottles and preforms, PET recycling, plastic closures, corrugated cartons, woven polypropylene, kraft sacks and paperboard, pallets, flexible packaging, plastic crates, plastic floorings, plastic films, plastic trays, plastic pails and tubs, metal closures and two-piece aluminum cans, woven products, industrial laminates and radiant barriers. It is also involved in crate and plastic pallet leasing, PET bottle filling graphics design, packaging research and testing, packaging development and consultation, contract packaging and trading.

The energy segment sells, retails and distributes power, through power supply agreements, retail supply agreements, concession agreement and other power-related service agreements, either directly to customers, including Manila Electric Company (Meralco), electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market (WESM).

The fuel and oil segment is engaged in refining and marketing of petroleum products.

The infrastructure segment is engaged in the business of construction and development of various infrastructure projects such as airports, roads, highways, toll roads, freeways, skyways, flyovers, viaducts, interchanges and mass rail transit system.

The telecommunications business was previously presented as one of the reportable segments of the Group. As a result of the completion of the sale of Vega and its subsidiaries on May 30, 2016, the line by line consolidation of Vega and its subsidiaries were excluded in the consolidated statements of income for the years ended December 31, 2016 and 2015 and presented under "Income after income tax from discontinued operations" account (Note 6).

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist primarily of operating cash, receivables, inventories, biological assets, and property, plant and equipment, net of allowances, accumulated depreciation and amortization, and impairment. Segment liabilities include all operating liabilities and consist primarily of accounts payable and accrued expenses and other noncurrent liabilities, excluding interest payable. Segment assets and liabilities do not include deferred taxes.

Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transactions are eliminated in consolidation.

Major Customer

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenues of the Group.

Operating Segments

Financial information about reportable segments follows:

	For the Years Ended December 31, 2017, 2016 and 2015																										
	Beverage			Food			Packaging			Energy			Fuel and Oil			Infrastructure			Others			Eliminations			Consolidated		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Sales																											
External sales	P134,087	P115,609	P98,386	P117,399	P111,500	P106,845	P23,192	P19,990	P19,751	P80,256	P67,980	P68,704	P431,720	P337,660	P356,813	P22,497	P19,866	P13,288	P16,935	P12,709	P8,456	P -	P -	P -	P826,086	P685,314	P672,243
Inter-segment sales	60	123	616	50	86	15	8,907	7,396	5,299	2,535	9,992	8,803	2,904	6,180	3,365	-	-	-	20,055	10,552	14,900	(34,511)	(34,329)	(32,998)	-	-	-
Total sales	P134,147	P115,732	P99,002	P117,449	P111,586	P106,860	P32,099	P27,386	P25,050	P82,791	P77,972	P77,507	P434,624	P343,840	P360,178	P22,497	P19,866	P13,288	P36,990	P23,261	P23,356	(P34,511)	(P34,329)	(P32,998)	P826,086	P685,314	P672,243
Result																											
Segment result	P32,469	P28,166	P23,252	P9,926	P8,931	P7,644	P2,994	P2,584	P2,198	P24,276	P26,730	P23,703	P29,463	P24,591	P13,984	P10,440	P9,849	P7,272	P2,042	(P419)	P1,911	(P568)	(P778)	P585	P111,042	P99,654	P80,549
Interest expense and other financing charges																									(35,714)	(34,803)	(32,518)
Interest income																									4,525	3,693	4,286
Equity in net earnings (losses) of associates and joint ventures																									297	203	(120)
Gain (loss) on sale of investments and property and equipment																									879	154	(79)
Other income (charges) - net																									154	(11,426)	(6,506)
Income tax expense																									(26,369)	(17,053)	(16,781)
Net income from continuing operations																									54,814	40,422	28,831
Income after income tax from discontinued operations																									-	11,818	162
Net income																									P54,814	P52,240	P28,993
Attributable to:																											
Equity holders of the Parent Company																									P28,225	P29,289	P12,448
Non-controlling interests																									26,589	22,951	16,545
Net income																									P54,814	P52,240	P28,993

	For the Years Ended December 31, 2017, 2016 and 2015																										
	Beverage			Food			Packaging			Energy			Fuel and Oil			Infrastructure			Others			Eliminations			Consolidated		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015			
Other Information	P86,489	P80,281	P75,289	P77,190	P62,278	P56,365	P39,934	P35,421	P34,611	P332,344	P314,738	P318,022	P329,170	P308,913	P284,140	P190,186	P175,345	P168,207	P260,613	P284,747	P276,382	(P93,487)	(P108,957)	(P111,397)	P1,222,439	P1,152,766	P1,101,619
Segment assets																											
Investments in and advances to associates and joint ventures	346	465	525	-	-	-	4,418	4,221	3,950	16,621	16,245	10,613	11	6	1,811	745	-	(624)	13,396	11,575	10,654	-	-	-	35,537	32,512	26,929
Goodwill and trademarks and brand names																									60,829	58,791	59,279
Other assets																									42,426	42,304	41,754
Assets held for sale																									-	184	-
Deferred tax assets																									18,412	20,267	16,441
Consolidated Total Assets																									P1,379,643	P1,306,824	P1,246,022
Segment liabilities	P12,088	P11,367	P22,558	P23,904	P17,764	P17,233	P10,107	P6,921	P5,688	P25,633	P31,896	P28,197	P56,790	P50,219	P31,756	P45,377	P43,153	P40,487	P74,667	P90,767	P101,751	(P88,765)	(P111,116)	(P114,718)	P159,801	P140,971	P132,952
Loans payable																									149,863	189,277	146,859
Long-term debt																									399,492	328,600	368,377
Finance lease liabilities																									154,897	170,240	179,280
Income and other taxes payable																									16,653	16,967	13,907
Dividends payable and others																									7,201	6,759	4,441
Deferred tax liabilities																									20,674	17,229	15,329
Consolidated Total Liabilities																									P908,581	P870,043	P861,145

	For the Years Ended December 31, 2017, 2016 and 2015																										
	Beverage			Food			Packaging			Energy			Fuel and Oil			Infrastructure			Others			Eliminations			Consolidated		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Capital expenditures	P1,965	P1,451	P1,319	P10,649	P6,460	P3,128	P1,974	P1,723	P2,150	P9,065	P14,840	P31,105	P9,699	P5,342	P13,474	P445	P295	P243	P4,896	P10,538	P8,554	P -	P -	P -	P38,693	P40,649	P59,973
Depreciation and amortization of property, plant and equipment (Note 28)	1,841	1,906	1,837	917	982	945	1,661	1,694	1,580	5,949	6,573	6,513	9,961	8,246	5,364	205	208	148	2,207	1,672	1,708	-	-	-	22,741	21,281	18,095
Noncash items other than depreciation and amortization of property, plant and equipment	2,339	2,907	1,668	2,555	2,613	2,171	226	145	218	547	9,265	7,895	381	3,708	2,955	5,001	3,376	3,621	(409)	6,461	(3,404)	-	-	-	10,640	28,475	15,124
Loss on impairment of goodwill, property, plant and equipment, and other noncurrent assets	534	-	1,098	-	109	-	19	67	-	-	272	-	-	333	262	-	-	-	57	12	1,333	-	-	-	610	793	2,693

8. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	<i>Note</i>	2017	2016
Cash in banks and on hand		P33,021	P29,559
Short-term investments		173,052	173,594
	40, 41	P206,073	P203,153

Cash in banks earn interest at bank deposit rates. Short-term investments include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn interest at short-term investment rates (Note 31).

9. Trade and Other Receivables

Trade and other receivables consist of:

	<i>Note</i>	2017	2016
Trade		P67,996	P54,989
Non-trade		41,317	56,552
Amounts owed by related parties	33, 35	19,693	16,640
		129,006	128,181
Less allowance for impairment losses	4, 5	12,966	13,656
	40, 41	P116,040	P114,525

Trade receivables are non-interest bearing and are generally on a 30 to 45-day term.

Non-trade receivables consist primarily of claims from the Government, interest receivable, claims receivable, contracts receivable and others. Claims from the Government consist of duty drawback, VAT and specific tax claims, subsidy receivables from the Government of Malaysia under the Automatic Pricing Mechanism and due from PSALM pertaining to SPPC's performance bond pursuant to the Ilijan IPPA Agreement that was drawn by PSALM in September 2015 (Note 44).

The receivable from PLDT and Globe amounting to P13,020, included as part of non-trade receivables in 2016, related to the sale of the investment in shares of stock of Vega was collected in 2017 (Note 6).

The movements in the allowance for impairment losses are as follows:

	<i>Note</i>	2017	2016
Balance at beginning of year		P13,656	P9,925
Charges (reversals) for the year	27, 32	(63)	4,883
Amounts written off		(226)	(255)
Disposal of subsidiaries	6	-	(922)
Translation adjustments and others		(401)	25
Balance at end of year		P12,966	P13,656

The aging of receivables is as follows:

December 31, 2017	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P49,017	P20,061	P17,996	P87,074
Past due:				
1 - 30 days	5,617	1,042	131	6,790
31 - 60 days	1,922	552	20	2,494
61 - 90 days	965	783	14	1,762
Over 90 days	10,475	18,879	1,532	30,886
	P67,996	P41,317	P19,693	P129,006

December 31, 2016	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P37,635	P35,826	P15,809	P89,270
Past due:				
1 - 30 days	5,560	1,289	74	6,923
31 - 60 days	1,802	1,601	20	3,423
61 - 90 days	774	489	48	1,311
Over 90 days	9,218	17,347	689	27,254
	P54,989	P56,552	P16,640	P128,181

Various collaterals for trade receivables such as bank guarantees, time deposits and real estate mortgages are held by the Group for certain credit limits.

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality (Note 40).

10. Inventories

Inventories consist of:

	2017	2016
At Net Realizable Value:		
Finished goods and goods in process (including petroleum products)	P66,301	P52,153
Materials and supplies (including coal)	30,506	24,667
Containers	1,552	1,908
At Cost:		
Raw land inventory and real estate projects	4,216	4,513
	P102,575	P83,241

The cost of finished goods and goods in process amounted to P66,684 and P52,491 as of December 31, 2017 and 2016, respectively.

If the Group used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other petroleum products would have increased by P61 and P1,906 as of December 31, 2017 and 2016, respectively.

The cost of materials and supplies amounted to P31,780 and P25,840 as of December 31, 2017 and 2016, respectively.

Containers at cost amounted to P1,964 and P2,123 as of December 31, 2017 and 2016, respectively.

The fair value of agricultural produce less costs to sell, which formed part of the cost of finished goods inventory, amounted to P442 and P466 as of December 31, 2017 and 2016, respectively, with corresponding costs at point of harvest amounting to P406 and P468, respectively. Net unrealized gain (loss) on fair valuation of agricultural produce amounted to P37, (P2) and P29 in 2017, 2016 and 2015, respectively.

The fair values of marketable hogs and cattle, and grown broilers, which comprised the Group's agricultural produce, are categorized as Level 1 and Level 3, respectively, in the fair value hierarchy based on the inputs used in the valuation techniques.

The valuation model used is based on the following: (a) quoted prices for harvested mature grown broilers at the time of harvest; and (b) quoted prices in the market at any given time for marketable hogs and cattle; provided that there has been no significant change in economic circumstances between the date of the transactions and the reporting date. Costs to sell are estimated based on the most recent transaction and is deducted from the fair value in order to measure the fair value of agricultural produce at point of harvest. The estimated fair value would increase (decrease) if weight and quality premiums increase (decrease) (Note 4).

The net realizable value of raw land inventory and real estate projects is higher than the carrying amount as of December 31, 2017 and 2016, based on management's assessment.

The fair value of raw land inventory amounted to P10,221 and P10,225 as of December 31, 2017 and 2016, respectively. The fair value has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

In estimating the fair value of the raw land inventory, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's raw land inventory are their current use.

The Level 3 fair value of raw land inventory was derived using the observable recent transaction prices for similar raw land inventory in nearby locations adjusted for differences in key attributes such as property size, zoning and accessibility. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value (Note 4).

11. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	<i>Note</i>	2017	2016
Prepaid taxes and licenses		P65,309	P61,606
Advances to contractors and suppliers	33	5,365	4,833
Restricted cash - current	40, 41	2,878	3,059
Prepaid rent		530	442
Prepaid insurance		489	640
Catalyst		438	400
Derivative assets	40, 41	271	84
AFS financial assets - current portion	4, 13, 40, 41	199	71
Financial assets at FVPL	40, 41	170	157
Others	33, 34	2,579	3,910
		P78,228	P75,202

Restricted cash - current represents cash in banks maintained by Vertex, PIDC, MTDME, SIDC, CCEC and AAIPC in 2017 and 2016 in accordance with the specific purposes and terms as required under certain loan and concession agreements. Certain loan agreements provide that the Security Trustee shall have control over and the exclusive right of withdrawal from the restricted bank accounts.

“Others” consist mainly of prepayments for various operating expenses, PSALM monthly fee outage credits from the approved reduction in future monthly fees payable to PSALM and amounts owed by related parties amounting to P28 as of December 31, 2016 (Note 33).

“Advances to contractors and suppliers” include amounts owed by related parties amounting to P15 as of December 31, 2017 and 2016 (Note 33).

The methods and assumptions used to estimate the fair values of restricted cash, financial assets at FVPL, derivative assets and AFS financial assets are discussed in Note 41.

12. Investments and Advances

Investments and advances consist of:

	Note	2017	2016
Investments in Shares of Stock of Associates and Joint Ventures - at Equity			
Acquisition Cost			
Balance at beginning of year		P21,242	P14,733
Additions		-	6,509
Balance at end of year		21,242	21,242
Accumulated Equity in Net Earnings			
Balance at beginning of year		678	500
Equity in net earnings		297	203
Share in other comprehensive income (loss)		44	(18)
Dividends		(6)	(7)
Balance at end of year		1,013	678
		22,255	21,920
Advances		13,282	10,592
	4	P35,537	P32,512

Investments in Shares of Stock of Associates

a. NCC

SMC through SMYPC, has 35% equity interest in NCC representing 104,500,000 common shares.

NCC is primarily engaged in manufacturing, developing, processing, exploiting, buying and selling cement and/or other products derived therefrom.

b. Mariveles Power Generation Corporation (MPGC)

SMC Global holds 49% of the outstanding capital stock of MPGC while Meralco Powergen Corporation and Zygnnet Prime Holdings, Inc. holds 49% and 2%, respectively.

MPGC shall develop, construct, finance, own, operate and maintain a 4 x 150 Megawatt (MW) circulating fluidized bed coal-fired power plant and associated facilities in Mariveles, Bataan.

On July 13, 2016, SMC Global subscribed to 9,643,200 shares, representing 49% of the total shares subscribed by all shareholders out of the increase in the authorized capital stock of MPGC, at the subscription price of P100.00 per share or a total subscription of P964.

On January 9, 2017, the SEC approved the increase in the authorized capital stock of MPGC.

c. Bank of Commerce (BOC)

SMC through SMPI has 39.93% equity ownership interest in BOC representing 44,817,164 common shares. BOC is engaged in commercial banking services.

Investments in Shares of Stock of Joint Ventures

a. Angat Hydro and KWPP

PVEI, a subsidiary of SMC Global has an existing joint venture with Korea Water Resources Corporation (K-Water), covering the acquisition rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant (Angat Power Plant) which was previously awarded by PSALM to K-Water.

PVEI holds 2,817,270 shares or 60% of the outstanding capital stock of Angat Hydro and 75 shares representing 60% of KWPP outstanding capital stock. PVEI and K-Water are jointly in control of the management and operation of Angat Hydro and KWPP.

In accordance with the joint venture agreement, PVEI agreed to pay K-Water a support fee equivalent to 3% of the total amount of the bridge loan facility which was obtained for the acquisition by Angat Hydro of the Angat Power Plant. This was subsequently reduced to 1.5% of the total amount of the bridge loan facility effective August 4, 2015. The obligation to pay support fee was terminated on July 15, 2016 with the refinancing of the bridge loan facility.

On July 11, 2016, PVEI subscribed to additional 27,724,200 shares representing 60% of the increase in the authorized capital stock of Angat Hydro at the subscription price of P200.00 per share or a total subscription of P5,545 pursuant with the requirements of Angat Hydro's project financing.

In January 2017, PVEI and K-Water granted short-term loans amounting to US\$32 and US\$21, respectively, to Angat Hydro. The loans bear annual interest rate of 4.5% and were due initially on April 30, 2017. The due date of the loans may be extended as agreed amongst the parties.

On April 10 and December 27, 2017, Angat Hydro made partial payments of the foregoing advances plus interest totaling US\$34 of which US\$20 and US\$14 were paid to PVEI and K-Water, respectively. Payment date of the remaining balance of the advances amounting to US\$20 was extended to March 29, 2018.

b. TSML

The Group, through GSML, has an existing joint venture with Thai Life Group of Companies (Thai Life) covering the ownership and operations of TSML. TSML is a limited company organized under the laws of Thailand in which the Group owns 44.9% ownership interest. TSML holds a license in Thailand to engage in the business of manufacturing alcohol and manufacturing, selling and distributing brandy, wine and distilled spirits products both for domestic and export markets.

c. TGT

The Group, through GSML, has an existing 44.9% ownership interest in TGT, which was formed as another joint venture with Thai Life. TGT functions as the selling and distribution arm of TSML.

Advances:

- a. SMPI made cash advances to future investees amounting to P875 and P1,065 as of December 31, 2017 and 2016, respectively. These advances will be applied against future subscriptions of SMPI to the shares of stock of the future investee companies. In 2017, certain future investees repaid the full amount of its cash advances from the Group amounting to P129.
- b. SMC Global and SMEC made deposits to certain land holding companies and power-related expansion projects for future stock subscriptions amounting to P8,965 and P8,549 as of December 31, 2017 and 2016, respectively.
- c. On June 29, 2016, SMHL entered into an Investment Agreement (the Agreement) with Bryce Canyon Investments Limited for the sale and purchase of assets, as defined in the Agreement, upon the satisfaction of certain conditions set out in the Agreement. As of December 31, 2017 and 2016, outstanding investment advances amounted to P2,479 and P783, respectively.
- d. Other advances pertain to deposits made to certain companies which will be applied against future stock subscriptions.

The details of the Group's material investments in shares of stock of associates and joint ventures which are accounted for using the equity method are as follows:

	December 31, 2017						
	Angat Hydro and KWPP	NCC	BOC	TGT and TSML	MPGC	Others	Total
Country of incorporation	Philippines	Philippines	Philippines	Thailand	Philippines		
Percentage of ownership	60.00%	35.00%	39.93%	44.90%	49.00%		
Share in net income (loss)	(P16)	P192	P292	(P186)	(P5)	P20	P297
Share in other comprehensive income (loss)	-	5	(28)	67	-	-	44
Share in total comprehensive income (loss)	(P16)	P197	P264	(P119)	(P5)	P20	P341
Dividends received from associates	P -	P -	P -	P -	P -	P6	P6
Carrying amount of investments in shares of stock of associates and joint ventures	P6,525	P4,418	P9,460	P346	P954	P552	P22,255

	December 31, 2016						
	Angat Hydro and KWPP	NCC	BOC	TGT and TSML	MPGC	Others	Total
Country of incorporation	Philippines	Philippines	Philippines	Thailand	Philippines		
Percentage of ownership	60.00%	35.00%	39.93%	44.90%	49.00%		
Share in net income (loss)	(P294)	P282	P290	(P97)	(P6)	P28	P203
Share in other comprehensive income (loss)	-	(11)	(44)	37	-	-	(18)
Share in total comprehensive income (loss)	(P294)	P271	P246	(P60)	(P6)	P28	P185
Dividends received from associates	P -	P -	P -	P -	P -	P7	P7
Carrying amount of investments in shares of stock of associates and joint ventures	P6,541	P4,221	P9,196	P465	P959	P538	P21,920

The following are the audited condensed financial information of the Group's material investments in shares of stock of associates and joint ventures:

	December 31, 2017					
	Angat Hydro and KWPP	NCC	BOC	TGT and TSML	MPGC	Others
Current assets	P2,879	P2,462	P63,559	P871	P122	P2,796
Noncurrent assets	18,799	8,355	76,897	1,320	1,847	1,421
Current liabilities	(1,699)	(2,228)	(121,513)	(965)	(22)	(1,428)
Noncurrent liabilities	(11,273)	(889)	(1,141)	(1,335)	-	(393)
Net assets (liabilities)	P8,706	P7,700	P17,802	(P109)	P1,947	P2,396
Sales	P2,185	P7,224	P4,270	P1,685	P -	P2,530
Net income (loss)	(P28)	P749	P731	(P830)	(P10)	P167
Other comprehensive income (loss)	-	7	(70)	149	-	-
Total comprehensive income (loss)	(P28)	P756	P661	(P681)	(P10)	P167

	December 31, 2016					
	Angat Hydro and KWPP	NCC	BOC	TGT and TSML	MPGC	Others
Current assets	P2,788	P1,872	P71,655	P1,460	P123	P3,072
Noncurrent assets	19,323	6,401	67,031	1,324	1,841	1,411
Current liabilities	(13,348)	(1,151)	(118,432)	(859)	-	669
Noncurrent liabilities	(31)	(168)	(2,948)	(1,265)	-	405
Net assets (liabilities)	P8,732	P6,954	P17,306	P660	P1,964	P5,557
Sales	P1,231	P5,846	P3,326	P1,427	P -	P2,271
Net income (loss)	(P490)	P1,003	P641	P4	(P12)	P115
Other comprehensive income (loss)	-	(30)	(111)	36	-	-
Total comprehensive income (loss)	(P490)	P973	P530	P40	(P12)	P115

13. Available-for-Sale Financial Assets

Available-for-sale financial assets consist of:

	Note	2017	2016
Equity securities		P41,464	P41,413
Government and other debt securities		531	479
Proprietary membership shares and others		273	247
	4, 40, 41	42,268	42,139
Less current portion	11	199	71
		P42,069	P42,068

Equity Securities

Equity securities include the investments in the shares of stock of Top Frontier consisting of 2,561,031 common shares and 1,904,540 preferred shares with a total amount of P36,147 and P36,082 as of December 31, 2017 and 2016, respectively.

Government Securities

- a) Petrogen's government securities are deposited with the Bureau of Treasury in accordance with the provisions of the Insurance Code, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates ranging from 2.13% to 5.30% in 2017 and 2.13% to 7.75% in 2016 (Note 31).
- b) Ovinco's outstanding corporate bond is maintained at the Bank of N.T. Butterfield and carried at fair value with fixed annual interest rate at 6.75% (Note 31).

The movements in AFS financial assets are as follows:

	Note	2017	2016
Balance at beginning of the year		P42,139	P41,616
Additions		131	91
Disposals		(73)	(72)
Amortization of premium		(6)	(7)
Fair value gain		91	502
Currency translation adjustments and others		(14)	9
Balance at end of the year	4, 11, 40, 41	P42,268	P42,139

The methods and assumptions used to estimate the fair value of AFS financial assets are discussed in Note 41.

14. Property, Plant and Equipment

Property, plant and equipment consist of:

	Note	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects in Progress	Total
Cost										
January 1, 2016		P31,352	P50,453	P226,789	P49,785	P16,230	P140,795	P2,187	P182,407	P699,998
Additions		1,150	1,402	10,655	871	364	9,075	1,277	15,855	40,649
Disposals/retirement		(376)	(717)	-	(25)	(481)	(22,986)	(334)	(8,343)	(33,262)
Reclassifications		106	(6,182)	4,610	94,335	(14)	172	(175)	(96,605)	(3,753)
Acquisition of subsidiaries	38	218	1,907	-	-	-	10	-	-	2,135
Currency translation adjustments		135	179	-	103	73	713	3	26	1,232
December 31, 2016		32,585	47,042	242,054	145,069	16,172	127,779	2,958	93,340	706,999
Additions		1,722	243	112	1,307	405	2,813	9	32,082	38,693
Disposals/retirement		(390)	(472)	-	(5)	(1,106)	(2,736)	(18)	(7)	(4,734)
Reclassifications		820	2,563	26,152	19,940	1,269	4,842	669	(56,456)	(201)
Acquisition of subsidiaries	38	371	-	-	-	-	814	1	-	1,186
Currency translation adjustments		827	1,259	-	1,106	700	2,648	58	143	6,741
December 31, 2017		35,935	50,635	268,318	167,417	17,440	136,160	3,677	69,102	748,684
Accumulated Depreciation and Amortization										
January 1, 2016		3,574	20,194	32,962	33,088	11,140	87,925	1,149	-	190,032
Depreciation and amortization	7, 28	252	1,839	6,049	5,010	1,192	6,744	195	-	21,281
Disposals/retirement		(22)	(438)	-	(19)	(444)	(15,772)	(266)	-	(16,961)
Reclassifications		(75)	(1,023)	(2,444)	(1)	75	(695)	(24)	-	(4,187)
Acquisition of subsidiaries	38	-	60	-	-	-	5	-	-	65
Currency translation adjustments		12	133	-	173	24	347	1	-	690
December 31, 2016		3,741	20,765	36,567	38,251	11,987	78,554	1,055	-	190,920
Depreciation and amortization	7, 28	242	1,632	7,012	5,994	869	6,773	219	-	22,741
Disposals/retirement		(147)	(383)	-	(4)	(1,058)	(2,258)	(18)	-	(3,868)
Reclassifications		(212)	171	-	29	(6)	(879)	-	-	(897)
Currency translation adjustments		39	658	-	820	416	1,841	13	-	3,787
December 31, 2017		3,663	22,843	43,579	45,090	12,208	84,031	1,269	-	212,683

Forward

	Note	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects in Progress	Total
Accumulated Impairment Losses										
January 1, 2016		P266	P2,450	P -	P -	P -	P9,897	P1	P -	P12,614
Disposals/retirement		-	-	-	-	-	(1,723)	(7)	-	(1,730)
Reclassifications		-	(6)	-	-	-	415	32	-	441
Currency translation adjustments		-	(32)	-	-	-	76	(1)	-	43
December 31, 2016		266	2,412	-	-	-	8,665	25	-	11,368
Impairment	32	-	127	-	-	-	407	-	-	534
Disposals/retirement		-	-	-	-	-	(22)	-	-	(22)
Currency translation adjustments		-	164	-	-	-	368	3	-	535
December 31, 2017		266	2,703	-	-	-	9,418	28	-	12,415
Carrying Amount										
December 31, 2016		P28,578	P23,865	P205,487	P106,818	P4,185	P40,560	P1,878	P93,340	P504,711
December 31, 2017		P32,006	P25,089	P224,739	P122,327	P5,232	P42,711	P2,380	P69,102	P523,586

“Equipment, furniture and fixtures” includes machinery, transportation equipment, tools and small equipment and office equipment.

Total depreciation, amortization and impairment losses recognized in the consolidated statements of income amounted to P23,275, P21,281, and P20,426 in 2017, 2016 and 2015, respectively (Notes 28 and 32). These amounts include annual amortization of capitalized interest amounting to P492, P488, and P128 in 2017, 2016 and 2015, respectively.

The Group has interest amounting to P1,425 and P735 which was capitalized in 2017 and 2016, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization ranged from 2.75% to 6.54% and 2% to 6.29% in 2017 and 2016, respectively. The unamortized capitalized borrowing costs amounted to P12,698 and P11,765 as of December 31, 2017 and 2016, respectively.

The combined carrying amounts of power plants and equipment under finance lease amounted to P172,739 and P177,930 as of December 31, 2017 and 2016, respectively (Notes 4 and 34).

On December 23, 2016, Petron and SPI executed the definitive agreements for the acquisition and purchase by Petron from SPI of the 140 MW Solid Fuel-Fired Power Plant located in the Petron Bataan Refinery for a total consideration of P20,030, inclusive of VAT.

15. Investment Property

The movements in investment property are as follows:

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Construction in Progress	Total
Cost					
January 1, 2016	P4,334	P972	P469	P101	P5,876
Additions	2,308	2	-	100	2,410
Reclassifications	105	209	(48)	2	268
Disposals	(24)	-	-	-	(24)
Currency translation adjustments	24	27	-	-	51
December 31, 2016	6,747	1,210	421	203	8,581
Additions	278	16	1	58	353
Reclassifications	(645)	-	-	-	(645)
Acquisition of subsidiary	707	-	-	-	707
Disposals	(586)	(123)	-	(1)	(710)
Currency translation adjustments	(3)	(3)	-	-	(6)
December 31, 2017	6,498	1,100	422	260	8,280
Accumulated Depreciation and Amortization					
January 1, 2016	141	525	456	-	1,122
Depreciation and amortization	15	21	1	-	37
Disposals and reclassifications	49	87	(36)	-	100
Currency translation adjustments	7	12	-	-	19
December 31, 2016	212	645	421	-	1,278
Depreciation and amortization	2	20	1	-	23
Reclassifications	(183)	-	-	-	(183)
Disposals	-	(5)	-	-	(5)
Currency translation adjustments	(2)	(1)	-	-	(3)
December 31, 2017	29	659	422	-	1,110
Accumulated Impairment Losses					
December 31, 2016 and 2017	8	-	-	-	8
Carrying Amount					
December 31, 2016	P6,527	P565	P -	P203	P7,295
December 31, 2017	P6,461	P441	P -	P260	P7,162

No impairment loss was recognized in 2017, 2016 and 2015.

There are no other direct selling and administrative expenses other than depreciation and amortization and real property taxes arising from investment property that generated income in 2017, 2016 and 2015.

The fair value of investment property amounting to P11,255 and P11,363 as of December 31, 2017 and 2016, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

The fair value of investment property was determined by external, independent property appraisers having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the Group's investment property on a regular basis.

Valuation Technique and Significant Unobservable Inputs

The valuation of investment property applied the following approaches below:

Cost Approach. This approach is based on the principle of substitution, which holds that an informed buyer would not pay more for a given property than the cost of an equally desirable alternative. The methodology of this approach is a set of procedures that estimate the current reproduction cost of the improvements, deducts accrued depreciation from all sources, and adds the value of investment property.

Sales Comparison Approach. The market value was determined using the Sales Comparison Approach. The comparative approach considers the sale of similar or substitute property, registered within the vicinity, and the related market data. The estimated value is established by process involving comparison. The property being valued is then compared with sales of similar property that have been transacted in the market. Listings and offerings may also be considered. The observable inputs to determine the market value of the property are the following: location characteristics, size, time element, quality and prospective use, bargaining allowance and marketability.

Income Approach. The rental value of the subject property was determined using the Income Approach. Under the Income Approach, the market value of the property is determined first, and then proper capitalization rate is applied to arrive at its rental value. The rental value of the property is determined on the basis of what a prudent lessor or a prospective lessee are willing to pay for its use and occupancy considering the prevailing rental rates of similar property and/or rate of return a prudent lessor generally expects on the return on its investment. A study of current market conditions indicates that the return on capital for similar real estate investment ranges from 3% to 5%.

16. Biological Assets

Biological assets consist of:

	<i>Note</i>	2017	2016
Current:			
Growing stocks		P2,848	P2,749
Goods in process		574	373
		3,422	3,122
Noncurrent:			
Breeding stocks - net		2,695	2,263
	4	P6,117	P5,385

The amortization of breeding stocks recognized in the consolidated statements of income amounted to P2,161, P1,947 and P1,769 in 2017, 2016 and 2015, respectively (Note 28).

Growing stocks pertain to growing broilers, hogs and cattle, while goods in process pertain to hatching eggs.

The movements in biological assets are as follows:

	Note	2017	2016
Cost			
Balance at beginning of year		P6,654	P6,590
Increase (decrease) due to:			
Production		41,012	40,974
Purchases		1,106	500
Mortality		(677)	(710)
Harvest		(38,476)	(38,880)
Retirement		(2,070)	(1,820)
Balance at end of year		7,549	6,654
Accumulated Amortization			
Balance at beginning of year		1,269	1,094
Additions	28	2,161	1,947
Retirement		(1,998)	(1,772)
Balance at end of year		1,432	1,269
Carrying Amount		P6,117	P5,385

The Group harvested approximately 523.6 million and 508.3 million kilograms of grown broilers in 2017 and 2016, respectively, and 0.59 million and 0.65 million heads of marketable hogs and cattle in 2017 and 2016, respectively.

The aggregate fair value less estimated costs to sell of agricultural produce harvested during the year, determined at the point of harvest, amounted to P42,970 and P47,016 in 2017 and 2016, respectively.

17. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of:

	2017	2016
Goodwill	P60,124	P58,113
Other intangible assets	134,438	125,165
	P194,562	P183,278

The movements in goodwill are as follows:

	Note	2017	2016
Balance at beginning of year		P58,113	P58,603
Additions	4, 5, 38	1,162	4
Impairment loss	32	-	(298)
Disposals	6	-	(734)
Cumulative translation adjustments and others		849	538
Balance at end of year	4	P60,124	P58,113

The movements in other intangible assets with indefinite useful lives are as follows:

	Note	Licenses	Trademarks and Brand Names	Total
Cost				
January 1, 2016		P25,405	P895	P26,300
Disposals	6	(23,686)	-	(23,686)
Currency translation adjustments		110	14	124
December 31, 2016		1,829	909	2,738
Additions		-	27	27
Currency translation adjustments		183	-	183
December 31, 2017		2,012	936	2,948
Accumulated Impairment Losses				
January 1, 2016		-	219	219
Currency translation adjustments		-	12	12
December 31, 2016 and 2017		-	231	231
Carrying Amount				
December 31, 2016		P1,829	P678	P2,507
December 31, 2017		P2,012	P705	P2,717

The movements in other intangible assets with finite useful lives are as follows:

		Concession Rights					Leasehold and Land Use Rights	Mineral Rights and Evaluation Assets	Computer Software and Licenses and Others	Total
	Note	Toll Road	Airport	Power	Port	Water				
Cost										
January 1, 2016		P115,316	P3,375	P543	P10,974	P -	P1,509	P1,885	P2,959	P136,561
Additions		9,318	2,178	228	1,131	756	172	-	228	14,011
Acquisition of subsidiaries	38	-	-	-	-	-	-	14	-	14
Disposals and reclassifications		(30)	21	(1)	(44)	68	123	(165)	(394)	(422)
Currency translation adjustments		(1,186)	-	-	-	-	24	-	14	(1,148)
December 31, 2016		123,418	5,574	770	12,061	824	1,828	1,734	2,807	149,016
Additions		8,528	733	122	1,700	2,114	-	-	449	13,646
Disposals and reclassifications		(47)	319	2	-	-	650	-	(20)	904
Currency translation adjustments		-	-	-	-	-	55	-	58	113
December 31, 2017		131,899	6,626	894	13,761	2,938	2,533	1,734	3,294	163,679
Accumulated Amortization										
January 1, 2016		19,403	78	36	563	-	557	-	2,036	22,673
Amortization	28	3,219	34	45	518	-	45	-	385	4,246
Disposals and reclassifications		-	(27)	-	(110)	-	12	-	(288)	(413)
Currency translation adjustments		(163)	-	-	-	-	8	-	7	(148)
December 31, 2016		22,459	85	81	971	-	622	-	2,140	26,358
Amortization	28	3,939	287	30	745	-	62	-	301	5,364
Disposals and reclassifications		(2)	-	1	-	-	183	-	(26)	156
Currency translation adjustments		-	-	-	-	-	24	-	56	80
December 31, 2017		26,396	372	112	1,716	-	891	-	2,471	31,958
Carrying Amount										
December 31, 2016		P100,959	P5,489	P689	P11,090	P824	P1,206	P1,734	P667	P122,658
December 31, 2017		P105,503	P6,254	P782	P12,045	P2,938	P1,642	P1,734	P823	P131,721

Goodwill, licenses and trademarks and brand names with indefinite lives acquired through business combinations, have been allocated to individual cash-generating units, for impairment testing as follows:

	2017		2016	
	Goodwill	Licenses, Trademarks and Brand Names	Goodwill	Licenses, Trademarks and Brand Names
Fuel and oil	P30,627	P -	P29,831	P -
Infrastructure	21,950	-	21,950	-
Packaging	3,757	-	2,542	-
Food	2,820	705	2,820	678
Beverage	909	2,012	909	1,829
Others	61	-	61	-
Total	P60,124	P2,717	P58,113	P2,507

The recoverable amount of goodwill has been determined based on fair value less costs to sell or a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. This growth rate is consistent with the long-term average growth rate for the industry. The discount rates applied to after tax cash flow projections ranged from 6% to 14% in 2017 and 2016. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. The recoverable amount of goodwill has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

No impairment loss was recognized in 2017. Impairment loss recognized in 2016 and 2015 amounted to P298 and P100, respectively (Note 32).

The recoverable amount of licenses, trademarks and brand names has been determined based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The range of the growth rates used is consistent with the long-term average growth rate for the industry. The discount rates applied to after tax cash flow projections ranged from 6.4% to 18.8% in 2017 and 2016. The recoverable amount of trademarks and brand names has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique.

Impairment loss recognized in 2015 amounted to P14 (Note 32).

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use are most sensitive to the following assumptions:

- *Gross Margins.* Gross margins are based on average values achieved in the period immediately before the budget period. These are increases over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.

- *Discount Rates.* The Group uses the weighted-average cost of capital as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.
- *Raw Material Price Inflation.* Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

18. Other Noncurrent Assets

Other noncurrent assets consist of:

	<i>Note</i>	2017	2016
Noncurrent receivables and deposits - net	34, 40, 41	P14,543	P10,068
Deferred containers - net	4	7,949	7,141
Restricted cash	40, 41	5,756	798
Noncurrent prepaid input tax		4,825	2,971
Advances to contractors and suppliers		3,696	2,947
Retirement assets	35	3,316	3,487
Noncurrent prepaid rent		2,607	2,211
Deposits on land for future development		2,089	1,968
Idle assets	4	1,248	850
Deferred exploration and development costs	4	699	694
Catalyst		503	833
Others		2,051	1,035
		P49,282	P35,003

Noncurrent receivables and deposits include amounts owed by related parties amounting to P2,138 and P3,264 as of December 31, 2017 and 2016, respectively (Note 33) and the costs related to the capitalized expenditures for the development of the MRT 7 Project amounting to P9,374 and P4,648 as of December 31, 2017 and 2016, respectively (Note 34).

Noncurrent receivables and deposits are net of allowance for impairment losses amounting to P1,021 and P460 as of December 31, 2017 and 2016, respectively.

Restricted cash represents:

- SCPC's Cash Flow Waterfall accounts (Trust Fund) with a local Trust Company, as required in its Omnibus Loan and Security Agreement (OLSA), amounting to P4,805 as of December 31, 2017;
- The amount received from the Philippine Electricity Market Corporation (PEMC), totaling P491 and P475 as of December 31, 2017 and 2016, respectively, representing the proceeds of sale to WESM of the electricity generated from the excess capacity of the Sual Power Plant for a specific period in 2016, which SMEC consigned with the Regional Trial Court of Pasig City (RTC Pasig);
- APEC's reinvestment fund for sustainable capital expenditures and contributions collected from customers for membership fees and bill deposits which are refundable amounting to P282 and P189 as of December 31, 2017 and 2016, respectively;

- iv. Cash in bank maintained by CCEC and TADHC in accordance with the specific purposes and terms as required under certain loan agreements, amounting to P177 and P134 as of December 31, 2017 and 2016, respectively.

The methods and assumptions used to estimate the fair values of noncurrent receivables and deposits and restricted cash are discussed in Note 41.

“Others” consist of marketing assistance to dealers and other noncurrent prepaid expenses.

19. Loans Payable

Loans payable consist of:

	<i>Note</i>	2017	2016
Parent Company			
Peso-denominated		P20,950	P36,850
Foreign-currency denominated		5,992	20,882
Subsidiaries			
Peso-denominated		120,283	128,017
Foreign currency-denominated		2,638	3,528
	38, 40, 41	P149,863	P189,277

Loans payable mainly represent unsecured peso and foreign currency-denominated amounts obtained from local and foreign banks. Interest rates for peso-denominated loans ranged from 2.25% to 5.75% and 2.00% to 5.75% in 2017 and 2016, respectively. Interest rates for foreign currency-denominated loans ranged from 2.3% to 9.2% and 1.51% to 11.10% in 2017 and 2016, respectively (Note 30).

Loans payable include interest-bearing amounts payable to BOC amounting to P12,486 and P11,375 as of December 31, 2017 and 2016, respectively (Note 33).

20. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	<i>Note</i>	2017	2016
Trade	34	P75,191	P58,790
Non-trade		44,096	47,647
Accrued payroll		4,613	5,242
Derivative liabilities	40, 41	3,487	2,475
Amounts owed to related parties	33	3,320	2,695
Accrued interest payable		2,772	2,768
Retention payable		1,953	521
Deferred income		1,051	804
Current portion of IRO	4	190	230
Retirement liabilities	35	182	87
Others		138	343
	40, 41	P136,993	P121,602

Trade payables are non-interest bearing and are generally on a 30 to 45-day term.

Non-trade payables include contract growers/breeders' fees, guarantee deposits, utilities, rent and other expenses payable to third parties.

"Others" include accruals for materials, repairs and maintenance, advertising, handling, contracted labor, supplies and various other payables.

The methods and assumptions used to estimate the fair value of derivative liabilities are discussed in Note 41.

21. Long-term Debt

Long-term debt consists of:

	2017	2016
Parent Company		
Peso-denominated Bonds:		
Fixed interest rate of 4.8243% and 5.1923%, 5.2840% and 5.7613% maturing in 2022, 2024 and 2027, respectively (a)	P29,693	P -
Foreign currency-denominated Term Notes:		
Fixed interest rate of 4.875% maturing in 2023 (b)	25,588	25,447
Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, with maturities in various dates through 2018 and 2019 (c)	28,851	28,603
Floating interest rate based on LIBOR plus margin, with maturities up to 2024 (d)	14,760	-
Floating interest rate based on LIBOR plus margin, maturing in 2019 (e)	4,969	-
Floating interest rate based on LIBOR plus margin (f)	-	14,034
	103,861	68,084
Subsidiaries		
Peso-denominated Bonds:		
Fixed interest rate of 4.0032% and 4.5219% maturing in 2021 and 2023, respectively (g)	19,835	19,801
Fixed interest rate of 5.375%, 6.25% and 6.625% maturing in 2022, 2024 and 2027, respectively (h)	19,785	-
Fixed interest rate of 5.93% and 6.60% maturing in 2019 and 2022, respectively (i)	16,942	19,917
Fixed interest rate of 5.50% and 6.00% maturing in 2021 and 2024, respectively (j)	14,919	14,900
Fixed interest rate of 4.3458%, 4.7575% and 5.1792% maturing in 2021, 2023 and 2026, respectively (k)	14,865	14,843
Fixed interest rate of 4.9925%, 5.5796% and 6.4872% maturing in 2020, 2022 and 2025, respectively (l)	7,232	7,223
Fixed interest rate of 10.50% maturing in 2019 (m)	2,804	2,800
Peso-denominated Term Notes:		
Fixed interest rate of 6.2836% and 6.5361% maturing up to 2029 (n)	41,222	-
Fixed interest rate of 6.52% and 6.7394% maturing up to 2021 and 2026, respectively (o)	16,332	21,340
Fixed interest rate of 6.9265% maturing up to 2024 (p)	14,857	-
Fixed interest rate of 5.5276% maturing up to 2024 (q)	14,380	-

Forward

	Note	2017	2016
Fixed interest rate of 6.50% with maturities up to 2021 (r)		P12,612	P14,097
Fixed interest rate of 6.865%, 6.9283%, 7.4817% and 8.0589% with maturities up to 2027 (s)		11,761	8,594
Fixed interest rate of 5.7584% with maturities up to 2022 (t)		9,950	-
Fixed interest rate of 6.7495%, 6.7701%, 7.165%, 7.5933% and 7.6567% with maturities up to 2025 (u)		7,017	7,419
Fixed interest rate of 5.4583% with maturities up to 2022 (v)		4,986	4,981
Fixed interest rate of 8.66150% with maturities up to 2022 (w)		3,554	5,843
Fixed interest rate of 6.3212% and 7.1827% with maturities up to 2018 and 2021, respectively (x)		3,369	3,401
Fixed interest rate of 6.6583% with maturities up to 2023 (y)		2,667	3,042
Fixed interest rate of 5.00% with maturities up to 2021 (z)		1,495	1,493
Fixed interest rate of 5.65% with maturities up to 2019 (aa)		1,050	1,650
Fixed interest rate of 7.00% (bb)		-	19,964
Floating interest rate based on PDST-R2 plus margin, with maturities up to 2022 (cc)		2,966	3,123
Floating interest rate based on PDST-R2 plus margin or Bangko Sentral ng Pilipinas (BSP) overnight rate plus margin, whichever is higher, with maturities up to 2019 (dd)		1,499	2,371
Floating interest rate based on PDST-R2 plus margin, or 5.75%, whichever is higher with maturities up to 2021 (ee)		233	299
Floating interest rate based on PDST-R2 plus margin or BSP overnight rate, whichever is higher, with maturities up to 2018 (ff)		114	229
Foreign currency-denominated Term Notes:			
Floating interest rate based on LIBOR plus margin, with maturities up to 2022 (gg)		49,185	-
Floating interest rate based on LIBOR plus margin (hh)		-	34,482
Floating interest rate based on LIBOR plus margin (ii)		-	22,891
Floating interest rate based on LIBOR plus margin (jj)		-	16,999
Floating interest rate based on LIBOR plus margin (kk)		-	6,556
Floating interest rate based on Cost of Fund (COF) plus margin (ll)		-	2,258
		295,631	260,516
	40, 41	399,492	328,600
Less current maturities		36,944	31,378
		P362,548	P297,222

- a. The amount represents the first and second tranche of the P60,000 shelf registered fixed rate bonds issued by the Parent Company amounting to P20,000 and P10,000, respectively.

The first tranche of the fixed rate bonds amounting to P20,000, consist of five-year Series A Bonds, due 2022 with an interest rate of 4.8243% per annum, seven-year Series B Bonds, due 2024 with an interest rate of 5.2840% per annum, and 10-year Series C Bonds, due 2027 with an interest rate of 5.7613% per annum. Interests are payable on March 1, June 1, September 1, and December 1 of each year.

The second tranche of the fixed rate bonds amounting to P10,000 comprise of five-year Series D Bonds, due 2022 with an interest rate of 5.1923% per annum. Interests are payable on January 7, April 7, July 7 and October 7 of each year.

Proceeds from the first and second tranches were used to partially refinance various loans.

The Bonds were listed in the Philippine Dealing & Exchange Corp. (PDEX).

Unamortized debt issue costs amounted to P307 as of December 31, 2017.

- b. The amount represents the drawdown of US\$800 Notes (the Notes) issued on April 19, 2013, from the US\$2,000 Medium Term Note (MTN) Programme of the Parent Company. The Notes were listed on the same date in the Singapore Exchange Securities Trading Ltd. (SGX-ST), with an interest rate of 4.875% per annum payable every 26th of April and October of each year.

Proceeds from the Notes were used for refinancing, working capital and general corporate purposes.

On March 19, 2015, the Parent Company announced in the SGX-ST the tender offer for the purchase of up to US\$400 of the US\$800 Notes.

On April 10, 2015, the Parent Company purchased US\$284 of the US\$400 Notes offered for purchase in the tender offer. The aggregate cash amount paid by the Parent Company based on the aggregate principal amount of the Notes repurchased is US\$278. The Parent Company recognized a gain on redemption amounting to P275 included as part of "Others" under "Other income (charges)" account in the 2015 consolidated statement of income (Note 32).

Unamortized debt issue costs amounted to P195 and P227 as of December 31, 2017 and 2016, respectively.

- c. The amount represents the drawdown on various dates, of US\$580 medium-term loans from facility agreements entered into by the Parent Company on various dates in 2016 to partially refinance the US\$1,500 long-term debt drawn in 2013.

Unamortized debt issue costs amounted to P108 and P235 as of December 31, 2017 and 2016, respectively.

- d. The amount represents the drawdown on October 24, 2017, of US\$300 medium-term loans from facility agreements entered into by the Parent Company on various dates in 2017 to refinance the US\$287 loan drawn in 2015.

Unamortized debt issue costs amounted to P219 as of December 31, 2017.

- e. The amount represents the drawdown on November 21, 2017 of US\$100 medium-term loan from the revolving facility agreement dated November 6, 2016, as amended, entered into by the Parent Company to partially repay existing indebtedness.

Unamortized debt issue costs amounted to P24 as of December 31, 2017.

- f. The amount represents the drawdown on September 8, 2015 of US\$287 from the US\$800-Term Facility of the Parent Company signed in March 2015. Proceeds from the five-year floating rate loan were used to fund the MTN Tender Offer in April 2015. The loan was prepaid on October 24, 2017.

Unamortized debt issue costs amounted to P237 as of December 31, 2016.

- g. The amount represents P20,000 fixed rate bonds issued by Petron on October 27, 2016, divided into Series A Bonds, due 2021 with an interest rate of 4.0032% per annum and Series B Bonds, due 2023 with an interest rate of 4.5219% per annum. Interests are payable on January 27, April 27, July 27 and October 27 of each year. The proceeds from the issuance were used to partially settle the US\$475 and US\$550 Term Loan, to repay short-term loans and for general corporate requirements. The Bonds were listed in the PDEX.

Unamortized debt issue costs amounted to P165 and P199 as of December 31, 2017 and 2016, respectively.

- h. The amount represents the first tranche of the P35,000 shelf registered fixed rate bonds issued by SMC Global amounting to P20,000. The first tranche consists of five-year Series D Bonds, due 2022 with an interest rate of 5.375% per annum, seven-year Series E Bonds, due 2024 with an interest rate of 6.25% per annum, and 10-year Series F Bonds, due 2027 with an interest rate of 6.625% per annum. Interests are payable on March 22, June 22, September 22 and December 22 of each year.

Proceeds from the first tranche were used to refinance its P20,000 short-term loans. The Bonds were listed in the PDEX.

Unamortized debt issue costs amounted to P215 as of December 31, 2017.

- i. The amount represents P20,000 fixed rate bonds issued by SMB on April 2, 2012, divided into Series D Bonds, due 2017 with an interest rate of 6.05% per annum, Series E Bonds, due 2019 with an interest rate of 5.93% per annum and Series F Bonds, due 2022 with an interest rate of 6.60% per annum. Interests are payable on April 2 and October 2 of each year.

The proceeds from the issuance were used to refinance SMB's existing financial indebtedness and for general working capital purposes. The Bonds were listed in the PDEX.

The Series D Bonds with an aggregate principal of P3,000 matured on April 2, 2017 and was accordingly redeemed by SMB on the same date.

Unamortized debt issue costs amounted to P58 and P83 as of December 31, 2017 and 2016, respectively.

- j. The amount represents P15,000 fixed rate bonds issued by SMB on April 2, 2014, divided into Series G Bonds, due 2021 with an interest rate of 5.50% per annum and Series H Bonds, due 2024 with an interest rate of 6.00% per annum. Interests are payable on April 2 and October 2 of each year.

Proceeds from the Series G and Series H issuance were used to partially refinance the redemption of its Series B Bonds. The Bonds were listed on the PDEX.

Unamortized debt issue costs amounted to P81 and P100 as of December 31, 2017 and 2016, respectively.

- k. The amount represents P15,000 fixed rate bonds issued by SMC Global on July 11, 2016, divided into Series A Bonds, due 2021 with an interest rate of 4.3458% per annum, Series B Bonds, due 2023 with an interest rate of 4.7575% per annum and Series C Bonds, due 2026 with an interest rate of 5.1792% per annum. Interests are payable on January 11, April 11, July 11 and October 11 of each year.

Proceeds from the issuance were used to refinance the US\$300 short-term loan that matured on July 25, 2016. The Bonds were listed on the PDEX.

Unamortized debt issue costs amounted to P135 and P157 as of December 31, 2017 and 2016, respectively.

- l. The amount represents P7,300 fixed rate bonds issued by SLTC on May 22, 2015, divided into Series A Bond, due 2020 with an interest rate of 4.9925% per annum, Series B Bonds, due 2022 with an interest rate of 5.5796% per annum and Series C Bonds, due 2025 with an interest rate of 6.4872% per annum. Interests are payable on February 22, May 22, August 22 and November 22 of each year.

The proceeds from the issuance were used to prepay its peso-denominated Corporate Notes drawn in 2012. The Bonds were listed on the PDEX.

Unamortized debt issue costs amounted to P68 and P77 as of December 31, 2017 and 2016, respectively.

- m. The amount represents P2,810 Series C fixed rate bonds issued by SMB on April 3, 2009 with an interest rate of 10.50% per annum. The Series C Bonds was part of the P38,800 fixed rate bonds of SMB. Interests are payable on April 3 and November 3 of each year.

The proceeds from the issuance were used to finance SMB's acquisition of the interest of the Parent Company in IBI and BPI. The Bonds were listed on the PDEX.

Unamortized debt issue costs amounted to P6 and P10 as of December 31, 2017 and 2016, respectively.

- n. The amount represents the drawdown of the Tranche A and Tranche B by SCPC on June 28, 2017 amounting to P42,000, from the P44,000 OLSA dated June 22, 2017 with various banks.

Proceeds from the loan were used for the settlement of the US\$360 short-term loan, acquisition of the 2x150 MW Limay Coal-fired Power Plant in Limay, Bataan from LPPC, also a wholly-owned subsidiary of SMC Global, repayment of shareholder advances and financing of transaction costs relating to the OLSA. The loan is payable in 46 unequal quarterly installments commencing on the 9th month from initial advance for Tranche A and 36 unequal quarterly installments commencing on the 39th month from initial advance for Tranche B. Final repayment date is 12 years from initial advance.

The loan is subject to repricing on the seventh year from the date of initial advance.

Unamortized debt issue costs amounted to P778 as of December 31, 2017.

- o. The amount in 2016 includes the P4,778 balance of the P14,500 Corporate Notes Facility entered into by AAIPC with various banks. Proceeds of the loan were used to finance the acquisition of the shares of stock of CMMTC. The loan is payable semi-annually until September 27, 2020.

On March 14, 2016, AAIPC entered into another Corporate Notes Facility Agreement with various banks amounting to P16,700 to finance the acquisition of the shares of stock of S3HC. The loan is payable semi-annually until March 2026.

The drawdown includes payable to BOC amounting to P1,100 and P1,767 as of December 31, 2017 and 2016, respectively (Note 33).

Payments made in 2017 amounted to P5,068.

Unamortized debt issue costs amounted to P219 and P279 as of December 31, 2017 and 2016, respectively.

- p. The amount represents the drawdown by SMC Global on April 26, 2017 amounting to P15,000 from its term loan facility. The loan is amortized over seven years and is subject to a fixed interest rate of 6.9265% per annum, payable quarterly. The proceeds were used to prepay the remaining US\$300 out of the US\$700 five-year term loan drawn in 2013.

Unamortized debt issue costs amounted to P143 as of December 31, 2017.

- q. The amount represents the drawdown by Petron on July 25, 2017 amounting to P15,000 from its term loan facility. The loan is amortized over seven years and is subject to a fixed interest rate of 5.5276% per annum payable quarterly. The proceeds were used to refinance the short-term loan availed on December 23, 2016.

Petron paid P535 on October 25, 2017.

Unamortized debt issue costs amounted to P85 as of December 31, 2017.

- r. The amount represents series of drawdowns by PIDC from the P15,140 OLSA dated June 2, 2011, as amended, to finance the design, construction, operation, maintenance and implementation of the widening of Phase 1 and Phase 2 of TPLEX. The loan is payable in 24 unequal quarterly installments commencing on the 51st month from the initial borrowing dates, inclusive of not more than four-year grace period. Final repayment date is 10 years after initial borrowing.

The loan is subject to repricing on the fifth year from the date of initial drawdown.

PIDC paid P1,514, P757 and P189 as partial settlement of the loan principal in 2017, 2016 and 2015, respectively.

Unamortized debt issue costs amounted to P68 and P97 as of December 31, 2017 and 2016, respectively.

- s. The amount represents the P3,200 and P8,700 loan drawn by CCEC in 2017 and 2015, respectively, from the P31,000 OLSA dated December 15, 2014. Proceeds of the loan were used to partially finance the design, construction and the operation and maintenance of the Stage 3 of Metro Manila Skyway Project. The loan is payable in 35 unequal consecutive quarterly installments commencing on the period ending the earlier of 55 months from initial drawdown date or 3 months after the date of the issuance by the Toll Regulatory Board of the Toll Operations Certificate. Final repayment date is 12 years after initial drawdown date.

The loan is subject to repricing on the seventh year from date of initial drawdown.

The drawdown includes payable to BOC amounting to P1,420 and P1,038 as of December 31, 2017 and 2016, respectively (Note 33).

Unamortized debt issue costs amounted to P139 and P106 as of December 31, 2017 and 2016, respectively.

- t. The amount represents the drawdown by Petron on December 29, 2017 amounting to P10,000 from its term loan facility. The loan is amortized over five years and is subject to a fixed interest rate of 5.7584% per annum payable quarterly. The proceeds were used to finance permanent working capital requirements.

Unamortized debt issue costs amounted to P50 as of December 31, 2017.

- u. The amount represents the remaining balance of the P1,100 and P6,400 loans drawn by Vertex in 2016 and 2015, respectively, from the P7,500 OLSA dated July 8, 2014. Proceeds of the loan were used to finance the ongoing construction of the NAIA Expressway. The loan is payable in 32 unequal consecutive quarterly installments commencing on the period ending the earlier of 24 months from initial drawdown date or the date of the issuance by the Toll Regulatory Board of the Toll Operations Certificate. Final repayment date is 10 years after initial drawdown date.

The drawdown includes payable to BOC amounting to P1,889 and P2,000 as of December 31, 2017 and 2016, respectively (Note 33).

Unamortized debt issue costs amounted to P65 and P81 as of December 31, 2017 and 2016, respectively.

- v. The amount represents the drawdown by Petron on October 13, 2015 amounting to P5,000 from its term loan facility. The loan is amortized over seven years with a two-year grace period and is subject to a fixed interest rate of 5.4583% per annum payable quarterly. The proceeds were used to repay currently maturing obligations and for general corporate requirements.

Unamortized debt issue costs amounted to P14 and P19 as of December 31, 2017 and 2016 respectively.

- w. The amount represents the remaining balance of the P11,500 Corporate Notes Facility with various banks, drawn by MTDME in 2012. Proceeds of the loan were used to refinance the Holding Company Facility Agreement entered into by AAIBV amounting to US\$250 in which MTDME was a replacement borrower. The loan is payable semi-annually until 2022.

The drawdown includes payable to BOC amounting to P547 and P902 as of December 31, 2017 and 2016, respectively (Note 33).

Unamortized debt issue costs amounted to P42 and P87 as of December 31, 2017 and 2016, respectively.

- x. The amount represents Fixed Rate Corporate Notes (FXCN) issued by Petron in 2011 consisting of Series A Notes amounting to P690 having a maturity of up to seven years from the issue date and Series B Notes amounting to P2,910 having a maturity of up to 10 years from the issue date. The FXCNs are subject to fixed interest coupons of 6.3212% per annum for the Series A Notes and 7.1827% per annum for the Series B Notes. The net proceeds from the issuance were used for general corporate requirements. Payments made as of December 31, 2017 and 2016 amounted to P215 and P181, respectively.

Unamortized debt issue costs amounted to P16 and P18 as of December 31, 2017 and 2016, respectively.

- y. The amount represents the P3,500 loan facility with local banks, entered into by SIDC in 2013. The proceeds of the loan were used to refinance its existing debt and to finance the construction and development of Stage II, Phase II of the STAR Project. Repayment period is within 32 unequal consecutive quarterly installments on each repayment date in accordance with the agreement beginning on the earlier of (i) the 27th month from initial drawdown date or (ii) the third month from the date of receipt by SIDC of the financial completion certificate for the Project.

Unamortized debt issue costs amounted to P18 and P24 as of December 31, 2017 and 2016, respectively.

- z. The amount represents drawdown by SMCSLC in 2011, from a local bank, which was used for working capital requirements. The said loan was rolled-over for five years in July 2016.

Unamortized debt issue costs amounted to P5 and P7 as of December 31, 2017 and 2016, respectively.

- aa. The amount represents the P3,000 loan facility of MNHPI with local banks, which was fully drawn in 2013. The loan is payable within seven years in equal quarterly installments up to 2019. Proceeds of the loan were used to finance the modernization, development and maintenance of MNHPI.

The drawdown includes payable to BOC amounting to P403 and P633 as of December 31, 2017 and 2016, respectively (Note 33).

- bb. The amount represents P20,000 notes issued by Petron in 2010. The notes bear interest of 7% per annum, payable in arrears every 10th of May and November of each year. The notes matured and were repaid on November 10, 2017. The principal and interest were translated into and paid in US dollar based on the average representative market rate at the applicable rate calculation date at the time of each payment.

Unamortized debt issue costs amounted to P36 as of December 31, 2016.

- cc. The amount represents series of drawdowns in 2014 and 2013, from a loan agreement entered into by TADHC with BOC amounting to P3,300, used for financing the Airport Project. The loan is payable in 28 quarterly installments commencing on the 12th quarter. TADHC paid P159, P56 and P111 as partial settlement of the loan principal in 2017, 2016 and 2015, respectively (Note 33).

Unamortized debt issue costs amounted to P8 and P10 as of December 31, 2017 and 2016, respectively.

- dd. The amount represents drawdown from the loan agreement entered into by SMYPC with BOC in October 2012 amounting to P3,500 and maturing on October 11, 2019. The proceeds of the loan were used for general financing and corporate requirements. SMYPC paid P875 in 2017 and 2016, and P250 in 2014 as partial settlement of the loan principal (Note 33).

Unamortized debt issue costs amounted to P1 and P4 as of December 31, 2017 and 2016, respectively.

- ee. The amount represents the seven-year bank loan obtained by CAI from BOC in April 2014 amounting to P350. The loan was obtained for capital expenditure purposes. CAI paid P67 and P50 as partial settlement of the loan principal in 2017 and 2016, respectively (Note 33).

Unamortized debt issue costs amounted to P1 as of December 31, 2016.

- ff. The amount represents EPSBPI's unsecured loan used to finance the construction of its bottling facilities. The loan is payable in equal quarterly installments starting February 18, 2012, bearing an interest rate equivalent to the higher of benchmark rate (three-month PDST-R2 rate) plus a spread or the overnight rate (BSP overnight reverse repo rate on interest rate settling date).

- gg. The amount represents the drawdown of US\$600 and US\$400 by Petron on June 28, 2017 and October 10, 2017, respectively, from its US\$1,000 term loan facility, which was signed and executed on June 16, 2017. The loan is subject to a floating interest rate plus spread and is amortized over five years with a two-year grace period. The proceeds were used to fully pay the outstanding balances of US\$115 and US\$470 under the US\$475 and US\$550 term loan facilities, respectively, and to settle the P20,000 notes which matured on November 10, 2017.

Unamortized debt issue costs amounted to P745 as of December 31, 2017.

- hh. The amount represents SMC Global's drawdown of US\$500 from the US\$650, five-year term loan with a syndicate of banks signed on September 9, 2013. The loan proceeds were used by SMC Global to refinance the existing US\$200 three-year term loan and to finance new investments in power-related assets. On November 15, 2013, the US\$650 facility agreement was amended to increase the facility amount to US\$700.

On March 6, 2015, SMC Global made the final drawdown of US\$200 for the financing of ongoing construction of power plants in Davao and Limay, investments in power-related assets and for general corporate purposes.

On March 31 and August 31, 2017, SMC Global prepaid US\$400 out of the US\$700 term loan. The prepayment was funded by a US\$200 short-term bridge financing loan availed on March 30 and August 30, 2017.

On April 26, 2017, SMC Global prepaid the remaining balance of US\$300 out of the US\$700 term loan, by availing of a P15,000 fixed-rate, seven-year term loan from a local bank to minimize exposure to foreign exchange losses brought by the continuing peso depreciation against the US dollar.

Unamortized debt issue costs amounted to P322 as of December 31, 2016.

- ii. The amount represents the US\$550 loan drawn by Petron on July 29, 2015, from a US\$550 refinancing facility which was signed and executed on July 20, 2015. The facility is amortized over five years with a two-year grace period and is subject to a floating interest rate plus a fixed spread. The proceeds were used to pay in full the remaining outstanding balances of approximately US\$206 and US\$345 under the US\$480 and US\$485 term loan facilities, respectively. On November 11, 2015, Petron completed the syndication of the new facility with 29 banks. On October 28, 2016 and June 28, 2017, Petron made partial and full payments amounting to US\$80 and US\$470, respectively.

Unamortized debt issue costs amounted to P477 as of December 31, 2016.

- jj. The amount represents the US\$400 loan facility entered into by SCPC on December 29, 2015. The loan is payable within seven years up to 2022. Series of drawdowns were made in 2016 for a total of US\$359. On May 9, 2017, SCPC paid the total amount of US\$359.

The drawdown includes payable to BOC amounting to P2,680 as of December 31, 2016 (Note 33).

Unamortized debt issue costs amounted to P867 as of December 31, 2016.

- kk. The amount represents the US\$300 loan facility signed and executed by Petron on May 14, 2014. The facility is amortized over five years with a two-year grace period and is subject to a floating interest rate plus a fixed spread. The total amount was drawn in 2014 and the proceeds were used to refinance existing debt and for general corporate purposes. On September 29, 2014, Petron completed the syndication of the facility, raising the facility amount to US\$475. Drawdowns related to the additional US\$175 were made on October 24 and November 6, 2014. Amortization in seven equal amounts started in May 2016, with final amortization due in May 2019. In 2015 and 2016, Petron made partial payments amounting to US\$135 and US\$205, respectively. On various dates in 2017, Petron made partial payments amounting to US\$135 to fully pay the loan facility.

Unamortized debt issue costs amounted to P156 as of December 31, 2016.

- ll. The amount represents the Malaysian Ringgit (MYR) 300 loans availed by Petron Malaysia in 2014. Proceeds from the loans were used to finance the refurbishment of the retail stations in Malaysia. All loans bear an interest rate of COF plus margin. Petron Malaysia paid MYR96 in 2016. All the remaining balances of the loans were prepaid on various dates in 2017.

Unamortized debt issue costs amounted to P9 as of December 31, 2016.

The gross amount of long-term debt payable to BOC amounted to P10,066 and P14,828 as of December 31, 2017 and 2016, respectively (Note 33).

The debt agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements, restrictions on loans and guarantees, disposal of a substantial portion of assets, significant changes in the ownership or control of subsidiaries, payments of dividends and redemption of capital stock.

The Group is in compliance with the covenants of the debt agreements or obtained the necessary waivers as of December 31, 2017 and 2016.

The movements in debt issue costs are as follows:

	Note	2017	2016
Balance at beginning of year		P3,925	P4,400
Additions		2,807	1,835
Amortization	30	(2,778)	(2,174)
Reclassification, capitalized and others		23	(136)
Balance at end of year		P3,977	P3,925

Repayment Schedule

The annual maturities of long-term debt are as follows:

Year	Gross Amount	Debt Issue Costs	Net
2018	P37,266	P322	P36,944
2019	53,476	1,039	52,437
2020	36,663	709	35,954
2021	65,326	624	64,702
2022 and thereafter	210,738	1,283	209,455
Total	P403,469	P3,977	P399,492

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 40.

22. Other Noncurrent Liabilities

Other noncurrent liabilities consist of:

	Note	2017	2016
Retirement liabilities	35	P8,783	P7,153
Amounts owed to related parties	33	6,975	6,759
ARO	4	2,838	2,324
Obligation to ROP - service concession agreement	4, 17, 34	2,444	2,427
IRO	4	806	789
Cylinder deposits		577	499
Cash bonds		400	387
Concession liabilities		100	103
Redeemable preferred shares	4	17	16
Others		2,640	1,679
	40, 41	P25,580	P22,136

Redeemable Preferred Shares. These represent the preferred shares of TADHC issued in 2010. The preferred shares are cumulative, non-voting, redeemable and with liquidation preference. The shares are preferred as to dividends, which are given in the form of coupons, at the rate of 90% of the applicable base rate (i.e., one year PDST-R2). The dividends are cumulative from and after the date of issue of the preferred shares, whether or not in any period the amount is covered by available unrestricted retained earnings.

The preferred shares will be mandatorily redeemed at the end of the 10-year period from and after the issuance of the preferred shares by paying the principal amount, plus all unpaid coupons (at the sole option of TADHC, the preferred shares may be redeemed earlier in whole or in part).

In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of TADHC, the holders of the preferred shares are entitled to be paid in full, an amount equivalent to the issue price of such preferred shares plus all accumulated and unpaid dividends up to the current dividend period or proportionately to the extent of the remaining assets of TADHC, before any assets of TADHC will be paid or distributed to the holders of the common shares.

“Others” include amounts owed to a supplier for the purchase of equipment.

23. Income Taxes

Deferred tax assets and liabilities arise from the following:

	2017	2016
Allowance for impairment losses on trade and other receivables and inventory	P4,779	P4,757
MCIT	118	227
NOLCO	2,013	2,146
Undistributed net earnings of foreign subsidiaries	(1,025)	(898)
Unrealized intercompany charges and others	(8,147)	(3,194)
	(P2,262)	P3,038

The above amounts are reported in the consolidated statements of financial position as follows:

	Note	2017	2016
Deferred tax assets	4	P18,412	P20,267
Deferred tax liabilities		(20,674)	(17,229)
		(P2,262)	P3,038

The movements of deferred tax assets and liabilities are accounted for as follows:

	2017	2016
Balance at beginning of year	P3,038	P1,112
Amounts recognized in profit or loss	(5,859)	2,476
Amounts recognized in OCI	507	(1,070)
Cumulative translation adjustment and others	48	366
Acquisition of subsidiaries	4	-
Discontinued operations	-	154
	(P2,262)	P3,038

As of December 31, 2017, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
2016	December 31, 2019	P6,491	P79
2017	December 31, 2020	220	39
		P6,711	P118

The components of income tax expense are shown below:

	2017	2016	2015
Current	P20,510	P19,529	P14,829
Deferred	5,859	(2,476)	1,952
	P26,369	P17,053	P16,781

The reconciliation between the statutory income tax rate on income from continuing operations before income tax and the Group's effective income tax rate is as follows:

	2017	2016	2015
Statutory income tax rate	30.00%	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subject to final tax	(1.67%)	(1.93%)	(2.82%)
Equity in net losses (earnings) of associates and joint ventures	(0.11%)	(0.11%)	0.08%
Loss (gain) on sale of investments subject to final or capital gains tax	(0.32%)	(0.08%)	0.05%
Others, mainly income subject to different tax rates - net	4.58%	1.79%	9.48%
Effective income tax rate	32.48%	29.67%	36.79%

24. Equity

a. Amendments to the Articles of Incorporation

On July 23, 2009, during the annual stockholders' meeting of the Parent Company, the stockholders approved the amendments to the Articles of Incorporation for the declassification of the common shares of the Parent Company. The authorized capital stock of the Parent Company amounting to P22,500 was divided into 2,034,000,000 Class "A" common shares, 1,356,000,000 Class "B" common shares with a par value of P5.00 per share and 1,110,000,000 Series "1" preferred shares with a par value of P5.00 per share, and defined the terms and features of the Series "1" preferred shares. The SEC approved the amendments to the Amended Articles of Incorporation of the Parent Company on August 20, 2009.

During the April 18, 2012 and June 14, 2012 meetings of the BOD and stockholders of the Parent Company, respectively, the BOD and stockholders approved the amendments to the Articles of Incorporation of the Parent Company, to increase the authorized capital stock of the Parent Company from P22,500 to P30,000 as follows: (a) the increase in the number of the common shares from 3,390,000,000 common shares to 3,790,000,000, or an increase of 400,000,000 common shares; and (b) the creation and issuance of 1,100,000,000 Series “2” preferred shares with a par value of P5.00 per share.

On September 21, 2012, the SEC approved the amendment to the Articles of Incorporation of the Parent Company to increase the authorized capital stock, and consequently creating the Series “2” preferred shares.

On June 9, 2015, during the annual stockholders meeting of the Parent Company, the stockholders approved the amendment to Article VII of the Amended Articles of Incorporation of the Parent Company to reclassify 810,000,000 Series “1” preferred shares to Series “2” preferred shares, consisting of 691,099,686 Series “1” preferred treasury shares to Series “2” preferred treasury shares and 118,900,314 Series “1” preferred unissued shares to Series “2” preferred unissued shares. With the approved reclassification, the resulting distribution of the preferred shares of the Parent Company was 300,000,000 for Series “1” preferred shares and 1,910,000,000 for Series “2” preferred shares. The stockholders also approved the issuance of the Series “2” preferred shares subject to the passage of Enabling Resolutions containing the details of the terms and conditions of the issuance.

The amendment to Article VII of the Amended Articles of Incorporation of the Parent Company to reclassify 810,000,000 Series “1” preferred shares to Series “2” preferred shares was approved by the SEC on July 14, 2015.

b. Capital Stock

Common Shares

On July 27, 2010, the BOD of the Parent Company approved the offer to issue approximately 1,000,000,000 common shares (from unissued capital stock and treasury shares) at a price of not less than P75.00 per share.

Effective August 26, 2010, all Class “A” common shares and Class “B” common shares of the Parent Company were declassified and are considered as common shares without distinction, as approved by the SEC. Both are available to foreign investors, subject to the foreign ownership limit.

The Parent Company has a total of 35,541 and 36,426 common stockholders as of December 31, 2017 and 2016, respectively.

The movements in the number of issued and outstanding shares of common stock are as follows:

	<i>Note</i>	2017	2016	2015
Issued and outstanding shares at beginning of year		3,284,960,787	3,283,277,515	3,282,897,671
Issuances during the year	39	2,057,465	1,683,272	379,844
Issued shares at end of year		3,287,018,252	3,284,960,787	3,283,277,515
Less treasury shares		904,752,537	904,752,537	904,752,537
Issued and outstanding shares at end of year		2,382,265,715	2,380,208,250	2,378,524,978

Preferred Shares

i. Series "1" Preferred Shares

Series "1" preferred shares have a par value of P5.00 per share and are entitled to receive cash dividends upon declaration by and at the sole option of the BOD of the Parent Company at a fixed rate of 8% per annum calculated in respect of each Series "1" preferred share by reference to the Issue Price thereof in respect of each dividend period.

Series "1" preferred shares are non-voting except as provided for under the Corporation Code. The Series "1" preferred shares are redeemable in whole or in part, at the sole option of the Parent Company, at the end of three years from the issue date at P75.00 plus any accumulated and unpaid cash dividends.

All shares rank equally with regard to the residual assets of the Parent Company, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

On July 23, 2009, the stockholders of the Parent Company approved the Offer by the Parent Company to exchange existing common shares of up to approximately 35% of the issued and outstanding capital stock of the Parent Company with Series "1" preferred shares. The exchange ratio was one common share for one Series "1" preferred share and the qualified shareholders of record as of July 2, 2009, were vested with the right to participate on the exchange.

On October 5, 2009, the Parent Company completed the exchange of 476,296,752 Class "A" common shares and 396,876,601 Class "B" common shares for Series "1" preferred shares.

On October 15, 2009, the BOD of the Parent Company approved the issuance, through private placement, of up to 226,800,000 Series "1" preferred shares.

On December 22, 2009, the Parent Company issued 97,333,000 Series "1" preferred shares to qualified buyers and by way of private placement to not more than 19 non-qualified buyers at the issue price of P75.00 per Series "1" preferred share.

On December 8, 2010 and October 3, 2011, the Parent Company listed 873,173,353 and 97,333,000 Series "1" preferred shares worth P65,488 and P7,300, respectively.

On August 13, 2012, the BOD of the Parent Company approved the redemption of Series "1" preferred shares at a redemption price of P75.00 per share.

On October 5, 2012, 970,506,353 Series "1" preferred shares were reverted to treasury.

On April 14, 2015, the Parent Company reissued 279,406,667 Series "1" preferred shares held in treasury in the name of certain subscribers at P75.00 per share. The Series "1" preferred shares became tradable at the PSE beginning June 10, 2015.

The Parent Company has 279,406,667 outstanding Series "1" preferred shares held by three stockholders as of December 31, 2017 and 2016.

ii. Series "2" Preferred Shares

Subseries 2-A, 2-B and 2-C

In September 2012, the Parent Company issued 1,067,000,000 Series "2" preferred shares at the issue price of P75.00 per share. The said Series "2" preferred shares worth P80,025 were listed at the PSE on September 28, 2012. The SEC approved the registration and issued a permit to sell on August 10, 2012.

The Series "2" preferred shares were issued in three subseries (Subseries "2-A", Subseries "2-B" and Subseries "2-C") and are peso-denominated, perpetual, cumulative, non-participating and non-voting.

The Parent Company has the redemption option starting on the third, fifth and seventh year and every dividend payment thereafter, with a "step-up" rate effective on the 5th, 7th and 10th year, respectively, if the shares are not redeemed. Dividend rates are 7.500%, 7.625%, 8.000% per annum for Subseries "2-A", "2-B" and "2-C", respectively.

Subseries 2-D, 2-E and 2-F

On September 21, 2015, the Parent Company issued and listed in the PSE 446,667,000 Series "2" preferred shares held in treasury in three subseries (Subseries "2-D", Subseries "2-E" and Subseries "2-F") and are peso-denominated, perpetual, cumulative, non-participating and non-voting. Dividend rates are 5.9431%, 6.3255% and 6.8072% per annum for Subseries "2-D", "2-E" and "2-F", respectively. The SEC approved the registration and issued a permit to sell on August 6, 2015.

On September 21, 2015, the Parent Company redeemed its 721,012,400 Series "2" preferred shares - Subseries "2-A" at a redemption price of P75.00 per share plus any unpaid cash dividends. The Parent Company paid P54,076 to the holders of Subseries "2-A" preferred shares. A portion of the amount used to pay to redeem the holders of the Subseries "2-A" preferred shares came from the entire proceeds from the issuance of the 446,667,000 Series "2-D", "2-E" and "2-F" preferred shares amounting to P33,500.

Subseries 2-G, 2-H and 2-I

On February 24, 2016, the BOD of PSE approved the listing application of the Parent Company of up to 975,571,800 shares of Series "2" preferred shares under shelf registration (the Shelf Registered Shares) and the offering of up to 400,000,000 shares of Series "2" preferred shares (the First Tranche) with a par value of P5.00 per share and an offer price of P75.00 per share. The SEC approved the Shelf Registered Shares and issued a permit to sell on March 8, 2016.

The Parent Company offered the “First Tranche” of up to: (i) 280,000,000 shares of Series “2” preferred shares consisting of Subseries “2-G”, “2-H” and “2-I” and (ii) 120,000,000 shares of Series “2” preferred shares to cover the oversubscription option. The First Tranche was re-issued and offered from the Series “2” preferred shares Subseries held in treasury. The offer period was from March 14 to March 18, 2016. The First Tranche was issued on March 30, 2016 which was also the listing date of the Shelf Registered Shares.

The remaining 575,571,800 Shelf Registered Shares will be issued within a period of three years. The offer shares shall be issued from the remaining Series “2” preferred shares Subseries “2-A” held in treasury and unissued Series “2” preferred shares.

Dividend rates are 6.5793%, 6.3222% and 6.3355% per annum for Subseries “2-G”, “2-H” and “2-I”, respectively.

Following the completion of the Parent Company’s follow-on offering of 280,000,000 Series “2” preferred shares, with an oversubscription option of 120,000,000 Series “2” preferred shares, the Parent Company re-issued the Series “2” preferred shares held in treasury, as follows: (i) 244,432,686 Series “2” preferred shares; and (ii) 155,567,314 Subseries “2-A” preferred shares (collectively, the “Offer Shares”). The Series “2” preferred shares were Series “1” preferred shares held in treasury that were reclassified to Series “2” preferred shares on June 9, 2015.

After reissuance of the Offer Shares on March 30, 2016, the Parent Company has a remaining 565,445,086 Subseries “2-A” preferred shares held in treasury. There are no more Series “2” preferred shares held in treasury.

The Parent Company has 1,192,654,600 outstanding Series “2” preferred shares and has a total of 1,142 preferred stockholders as of December 31, 2017.

The Parent Company has 1,192,654,600 outstanding Series “2” preferred shares and has a total of 1,334 preferred stockholders as of December 31, 2016.

c. Treasury Shares

Treasury shares consist of:

	2017	2016	2015
Common	P67,093	P67,093	P67,093
Preferred	42,408	42,408	72,408
	P109,501	P109,501	P139,501

Common Shares

The Parent Company has 904,752,537 common shares held in treasury as of December 31, 2017, 2016 and 2015.

1. A portion of the total treasury shares of the Parent Company came from 25,450,000 common shares with an acquisition cost of P481, [net of the cost of the 1,000,000 shares paid to the Presidential Commission on Good Government (PCGG) as arbitral fee pursuant to the Compromise Agreement, as herein defined] which were reverted to treasury in 1991 upon implementation of the Compromise Agreement and Amicable Settlement (Compromise Agreement) executed by the Parent Company with the United Coconut Planters Bank (UCPB) and the Coconut Industry Investment Fund (CIIF) Holding Companies in connection with the purchase of the common shares of the Parent Company under an agreement executed on March 26, 1986.

Certain parties have opposed the Compromise Agreement. The right of such parties to oppose, as well as the propriety of their opposition, has been the subject matters of cases before the Sandiganbayan and the Supreme Court.

On September 14, 2000, the Supreme Court upheld a Sandiganbayan Resolution requiring the Parent Company to deliver the 25,450,000 common shares that were reverted to treasury in 1991 to the PCGG and to pay the corresponding dividends on the said shares (the "Sandiganbayan Resolution").

On October 10, 2000, the Parent Company filed a motion for reconsideration with the Supreme Court to be allowed to comply with the delivery and payment of the dividends on the treasury shares only in the event that another party, other than the Parent Company, is declared owner of the said shares in the case for forfeiture (Civil Case) filed by the Philippine government (Government).

On April 17, 2001, the Supreme Court denied the motion for reconsideration.

On September 19, 2003, the PCGG wrote the Parent Company to deliver to the PCGG the stock certificates and cash and stock dividends under the Sandiganbayan Resolution upheld by the Supreme Court. The Parent Company referred the matter to its external financial advisor and external legal counsel for due diligence and advice. The external financial advisor presented to the BOD on December 4, 2003 the financial impact of compliance with the resolution considering "with and without due compensation" scenarios, and applying different rates of return to the original amount paid by the Parent Company. The financial advisor stated that if the Parent Company is not compensated for the conversion of the treasury shares, there will be: (a) a negative one-off EPS impact in 2003 of approximately 17.5%; (b) net debt increase of approximately P2,100; and (c) a negative EPS impact of 6.9% in 2004. The external legal counsel at the same meeting advised the BOD that, among others, the facts reviewed showed that: (a) the compromise shares had not been validly sequestered; (b) no timely direct action was filed to nullify the transaction; (c) no rescission can be effected without a return of consideration; and (d) more importantly, requiring the Parent Company to deliver what it acquired from the sellers without a substantive ground to justify it, and a direct action in which the Parent Company is accorded full

opportunity to defend its rights, would appear contrary to its basic property and due process rights. The external legal counsel concluded that the Parent Company has “legal and equitable grounds to challenge the enforcement” of the Sandiganbayan Resolution.

On January 29, 2004, the external legal counsel made the additional recommendation that the Parent Company should file a Complaint-in-Intervention in the Civil Case (now particularly identified as SB Civil Case No. 0033-F), the forfeiture case brought by the Government involving the so-called CIIF block of the Parent Company shares of stock of which the treasury shares were no longer a portion. The Complaint-in-Intervention would pray that any judgment in the Civil Case forfeiting the CIIF block of the Parent Company shares of stock should exclude the treasury shares.

At its January 29, 2004 meeting, the BOD of the Parent Company unanimously decided to: (a) deny the PCGG demand of September 19, 2003, and (b) authorize the filing of the Complaint-in-Intervention. Accordingly, the external legal counsel informed the PCGG of the decision of the Parent Company and the Complaint-in-Intervention was filed in the Civil Case.

In a Resolution dated May 6, 2004, the Sandiganbayan denied the Complaint-in-Intervention. The external legal counsel filed a Motion for Reconsideration, which was denied by the Sandiganbayan in its Decision dated November 28, 2007.

The external legal counsel advised that because the Sandiganbayan had disallowed the Parent Company’s intervention, the Sandiganbayan’s disposition of the so-called CIIF block of the Parent Company shares in favor of the Government cannot bind the Parent Company, and that the Parent Company remains entitled to seek the nullity of that disposition should it be claimed to include the treasury shares.

The external legal counsel also advised that the Government has, in its own court submissions: (i) recognized the Parent Company’s right to the treasury shares on the basis that the Compromise Agreement is valid and binding on the parties thereto; and (ii) taken the position that the Parent Company and UCPB had already implemented the Compromise Agreement voluntarily, and that the PCGG had conformed to the Agreement and its implementation. The Executive Committee of the Parent Company approved the recommendation of external legal counsel on January 18, 2008 which was ratified by the BOD on March 6, 2008.

On July 23, 2009, the stockholders of the Parent Company approved the amendment of the Articles of Incorporation to issue Series “1” preferred shares, and the offer to exchange common shares to Series “1” preferred shares. The PCGG, with the approval of the Supreme Court in its Resolution dated September 17, 2009, converted the sequestered common shares in the Parent Company in the name of the CIIF Holding Companies, equivalent to 24% of the outstanding capital stock, into Series “1” preferred shares.

On February 11, 2010, the Supreme Court, amending its Resolution dated September 17, 2009, authorized the PCGG to exercise discretion in depositing in escrow, the net dividend earnings on, and/or redemption proceeds from, the Series “1” preferred shares of the Parent Company, either with the Development Bank of the Philippines/Land Bank of the Philippines or with the UCPB. All dividends accruing to the Series “1” preferred shares are remitted to the escrow account established with UCPB.

On October 5, 2012, the Parent Company redeemed all Series “1” preferred shares including those Series “1” preferred shares in the name of the CIIF Holding Companies. Proceeds of such redemption with respect to Series “1” preferred shares in the name of the CIIF Holding Companies, including all accumulated dividends were paid to the National Treasury. As of October 5, 2012, CIIF Holding Companies are no longer stockholders of the Parent Company.

On June 30, 2011, the PCGG filed with the Supreme Court an Urgent Motion to Direct the Parent Company to comply with the Sandiganbayan Resolution (the “Urgent Motion”). On March 30, 2012, the Parent Company filed a Comment on the Urgent Motion in compliance with the Supreme Court’s Resolution dated December 13, 2011 in G.R. Nos. 180705, 177857-58 and 178193, which was received by the Parent Company on February 22, 2012, directing the Parent Company to file its Comment on the Urgent Motion. The Supreme Court, in the Resolution of April 24, 2012 noted the comment of the Parent Company.

Thereafter, the PCGG filed in G.R. Nos. 177857-58 and 178193 a “Manifestation and Omnibus Motion 1) To Amend the Resolution Promulgated on September 4, 2012 to Include the “Treasury Shares” which are Part and Parcel of the 33,133,266 Coconut Industry Investment Fund (CIIF) Block of San Miguel Corporation (SMC) Shares of 1983 Decreed by the Sandiganbayan, and Sustained by the Honorable Court, as Owned by the Government; and 2) To Direct SMC to Comply with the Final and Executory Resolutions Dated October 24, 1991 and March 18, 1992 of the Sandiganbayan Which Were Affirmed by the Honorable Court in G.R. Nos. 104637-38” (“Manifestation and Omnibus Motion”).

The Supreme Court, in the Resolution of November 20, 2012 in G.R. Nos. 177857-58 and 178193, required the Parent Company to comment on COCOFED, et al.’s “Manifestation” dated October 4, 2012 and PCGG’s “Manifestation and Omnibus Motion.” Atty. Estelito P. Mendoza, counsel for Eduardo M. Cojuangco, Jr. in G.R. No. 180705, who is a party in that case, filed a “Manifestation Re: ‘Resolution’ dated November 20, 2012,” dated December 17, 2012, alleging that (a) Mr. Cojuangco, Jr. is not a party in G.R. Nos. 177857-58 and 178193 and he has not appeared as counsel for any party in those cases; (b) the Parent Company is likewise not a party in those cases, and if the Parent Company is indeed being required to comment on the pleadings in the Resolution of November 20, 2012, a copy of the Resolution be furnished the Parent Company; and (c) the Supreme Court had already resolved the motion for reconsideration in G.R. Nos. 177857-58 and 178193 and stated that “no further pleadings shall be entertained, thus, any motion filed in the said cases thereafter would appear to be in violation of the Supreme Court’s directive”.

In its Resolution of June 4, 2013 in G.R. Nos. 177857-58 and 178193, the Supreme Court required the Parent Company to file its comment on the (a) Manifestation, dated October 4, 2012 filed by petitioners COCOFED, et al. and (b) Manifestation and Omnibus Motion dated October 12, 2012 filed by the Office of the Solicitor General for respondent Republic of the Philippines, as required in the Supreme Court Resolution, dated November 20, 2012, within ten (10) days from notice thereof.

In the Resolution, dated September 10, 2013, the Supreme Court directed the Parent Company, through its counsel or representative, to immediately secure from the Office of the Clerk of Court of the Supreme Court *En Banc* photocopies of the (a) Manifestation, dated October 4, 2012 filed by petitioners COCOFED, et al. and (b) Manifestation and Omnibus Motion dated October 12, 2012 filed by the Office of the Solicitor, and granted the Parent Company's motion for a period of thirty (30) days from receipt of the pleadings within which to file the required comment per resolutions dated November 20, 2012 and June 4, 2013.

The Parent Company, thru external counsel, filed the following comments required in the Supreme Court Resolution of June 4, 2013 in G.R. Nos. 177857-58; (a) "Comment of San Miguel Corporation on the 'Manifestation' of Petitioners COCOFED, et al., Dated October 4, 2012" on November 6, 2013; and (b) "Comment of San Miguel Corporation on the 'Manifestation and Omnibus Motion...' Dated October 12, 2012 of the Respondent Republic" on December 3, 2013.

In the Entry of Judgment received on January 27, 2015, the Supreme Court entered in the Book of Entries of Judgments the Resolution of September 4, 2012 in G.R. Nos. 177857-58 and G.R. No. 178193 wherein the Supreme Court clarified that the 753,848,312 SMC Series "1" preferred shares of the CIIF companies converted from the CIIF block of SMC shares, with all the dividend earnings as well as all increments arising therefrom shall now be the subject matter of the January 29, 2012 Decision and declared owned by the Government and used only for the benefit of all coconut farmers and for the development of the coconut industry. Thus, the fallo of the Decision dated January 24, 2012 was accordingly modified.

In the meantime, the Parent Company has available cash and shares of stock for the dividends payable on the treasury shares, in the event of an unfavorable ruling by the Supreme Court.

On October 5, 2016, the Supreme Court of the Philippines in G.R. Nos. 177857-58 and 178193 issued a Judgment denying the "Manifestation and Omnibus Motion" filed by the Presidential Commission on Good Government to amend the Resolution Promulgated on September 4, 2012 to Include the "Treasury Shares" Which are Part and Parcel of the 33,133,266 Coconut Industry Investment Fund (CIIF) Block of San Miguel Corporation (SMC) Shares of 1983 Decreed by the Sandiganbayan, and Sustained by the Honorable Court, as Owned by the Government. The denial of the motion is without prejudice to the right of the Republic of the Philippines to file the appropriate action or proceeding to determine the legal right of the Parent Company to the 25,450,000 treasury shares of the Parent Company. On November 29, 2016, the Supreme Court denied with finality the motion for reconsideration of the Republic of the Philippines.

2. In 2009, 873,173,353 common shares reverted to treasury were acquired through the exchange of common shares to preferred shares, on a one-for-one basis, at P75.00 per share amounting to P65,488.
3. On May 5, 2011, the Parent Company completed the secondary offering of its common shares. The offer consists of 110,320,000 shares of stock of the Parent Company consisting of 27,580,000 common shares from the treasury shares of the Parent Company and 82,740,000 SMC common shares held by Top Frontier. The Offer Shares were priced at P110.00 per share on April 20, 2011.
4. Also on May 5, 2011, US\$600 worth of exchangeable bonds of the Parent Company sold to overseas investors were simultaneously listed at the SGX-ST. The exchangeable bonds have a maturity of three years, a coupon of 2% per annum and a conversion premium of 25% of the offer price. The exchangeable bonds are exchangeable for common shares to be re-issued from the treasury shares of the Parent Company. The initial exchange price for the exchange of the exchangeable bonds into common shares is P137.50 per share.

On December 5, 2011, 765,451 common shares were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at an exchange price of P113.24 per share. Subsequently on December 8, 2011 and February 10 and 16, 2012, the delivered common shares of stock of the Parent Company were transacted and crossed at the PSE via a special block sale in relation to the issuance of common shares pursuant to the US\$600 exchangeable bonds of the Parent Company.

In 2014, 2013 and 2012, additional 1,077,573, 6,540,959 and 1,410,604 common shares, respectively, were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at exchange prices ranging from P80.44 to P113.24 per share. The additional common shares of stock of the Parent Company were transacted and crossed at the PSE on various dates via special block sales.

A total of 9,794,587 common shares were issued to the bondholders of the Parent Company's exchangeable bonds as of December 31, 2014.

5. As of December 31, 2017 and 2016, 3,478,400 common shares under the ESPP were cancelled and held in treasury (Note 39).

d. Unappropriated Retained Earnings

The unappropriated retained earnings of the Parent Company is restricted in the amount of P67,093 in 2017, 2016 and 2015, representing the cost of common shares held in treasury.

The unappropriated retained earnings of the Group includes the accumulated earnings in subsidiaries and equity in net earnings of associates and joint ventures not available for declaration as dividends until declared by the respective investees.

e. *Appropriated Retained Earnings*

The BOD of certain subsidiaries approved additional appropriations amounting to P22,218, P24,230 and P20,764 in 2017, 2016 and 2015, respectively, to finance future capital expenditure projects. Reversal of appropriations amounted to P12,234, P16,251 and P23,925 in 2017, 2016 and 2015, respectively.

25. Sales

Sales consist of:

	2017	2016	2015
Goods	P799,437	P662,471	P656,874
Services	26,649	22,843	15,369
	P826,086	P685,314	P672,243

26. Cost of Sales

Cost of sales consist of:

	Note	2017	2016	2015
Inventories		P452,122	P353,606	P382,192
Taxes and licenses		58,259	46,576	44,768
Depreciation and amortization	28	25,710	22,674	17,453
Energy fees	34	23,726	20,478	23,224
Fuel and oil		15,657	10,796	8,827
Contracted services		14,518	12,636	10,807
Power purchase		10,851	7,837	8,331
Freight, trucking and handling		10,604	11,203	11,667
Personnel	29	9,195	7,567	7,079
Tolling fees		7,970	7,525	7,029
Communications, light and water		5,772	5,412	5,028
Repairs and maintenance		5,387	4,823	3,420
Rent	4, 34	830	814	862
Others		3,620	2,074	1,380
		P644,221	P514,021	P532,067

27. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	2017	2016	2015
Selling	P36,629	P32,972	P31,502
Administrative	34,194	38,667	28,125
	P70,823	P71,639	P59,627

Selling expenses consist of:

	Note	2017	2016	2015
Advertising and promotions		P9,085	P8,025	P7,002
Personnel	29	8,612	7,724	7,716
Freight, trucking and handling		8,564	7,889	7,323
Rent	4, 34	3,423	1,655	2,498
Depreciation and amortization	28	2,949	3,095	3,305
Repairs and maintenance		1,440	1,232	1,129
Taxes and licenses		689	678	564
Supplies		589	758	639
Professional fees		552	448	529
Communication, light and water		409	374	384
Others		317	1,094	413
		P36,629	P32,972	P31,502

Administrative expenses consist of:

	Note	2017	2016	2015
Personnel	29, 39	P16,862	P14,947	P14,103
Depreciation and amortization	28	4,391	4,885	4,338
Professional fees		2,530	2,620	2,016
Taxes and licenses		2,511	2,914	2,630
Repairs and maintenance		1,022	1,107	906
Rent	4, 34	739	426	233
Communications, light and water		730	694	640
Supplies		702	790	510
Impairment loss	9	537	4,704	970
Freight, trucking and handling		259	161	264
Research and development		127	103	144
Others	34	3,784	5,316	1,371
		P34,194	P38,667	P28,125

“Others” consist of entertainment and amusement, gas and oil, and other administrative expenses.

28. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	<i>Note</i>	2017	2016	2015
Cost of sales:				
Property, plant and equipment	14	P18,341	P16,429	P12,926
Deferred containers, biological assets and others	16, 18	7,369	6,245	4,527
	26	25,710	22,674	17,453
Selling and administrative expenses:				
Property, plant and equipment	14	4,400	4,526	4,647
Deferred containers and others	18	2,940	3,454	2,996
	27	7,340	7,980	7,643
		P33,050	P30,654	P25,096

Depreciation expense from discontinued operations amounted to P326 and P522 in 2016 and 2015, respectively (Notes 6 and 7).

“Others” include amortization of concession rights, computer software, leasehold and land use rights, licenses and investment property.

29. Personnel Expenses

Personnel expenses consist of:

	<i>Note</i>	2017	2016	2015
Salaries and wages		P17,877	P15,539	P14,214
Retirement costs - net	35	1,832	1,742	1,556
Other employee benefits	39	14,960	12,957	13,128
		P34,669	P30,238	P28,898

Personnel expenses are distributed as follows:

	<i>Note</i>	2017	2016	2015
Cost of sales	26	P9,195	P7,567	P7,079
Selling expenses	27	8,612	7,724	7,716
Administrative expenses	27	16,862	14,947	14,103
		P34,669	P30,238	P28,898

30. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

	<i>Note</i>	2017	2016	2015
Interest expense		P31,220	P30,567	P29,685
Other financing charges	21	4,494	4,236	2,833
		P35,714	P34,803	P32,518

Amortization of debt issue costs included in “Other financing charges” amounted to P2,778, P2,174 and P1,157 in 2017, 2016 and 2015, respectively (Note 21).

Interest expense on loans payable, long-term debt and finance lease liabilities is as follows:

	Note	2017	2016	2015
Loans payable	19	P5,513	P4,343	P8,913
Long-term debt	21	16,623	16,548	10,559
Finance lease liabilities	34	9,084	9,676	10,213
		P31,220	P30,567	P29,685

Interest expense from discontinued operations amounted to P6 and P3 in 2016 and 2015, respectively (Note 6).

31. Interest Income

Interest income consists of:

	Note	2017	2016	2015
Interest from short-term investments, cash in banks and others	8, 13	P4,019	P3,209	P3,725
Interest on amounts owed by related parties	33, 35	506	484	561
		P4,525	P3,693	P4,286

Interest income from discontinued operations amounted to P14 and P29 in 2016 and 2015, respectively (Note 6).

32. Other Income (Charges)

Other income (charges) consists of:

	Note	2017	2016	2015
Construction revenue	17, 34	P18,089	P12,623	P11,003
PSALM monthly fees reduction		3,284	1,509	1,859
Dividend income		1,350	1,075	25
Gain (loss) on foreign exchange - net	40	241	(11,961)	(12,140)
Gain on return of donated property (a)		-	-	495
Additional provision on impairment (b)	12, 14, 17, 18	(610)	(793)	(1,600)
Gain (loss) on derivatives - net	41	(3,665)	(616)	3,971
Construction costs	17, 34	(18,089)	(12,623)	(11,003)
Others (c)	21	(446)	(640)	884
		P154	(P11,426)	(P6,506)

a. *Donation to Philippine Foundation of the Blessed Mary Mother of Poor, Inc. (Foundation)*

On January 11, 2011, SMPI signed a deed of donation (the Deed of Donation) in favor of the Foundation, a non-profit religious organization, to transfer a 33-hectare parcel of land owned by SMPI (the Montemaria Property), with a carrying amount of P141. The land title of the Montemaria Property was transferred in the name of the Foundation on April 28, 2011.

In accordance with the Deed of Donation, the Montemaria Property shall be used and devoted exclusively by the Foundation for the construction, operation and maintenance of its project, the Montemaria Oratory of the Blessed Virgin Mary (the Montemaria Project). The Montemaria Project was planned to consist of the Shrine of the Blessed Virgin Mary, churches and chapels, Way of the Cross and such other structures and facilities for Roman Catholic religious purposes, and socio-civic and nonprofit activities and program of the Foundation. Further, the Deed of Donation required that the Montemaria Project must be at least 50% completed by January 11, 2016 and fully completed by January 11, 2021. If the Foundation is not able to comply with this requirement, the Montemaria Property shall be reverted back to SMPI.

On February 24, 2014, the Board of Trustees of the Foundation resolved to return the Montemaria Property to SMPI.

On October 2, 2015 and October 13, 2015, SMPI and the Foundation signed a Deed and an Amended Deed of Rescission and Reconveyance of Property, respectively, wherein the ownership over the Montemaria Property was reverted back to SMPI. The title to the Donated Property was transferred back to SMPI on November 9, 2015. Accordingly, the Group recognized a gain amounting to P495, equivalent to the fair value of the Montemaria Property at the time of rescission of donation and reconveyance of property. The Montemaria Property is included as part of "Investment property" account in the consolidated statements of financial position (Note 15).

b. *SMBB*. In 2015, the Group noted that fierce market competition resulted in the decline in the demand for its products in SMB's North China compared to previous sales forecasts. Consequently, operating losses were incurred. These factors are indications that noncurrent assets of SMB's North China operations, comprising mainly of the production plant located in Baoding, Hebei Province and other tangible assets, may be impaired.

The Group assessed the recoverable amounts of SMBB, the cash-generating unit to which these assets belong, and the result of such assessment was that the carrying amount of the assets was higher than its recoverable amount of US\$41 or P1,923. Accordingly, an impairment loss of US\$22 or P1,011 was recognized as part of "Other income (charges)" account in the 2015 consolidated statement of income.

No impairment loss was recognized in 2016.

In 2017, fierce market competition further continued resulting in the decline in sales volumes and the incurrence of operating losses.

The Group assessed the recoverable amounts of SMBB and the result of such assessment was that the carrying amount of the assets was higher than its recoverable amount of US\$25 or P1,262. Accordingly, an impairment loss of US\$10 or P534 was recognized as part of "Other income (charges)" account in the 2017 consolidated statement of income.

The recoverable amount of SMBB has been determined based on its value in use calculation. That calculation uses cash flow projections based on the business forecasts approved by the management covering a period of 17 years, which is the remaining estimated useful life of the assets. Cash flows beyond the ten-year period are kept constant.

Sales volume growth rate and pre-tax discount rate used for value in use calculation were 2% - 20% and 8.86%, respectively in 2017 and 4% - 20% and 8.86%, respectively in 2015.

Management determined the growth rate and gross contribution rate based on past experiences and future plans and expected market trends.

As SMBB has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of the recoverable amount would result in further impairment losses.

- c. "Others" consist of gain on redemption of Notes, rent income, commission income, dividend income from AFS financial assets, changes in fair value of financial assets at FVPL, gain on settlement of ARO and insurance claims.

33. Related Party Disclosures

The Parent Company, certain subsidiaries and their shareholders, associates and joint ventures purchase products and services from one another in the normal course of business. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as of December 31:

	Note	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company	9, 18, 36	2017	P 5	P -	P6,613	P551	On demand or less than 2 to 5 years; interest and non-interest bearing	Unsecured; no impairment
		2016	4	-	6,598	551		
Retirement Plans	9, 18, 35	2017	400	-	12,131	-	On demand; interest bearing	Unsecured; no impairment
		2016	450	-	11,813	-		
Associates	9, 18, 20	2017	2,466	598	1,462	521	On demand; interest and non-interest bearing	Unsecured; no impairment
		2016	2,085	199	524	56		
	19, 21	2017	-	-	-	22,552	Less than 1 to 10 years; interest bearing	Unsecured and secured
		2016	-	-	-	26,203		
Joint Ventures	9,18, 20	2017	116	466	1,245	118	On demand; non-interest bearing	Unsecured; no impairment
		2016	72	370	640	8		
Shareholders in Subsidiaries	9, 20	2017	391	79	95	2,644	On demand; non-interest bearing	Unsecured; no impairment
		2016	299	156	194	2,595		
Others	9, 11, 20, 22	2017	236	493	300	7,012	On demand; non-interest bearing	Unsecured; no impairment
		2016	267	555	178	6,795		
Total		2017	P3,614	P1,636	P21,846	P33,398		
Total		2016	P3,177	P1,280	P19,947	P36,208		

- a. Amounts owed by related parties consist of current and noncurrent receivables and deposits, and share in expenses.
- b. Amounts owed to related parties consist of trade payables and professional fees. The amount owed to the Ultimate Parent Company pertains to dividend payable (Note 36).
- c. The amounts owed to associates include interest bearing loans payable to BOC presented as part of "Loans payable" and "Long-term debt" accounts in the consolidated statements of financial position.
- d. The compensation of key management personnel of the Group, by benefit type, follows:

	Note	2017	2016	2015
Short-term employee benefits		P739	P630	P552
Retirement cost	35	10	22	1
		P749	P652	P553

34. Significant Agreements and Lease Commitments

Significant Agreements:

▪ Energy

o *Independent Power Producer (IPP) Administration (IPPA) Agreements*

As a result of the biddings conducted by PSALM for the Appointment of the IPP Administrator for the Capacity of the following power plants, the Group was declared the winning bidder and act as IPP Administrator through the following subsidiaries:

Subsidiary	Power Plant	Location
SMEC	Sual Coal - Fired Power Station (Sual Power Plant)	Sual, Pangasinan Province
SPDC	San Roque Hydroelectric Multi-purpose Power Plant (San Roque Power Plant)	San Roque, Pangasinan Province
SPPC	Ilijan Natural Gas - Fired Combined Cycle Power Plant (Ilijan Power Plant)	Ilijan, Batangas Province

The IPPA Agreements are with the conformity of National Power Corporation (NPC), a government-owned and controlled corporation created by virtue of Republic Act (RA) No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the IPPA Agreements and further confirms that for as long as it remains the counterparty of the IPP, it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

The IPPA Agreements include, among others, the following common salient rights and obligations:

- i. the right and obligation to manage and control the capacity of the power plant for its own account and at its own cost and risks;

- ii. the right to trade, sell or otherwise deal with the capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and at its own cost and risks. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;
- iii. the right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out;
- iv. for SMEC and SPPC, the right to receive an assignment of NPC's interest in existing short-term bilateral power supply contracts;
- v. the obligation to supply and deliver, at its own cost, fuel required by the IPP and necessary for the Sual Power Plant to generate the electricity required to be produced by the IPP;
- vi. maintain the performance bond in full force and effect with a qualified bank; and
- vii. the obligation to pay PSALM the monthly payments and energy fees in respect of all electricity generated from the capacity, net of outages.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payments for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees amounted to P23,726, P20,478 and P23,224 in 2017, 2016 and 2015, respectively (Note 26). SMEC and SPDC renewed their performance bonds in US dollar amounting to US\$58 and US\$20, which will expire on November 3, 2018 and January 25, 2018, respectively. Subsequently, the performance bond of SPDC was renewed up to January 25, 2019.

On June 16, 2015, SPPC renewed its performance bond amounting to US\$60 with a validity period of one year. This performance bond was subsequently drawn by PSALM on September 4, 2015 which is subject to an ongoing case (Note 44).

o *Market Participation Agreements (MPA)*

SMEC, SPDC, SPPC and SCPC have entered into a MPA with PEMC to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by the Energy Regulatory Commission (ERC). PEMC's market fees charged to SMEC, SPDC, SPPC and SCPC amounted to P147, P161 and P220 in 2017, 2016 and 2015, respectively (Note 27).

In March 2013, SMELC entered into a MPA for Supplier as Direct WESM Member - Customer Trading Participant Category with the PEMC to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. SMELC has a standby letter of credit, expiring on December 26, 2018, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

o *Power Supply Agreements (PSA)*

SMEC, SPPC, SPDC, SMCP and SCPC have PSA with various counterparties, including related parties, to sell electricity produced by the power plants. Most of the agreements provide for renewals or extensions subject to mutually agreed terms and conditions by the parties and applicable rules and regulations.

Certain customers, particularly electric cooperatives and industrial customers, are billed using energy-based pricing, such as time-of-use (TOU), flat generation rate or fixed energy rate, while others are billed at capacity-based rate. As stipulated in the contracts, each energy-based customer has to pay based on actual energy consumption using the basic energy charge and/or adjustments. For capacity-based contracts, the customers are charged with the capacity fees based on the contracted capacity plus the energy fees for the associated energy taken during the month.

SMEC, SPPC, SPDC, SMCP and SCPC can also purchase power from WESM and other power generation companies during periods when the power generated from the power plants is not sufficient to meet customers' power requirements.

o *Memorandum of Agreement (MOA) with San Roque Power Corporation (SRPC)*

On December 6, 2012, SPDC entered into a five-year MOA with SRPC to sell a portion of the capacity of the San Roque Power Plant. Under the MOA: i) SRPC shall purchase a portion of the capacity sourced from the San Roque Power Plant; ii) SRPC shall pay a settlement amount to SPDC for the capacity; and iii) the MOA may be earlier terminated or extended subject to terms and mutual agreement of the parties. As of December 31, 2017, SPDC and SRPC are finalizing the extension of the MOA until March 5, 2020.

o *Coal Supply Agreements*

SMEC, SMCP and SCPC have supply agreements with various coal suppliers for the coal requirements of the power plants.

o *Retail Supply Contracts*

SMEC and SCPC have retail supply contracts with various contestable customers, including related parties, to supply or sell electricity either produced by SCPC or purchased from WESM, SMEC or other affiliate power generators. Most contracts provide for renewals or extensions subject to terms and conditions mutually agreed by the parties and applicable rules and regulations.

Certain contestable customers are billed using energy-based pricing, such as TOU, flat generation rate or fixed energy rate, while others are billed at capacity-based rates. As stipulated in the contracts, each energy-based customer has to pay based on actual energy consumption using the basic energy charge and/or adjustments. For capacity-based contracts, the customers are charged with the capacity fees based on the contracted capacity plus the energy fees for the associated energy taken during the month.

o *Distribution Wheeling Service (DWS) Agreements*

SMELC and SCPC, related to its Retail Electricity Supplies (RES) licenses, entered into DWS Agreements with certain Distribution Utilities (DU) for the conveyance of electricity through its distribution systems in order to meet the demand of the contestable customers. The agreements are valid and binding upon execution unless terminated by either party.

The DWS charges from the DUs are passed on to its customers as mandated by ERC thru the "Single-Billing Policy".

o *Concession Agreement*

SMC Global entered into a 25-year Concession Agreement with ALECO on October 29, 2013. It became effective upon confirmation of the National Electrification Administration on November 7, 2013.

On January 24, 2014, SMC Global and APEC, entered into an Assignment Agreement whereby APEC assumed all the rights, interests and obligations of SMC Global under the Concession Agreement effective January 2, 2014.

The Concession Agreement include, among others, the following rights and obligations: i) as Concession Fee, APEC shall pay to ALECO: (a) separation pay of ALECO employees in accordance with the Concession Agreement; (b) the amount of P2 every quarter for the upkeep of residual ALECO (fixed concession fee); ii) if the net cash flow of APEC is positive within five years or earlier from the date of signing of the Concession Agreement, 50% of the Net Cash Flow each month shall be deposited in an escrow account until the cumulative nominal sum reaches P4,049; iii) on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and iv) at the end of the concession period, all assets and system, as defined in the Concession Agreement, shall be returned by APEC to ALECO in good and usable condition. Additions and improvements to the system shall likewise be transferred to ALECO. In this regard, APEC shall provide services within the franchise area and shall be allowed to collect fees and charges, as approved by the ERC. APEC formally assumed operations as concessionaire on February 26, 2014.

o *Coal Operating Contract (COC)*

DAMI's coal property covered by COC No. 126, issued by the DOE, is located in South Cotabato consisting of two coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 93 million metric tons as of December 31, 2017.

SEPC has a coal property and right over an aggregate area of 7,000 hectares, more or less, composed of seven coal blocks located in South Cotabato and Sultan Kudarat. As of December 31, 2017, COC No. 134 has an In-situ coal resources (measured plus indicated coal resources) of about 35 million metric tons.

BERI's COC No. 138, issued by the DOE, is located in Sarangani and South Cotabato consisting of eight coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 24 million metric tons as of December 31, 2017.

Status of Operations

The DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI effective on the following dates:

Subsidiary	COC No.	Effective Date	Term*
DAMI	126	November 19, 2006	10 years
SEPC	134	February 23, 2009	10 years
BERI	138	May 26, 2009	10 years

**The term is followed by another 10-year extension, and thereafter, renewable for a series of three-year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.*

On April 27, 2012 and January 26, 2015, the DOE granted the requests by DAMI, SEPC and BERI, for a moratorium on suspension of the implementation of the production timetable as specified under their respective COCs. The request is in connection with a resolution passed by South Cotabato in 2010 prohibiting open-pit mining activities in the area. The moratorium was retrospectively effective from the dates of their respective COCs when these were converted to Development and Production Phase, until December 31, 2016 or until the ban on open-pit mining pursuant to the Environment Code of South Cotabato has been lifted, whichever comes first. On February 1, 2017, the DOE granted another extension on the moratorium for the three COCs valid from January 1, 2017 to December 31, 2017. As of March 15, 2018, DAMI, SEPC and BERI are awaiting DOE's approval of their requests for another extension on the moratorium filed on October 20, 2017.

▪ Fuel and Oil

o Supply Agreement

Petron has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase Petron's crude oil requirements from Saudi Arabian Oil Company (Saudi Aramco), based on the latter's standard Far East selling prices. The contract is from November 1, 2013 to December 31, 2014 with automatic annual extension thereafter unless terminated at the option of either party, upon at least 60 days written notice. PSTPL entered into a term contract with Kuwait Petroleum Corporation to purchase Kuwait Export Crude Oil (KEC) at pricing based on latter's standard KEC prices. The contract is from January 1, 2015 to December 31, 2015 with automatic one-year extensions thereafter unless terminated at the option of either party, within 60 days written notice. Outstanding liabilities of Petron and PSTPL for such purchases are shown as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position as of December 31, 2017 and 2016 (Note 20).

PMRMB currently has a long-term supply contract of Tapis crude oil and Terengganu condensate for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia Inc. (EMEPMI) and Low Sulphur Waxy Residue Sale/Purchase Agreement with Exxon Trading Asia Pacific, a division of ExxonMobil Asia Pacific Pte. Ltd. On the average, around 65% of crude and condensate volume processed are from EMEPMI with balance of around 35% from spot purchases.

o *Lease Agreement with Philippine National Oil Company (PNOC)*

On September 30, 2009, Petron through NVRC entered into a 30-year lease with PNOC without rent-free period, covering a property which it shall use as site for its refinery, commencing on January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P138, starting 2012, payable on the 15th day of January each year without the necessity of demand. This non-cancellable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2013 until the next re-appraisal is conducted. The leased premises shall be reappraised in 2017 and every fifth year thereafter in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the re-appraisal. Prior to this agreement, Petron had an outstanding lease agreement on the same property from PNOC. Also, as of December 31, 2017 and 2016, Petron leases other parcels of land from PNOC for its bulk plants and service stations.

▪ **Infrastructure**

o *Airport Concession Agreement*

The ROP awarded TADHC the Airport Project through a Notice of Award (NOA) issued on May 15, 2009. The Airport Project is proposed to be implemented through a Contract-Add-Operate and Transfer Arrangement, a variant of the Build-Operate-Transfer (BOT) contractual arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its Revised Implementing Rules and Regulations.

On June 22, 2009, TADHC entered into a Concession Agreement with the ROP, through the DOTr and Civil Aviation Authority of the Philippines. Based on the Concession Agreement, TADHC has been granted with the concession of the Airport Project which includes the development and upgrade of the Caticlan Airport (marketed and promoted as Boracay Airport) as an international airport. Subject to existing law, the Concession Agreement also grants to TADHC the franchise to operate and maintain the Boracay Airport up to the end of the concession period, which is for a period of 25 years (as may be renewed or extended for another 25 years upon written agreement of the parties), and to collect the fees, rentals and other charges as may be determined in accordance with the Concession Agreement.

The salient features of the Concession Agreement are presented below:

1. The operations and management of the Boracay Airport shall be transferred to TADHC, provided that the ROP shall retain the operations and control of air traffic services, national security matters, immigration, customs and other governmental functions and the regulatory powers insofar as aviation security, standards and regulations are concerned at the Boracay Airport.

2. As concessionaire, TADHC shall have full responsibility in all aspect of the operation and maintenance of the Boracay Airport and shall collect the regulated and other fees generated from it and from the end users. To guarantee faithful performance of its obligation in respect to the operation and maintenance of the Boracay Airport, TADHC shall post in favor of the ROP, an Operations and Maintenance Performance Security (OMPS) amounting to P25, which must be valid for the entire concession period of 25 years. As of December 31, 2017, TADHC has yet to pay the OMPS as the Airport Project has not yet entered the In-Service Date.
3. Immediately upon receiving the Notice to Commence Implementation (NCI) and provided all conditions precedent in the Concession Agreement are fulfilled or waived, TADHC shall start all the activities necessary to upgrade and rehabilitate the Boracay Airport into a larger and more technologically advanced aviation facility to allow international airport operations.
4. TADHC shall finance the cost of the Airport Project, while maintaining a debt-to-equity ratio of 70:30, with debt pertaining to a loan with BOC. TADHC's estimated capital commitment to develop the Airport Project amounts to P2,500, including possible advances to the ROP for the right of way up to the amount of P466. Such ratio is complied with as TADHC fully issued its authorized capital stock as a leverage to the loan obtained (Notes 21 and 33).
5. TADHC shall also post a P250 Work Performance Security in favor of the ROP as guarantee for faithful performance by TADHC of the works required to be carried out in connection with the construction and completion of civil, structural, sanitary, mechanical, electrical and architectural infrastructure. This performance security shall be partially released by the ROP from time to time to the extent of the percentage-of-completion of the Airport Project. TADHC has paid P1 premium in 2017, for the Work Performance Security. The unamortized portion is included as part of "Prepaid expenses and other current assets" account in the consolidated statements of financial position (Note 11).
6. In consideration for allowing TADHC to operate and manage the Boracay Airport, TADHC shall pay the ROP P8 annually. The first payment shall be made immediately upon the turnover by the ROP of the operations and management of the Boracay Airport to TADHC, and every year thereafter until the end of the concession period. The operations and management of the Boracay Airport was turned over to TADHC on October 16, 2010.

After fulfillment of all contractual and legal requirements, the Concession Agreement became effective on December 7, 2009. The NCI issued to TADHC by the DOTr was accepted by TADHC on December 18, 2009.

In accordance with the license granted by the ROP, as expressly indicated in the Concession Agreement, TADHC presently operates the Boracay Airport. TADHC completed the rehabilitation of the existing airport terminal building and facilities on June 25, 2011. Construction work for the extension of runway has been completed in 2016. The construction of the new terminal is currently ongoing and is expected to be completed in the first quarter of 2019.

o *MRT 7 Concession Agreement*

The ROP awarded ULC BVI the financing, design, construction, supply, completion, testing, commissioning and operation and maintenance of the MRT 7 Project through a NOA issued on January 31, 2008. The MRT 7 Project is an integrated transportation system, under a Build-Gradual Transfer-Operate, Maintain and Manage scheme, which is a modified Build-Transfer-Operate arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its Revised Implementing Rules and Regulations, to address the transportation needs of passengers and to alleviate traffic in Metro Manila, particularly traffic going to and coming from North Luzon.

On June 18, 2008, ULC BVI entered into the MRT 7 Agreement or Concession Agreement with the ROP through the DOTr, for a 25-year concession period, subject to extensions as may be provided for under the Concession Agreement and by law. Based on the Concession Agreement, ULC BVI has been granted the right to finance, design, test, commission, construct and operate and maintain the MRT 7 Project, which consists of a highway, Intermodal Transport Terminal and Metro Rail Transit System including the depot and rolling stock.

The ROP through the DOTr granted ULC BVI the following rights under the Concession Agreement:

- To finance, design, construct, supply, complete and commission the MRT 7 Project;
- To designate a Facility Operator and/or a Maintenance Provider to Operate and Maintain the MRT 7 Project;
- To receive the Amortization Payments and the Revenue Share as specified in the Concession Agreement;
- To charge and collect the Agreed Fares or the Actual Fares and/or to receive the Fare Differential, if any;
- Development Rights as specified in the Concession Agreement; and
- To do any and all acts which are proper, necessary or incidental to the exercise of any of the above rights and the performance of its obligations under the Concession Agreement.

The salient features of the Concession Agreement are presented below:

1. The MRT 7 Project cost shall be financed by ULC BVI through debt and equity at a ratio of approximately 75:25 and in accordance with existing BSP regulations on foreign financing components, if any. Based on the Concession Agreement, ULC BVI's estimated capital commitment to develop the MRT 7 Project amounts to US\$1,236, adjusted to 2008 prices at US\$1,540 per National Economic and Development Authority Investment Coordination Committee approval on July 14, 2014.

2. ULC BVI shall post a Performance Security for Construction and Operations and Maintenance in favor of the ROP as guarantee for faithful performance by ULC BVI to develop the MRT 7 Project. This performance security for operations and maintenance shall be reduced every year of the concession period to the amounts as specified in the Concession Agreement.
3. All rail-based revenues above 11.90% internal rate of return of ULC BVI for the MRT 7 Project over the cooperation period, which means the period covering the construction and concession period, shall be shared equally by ULC BVI and the ROP at the end of the concession period. All rail-based revenues above 14% internal rate of return shall wholly accrue to the ROP.
4. As payment for the gradual transfer of the ownership of the assets of the MRT 7 Project, the ROP shall pay ULC BVI a fixed amortization payment on a semi-annual basis in accordance with the schedule of payment described in the Concession Agreement. The ROP's amortization payment to ULC BVI shall start when the MRT 7 Project is substantially completed.
5. For every semi-annual full payment made by the ROP through the DOTr, and actually received by ULC BVI, the latter shall issue a Certificate of Transfer of Ownership, in favor of the former representing a pro-indiviso interest in the assets of the MRT 7 Project in proportion to the Amortization Payment made over the total Amortization Payment to be made during the concession period. After the end of the concession period but provided that all the Amortization Payment and other amounts due to ULC BVI under the Concession Agreement shall have been fully paid, settled and otherwise received by ULC BVI, full ownership of the assets of the MRT 7 Project shall be transferred to it, free from all liens and encumbrances.
6. The Amortization Payments shall be adjusted pursuant to the escalation formula based on parametric formula for price adjustment reflecting changes in the prices of labor, materials and equipment necessary in the implementation/completion of the MRT 7 Project both local and at the country where the equipment/components shall be sourced.
7. Net passenger revenue shall be shared by the ROP and ULC BVI on a 30:70 basis.
8. The ROP grants ULC BVI the exclusive and irrevocable commercial Development Rights (including the right to lease or sublease or assign interests in, and to collect and receive any and all income from, but not limited to, advertising, installation of cables, telephone lines, fiber optics or water mains, water lines and other business or commercial ventures or activities over all areas and aspects of the MRT 7 Project with commercial development potentials) from the effectivity date of the Concession Agreement until the end of the concession period, which can be extended for another 25 years, subject to the ROP's approval. In consideration of the Development Rights granted, ULC BVI or its assignee shall pay the ROP 20% of the net income before tax actually realized from the exercise of the Development Rights.

9. Upon the expiration of the concession period and payment in full of the Amortization Payments and the other obligations of the ROP through the DOTr, the Concession Agreement shall be deemed terminated, and all the rights and obligations thereunder shall correspondingly cease to exist, other than all rights and obligations accrued prior to the date of such expiration including, without limitation, the obligations of ROP through the DOTr to make termination payments in accordance with the Concession Agreement and following expiration of the concession period, the Development Rights of ULC BVI pursuant to the Concession Agreement shall survive.
10. If ULC BVI and ROP through the DOTr are not able to agree on the solution to be adopted in an appropriate Variation Order within the period specified in the Concession Agreement, then ULC BVI may proceed to terminate the Concession Agreement. Also, if either of ULC BVI and ROP through the DOTr intends to terminate the Concession Agreement, by mutual agreement under the Concession Agreement, it shall give a notice of intention to terminate to the other. Following receipt of the Intent Notice, the Parties shall meet for a period of up to eight weeks and endeavor to agree on the terms, conditions arrangements, and the necessary payments for such termination. If at the expiration of the said period, ULC BVI and ROP through the DOTr are unable to agree on and execute an agreement for the mutual termination of the Concession Agreement, the same shall remain valid and in effect.

On July 23, 2014, the ROP through the DOTr confirmed their obligations under the MRT 7 Agreement dated June 18, 2008 through the Performance Undertaking issued by the Department of Finance, which was received by ULC BVI on August 19, 2014. The Performance Undertaking is a recognition of the obligations of the ROP through the DOTr under the Concession Agreement, particularly the remittance of semi-annual amortization payment in favor of ULC BVI. The issuance of the Performance Undertaking triggers the obligation of ULC BVI to achieve financial closure within 18 months from the date of the receipt of the Performance Undertaking. Within the aforementioned period, ULC BVI achieved Financial Closure, as defined in the MRT 7 Agreement. There were no changes in the terms of the Concession Agreement.

On April 20, 2016, ULC BVI through the Parent Company, led the ground breaking ceremony for the MRT 7 Project.

Pursuant to Section 19.1 of the Concession Agreement, on September 30, 2016, ULC BVI sent a request letter to the ROP through the DOTr to secure the latter's prior approval in relation to the intention of ULC BVI to assign all its rights and obligations under the Concession Agreement to SMC MRT 7, the designated special purpose company for the MRT 7 Project. The assignment of the rights and obligations from ULC BVI to SMC MRT 7 will be achieved through execution of Accession Agreement. Based on the Concession Agreement, ULC BVI may assign its rights, title, interests or obligations therein, provided that the following conditions are met:

- The assignment will not in any way diminish ULC BVI's principal liability under the Concession Agreement; and
- ULC BVI secures from ROP, through the DOTr, its prior approval, which shall not be unreasonably withheld.

In addition, the letter dated September 30, 2016 from ULC BVI also requested that upon submission by SMC MRT 7 of the Lenders' recognition that the Financing Agreements for the MRT 7 Project is for its benefit, the DOTr shall cause the amendment of the Performance Undertaking dated July 23, 2014 by changing the addressee and beneficiary thereof from ULC BVI to SMC MRT 7.

On December 12, 2016, the ROP through the DOTr gave its consent to the assignment of all the rights and obligations of ULC BVI under the Concession Agreement to SMC MRT 7.

Following the DOTr's approval, SMC MRT 7 and ULC BVI carried out the Accession Agreement on January 12, 2017.

o *Toll Road Concession Agreements*

i. *SLEX*

On February 1, 2006, SLTC executed the Supplemental Toll Operation Agreement (STOA) with MATES, PNCC and the ROP through the Toll Regulatory Board (TRB). The STOA authorizes SLTC by virtue of a joint venture to carry out the rehabilitation, construction and expansion of the SLEX, comprising of: Toll Road (TR)1 (Alabang viaduct), TR2 (Filinvest to Calamba, Laguna), TR3 (Calamba, Laguna to Sto. Tomas, Batangas) and TR4 (Sto. Tomas, Batangas to Lucena City). The concession granted shall expire 30 years from February 1, 2006.

On December 14, 2010, the TRB issued the Toll Operations Certificate for Phase 1 of the SLEX i.e., TR1, TR2 and TR3, and approved the implementation of SLTC's initial toll rate for the said Phase 1. The initial toll rate had been implemented on a staggered basis from January to March 2011, with full implementation starting April 1, 2011.

In 2012, SLTC received a letter from the Department of Finance informing SLTC of the conveyance by PNCC to the ROP of its shares of stock in SLTC, by way of deed of assignment. Moreover, SLTC also received the Declarations of Trust signed by the individual nominees of PNCC, in favor of the ROP, in which each nominee affirmed their holding of single, qualifying share in SLTC in favor of the ROP.

SLTC entered into a MOA on the Interoperability of the Muntinlupa-Cavite Expressway (MCX) (formerly known as the Daang Hari-SLEX Connector Road) and the SLEX (MOA on Interoperability) and an accompanying Addendum to the MOA on Interoperability, both on July 21, 2015, with Ayala Corporation (AC). AC is the concession holder of MCX while MCX Tollway, Inc. is the facility operator of MCX.

The MOA on Interoperability and the addendum provide the framework that will govern the interface and integration of the technical operations and toll operation systems between the MCX and the SLEX, to ensure seamless travel access into MCX and SLEX for road users. MCX opened and operated as a toll expressway beginning July 24, 2015.

ii. *NAIA Expressway*

On July 8, 2013, Vertex entered into a Concession Agreement with the ROP, through the Department of Public Works and Highways (DPWH), for a 30-year concession period subject to extensions, as may be provided for under the Concession Agreement. Vertex has been granted the right to finance, design, construct, and operate and maintain the NAIA Expressway Project. The NAIA Expressway Project links the three NAIA terminals to the Skyway, the Manila-Cavite Toll Expressway and the Entertainment City of the Philippine Amusement and Gaming Corporation.

On September 22, 2016, Vertex started commercial operations of NAIA Expressway upon receipt of the Toll Operations Permit from the TRB.

The salient features of the Concession Agreement are presented below:

1. Vertex shall at all times during the concession period maintain a leverage ratio not exceeding 80%.
2. Vertex shall post a Performance Security for Construction and operations and maintenance in favor of the ROP as guarantee for faithful performance to develop the NAIA Expressway Project. The Performance Security for Construction shall be reduced on the date of expiry of the At-Grade Works and Phase II(a) Defects Liability Period to the amounts as specified in the Concession Agreement.

Throughout the construction period, the DPWH and the TRB shall be allowed to monitor, inspect and check progress and quality of the activities and works undertaken by Vertex to ensure compliance with the Concession Agreement's Minimum Performance Standards and Specifications, Detailed Engineering Design (DED) or At-Grade Works DED. Vertex shall directly pay for the cost of the Project Overhead Expenses incurred by the DPWH or the TRB until the end of the construction period. The liability of Vertex for the project overhead expenses due to the TRB and DPWH shall not exceed P25 and P50, respectively.

3. If by the Completion Deadline, the Independent Consultant has not issued written notice that all conditions in the Concession Agreement in relation to the At-Grade Works, Phase II(a) and Phase II(b) have been fulfilled, Vertex shall be liable to the DPWH for the payment of liquidated damages in the amount of P0.15, P1.5 and P2 for every day of delay beyond the At-Grade Works, Phase II(a) and Phase II(b) Construction Completion Deadline, respectively.
4. The toll revenues collected from the operations of the NAIA Expressway Project are the property of Vertex. Vertex has the right to assign or to enter into such agreements with regard to the toll revenues and their collection, custody, security and safekeeping.

5. The equity structure of Vertex shall comply with the equity requirements set out in the Concession Agreement. During the lock-up period, which is from the signing date until the end of the third year of the operation period, Vertex shall not register or otherwise permit any transfer of its equity or any rights in relation to its equity except: (a) if after the transfer, (i) the Qualifying Initial Stockholders continue to meet its Equity Requirement; (ii) the Initial Shareholders collectively continue to meet its Equity Requirements, and in each case any new shareholder is approved by the DPWH such consent not to be unreasonably withheld; (b) with the DPWH's prior written consent; (c) by way of the grant of a Permitted Security Interest or the exercise of rights under a Permitted Security Interest; or such transfer is necessary to comply with any applicable foreign ownership restrictions and the transferee and the terms of the transfer are both approved by the DPWH.
6. At the end of the concession period, Vertex shall turnover to the DPWH the NAIA Expressway in the condition required for turnover as described in the Minimum Performance Standards Specifications of the Concession Agreement.

iii. Skyway

On June 10, 1994, PNCC, the franchise holder for the construction, operations and maintenance of the Metro Manila Expressway, including any and all extensions, linkages or stretches thereof, such as the proposed Skyway, and PT Citra Lamtoro Gung Persada (CLGP), as joint proponents, submitted to the ROP through the TRB, the Joint Investment Proposal covering the proposed Skyway and the planned Metro Manila Tollways. The Joint Investment Proposal embodied, among others, that CLGP in cooperation with PNCC committed itself to finance, design and construct the Skyway in three stages, consisting of: (a) South Metro Manila Skyway (SMMS) as Stages 1 and 2; (b) North Metro Manila Skyway and the Central Metro Manila Skyway as Stage 3; and (c) Metro Manila Tollways as Stage 4. The Joint Investment Proposal was approved by the TRB on November 27, 1995.

o Skyway Stages 1 and 2

The STOA for SMMS was executed on November 27, 1995 by and among CMMTC, PNCC and the ROP acting through the TRB. Under the STOA, the design and the construction of the SMMS and the financing thereof, shall be the primary and exclusive privilege, responsibility and obligation of CMMTC as investor. On the other hand, the operations and maintenance of the SMMS shall be the primary and exclusive privilege, responsibility and obligation of PNCC, through its wholly owned subsidiary, the PNCC Skyway Corporation (PSC).

On July 18, 2007, the STOA was amended, to cover among others, the implementation of Stage 2 of the SMMS (Stage 2); the functional and financial integration of Stage 1 of the SMMS (Stage 1) and Stage 2 upon the completion of the construction of Stage 2; and the grant of right to CMMTC to nominate to the TRB a qualified party to perform the operations and maintenance of the SMMS to replace PSC. CMMTC, PNCC and PSC then entered into a MOA for the successful and seamless turnover of the operations and maintenance responsibilities for the SMMS from PSC to SOMCO.

The SMMS shall be owned by the ROP, without prejudice to the rights and entitlement of CMMTC and SOMCO under the STOA. The legal transfer of ownership of the SMMS to the ROP shall be deemed to occur automatically on a continuous basis in accordance with the progress of construction. The toll revenues are shared or distributed among PNCC, CMMTC and SOMCO for the operations and maintenance of the SMMS.

The 30-year franchise period for the Integrated Stage 1 and Stage 2 commenced on April 25, 2011.

Under the STOA, CMMTC may file an application to adjust the toll rates which shall be of two kinds, namely periodic and provisional adjustments. Periodic adjustments for the Integrated Stage 1 and Stage 2 may be applied for every year. CMMTC may file an application for provisional adjustment upon the occurrence of a force majeure event or significant currency devaluation. A currency devaluation shall be deemed significant if it results in a depreciation of the value of the Philippine peso relative to the US dollar by at least 5%. The applicable exchange rate shall be the exchange rate between the currencies in effect as of the date of approval of the prevailing preceding toll rate.

o Skyway Stage 3

The Stage 3 STOA was executed on July 8, 2013 by and among the ROP as the Grantor, acting by and through the TRB, PNCC, CCEC as the Investor, and Central Metro Manila Skyway Corporation (CMMSC) as the Operator, wherein CCEC was granted the primary and exclusive privilege, responsibility, and obligation to design and construct the Skyway Stage 3 Project, and to finance the same, while CMMSC was granted the primary and exclusive privilege, responsibility, and obligation to operate and maintain the Skyway Stage 3 Project.

The Skyway Stage 3 Project is an elevated roadway with the entire length of approximately 14.82 km from Buendia Avenue in Makati to Balintawak, Quezon City and will connect to the existing Skyway Stage 1 and 2. This is envisioned to inter-connect the northern and southern areas of Metro Manila to help decongest traffic in Metro Manila and stimulate the growth of trade and industry in Luzon, outside of Metro Manila.

The Skyway Stage 3 Project shall be owned by the ROP, without prejudice to the rights and the entitlements of CCEC and CMMSC under the Stage 3 STOA. The legal transfer of ownership of the Skyway Stage 3 Project to the ROP shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction thereof.

The franchise period for the Skyway Stage 3 Project is 30 consecutive years commencing from the issuance of the Toll Operation Certificate (TOC) for the entire Skyway Stage 3 Project to CCEC and/or the CMMSC.

As of December 31, 2017, CCEC is in the construction stage of the Skyway Stage 3 Project.

CCEC and CMMSC shall enter into a revenue sharing agreement to set forth the terms and conditions of their sharing of the toll revenues from the Skyway Stage 3 Project.

o Skyway Stage 4

The Stage 4 STOA was executed on July 14, 2014 by and among the ROP as the Grantor, acting through the TRB and PNCC, CITI as the Investor, and Metro O&M Corporation (MOMCO) as the Operator, wherein CITI was granted the primary and exclusive privilege, responsibility, and obligation to finance the design and construction of Skyway Stage 4 Project, while MOMCO was granted the primary and exclusive privilege, responsibility and obligation to operate and maintain the same.

The Skyway Stage 4 Project serves as another expressway system that aims to further decongest EDSA, C5 and other major arteries of the Metropolis. Further, it aims to provide faster alternate route and accessibility to the motorist when travelling from the province of Rizal and Calabarzon area to Metropolis.

The Skyway Stage 4 Project shall be owned by the ROP, without prejudice to the rights and the entitlements of CITI and MOMCO under the Stage 4 STOA. The legal transfer of ownership shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction thereof. The 30-year concession period shall commence from the date of issuance of the TOC by the TRB to CITI and/or MOMCO.

As at December 31, 2017, CITI is in the preparatory stage of the Skyway Stage 4 Project.

CITI and MOMCO shall enter into a revenue sharing agreement to set forth the terms and conditions of their sharing of the toll revenues from the Skyway Stage 4 Project.

iv. *TPLEX*

PIDC entered into a Concession Agreement with the ROP through the DPWH and the TRB to finance, design, construct, operate and maintain and impose and collect tolls from the users of the TPLEX Project. The TPLEX Project is a toll expressway from La Paz, Tarlac to Rosario, La Union which is approximately 88.85 kilometers and consists of four-lane expressway with nine toll plazas from start to end.

The TPLEX Project shall be owned by the ROP without prejudice to the rights and entitlement of PIDC. The legal transfer of ownership of the TPLEX Project shall be deemed to occur automatically on a continuous basis in accordance with the progress of construction and upon issuance of the Certificate of Substantial Completion for each section of the TPLEX Project.

The toll revenue collected from the operation of the TPLEX Project is the property of PIDC. PIDC shall have the right to assign or to enter into such agreements with regard to the toll revenue and its collection, custody, security and safekeeping.

The concession period shall be for a term of 35 years starting from the effective date of the Concession Agreement and may be extended.

On October 31, 2013, PIDC opened the first section of the TPLEX Project from Tarlac to Gerona. The Section 1B from Gerona to Rosales was opened to motorists on December 23, 2013. The 32.56-km stretch from Gerona to Carmen was fully operational on April 16, 2014. The 12.66-km stretch from Carmen (Tomana) to Urdaneta was fully operational starting March 17, 2015.

On July 28, 2016, the Segment 7A (Urdaneta to Binalonan) was opened. Segment 7B (Binalonan to Pozorrubio) was opened to motorists on December 6, 2017, while Segment 8 (Pozorrubio to Rosario) is expected to be completed in March 2019.

v. *STAR*

On June 18, 1998, SIDC and the ROP, individually and collectively through the DPWH and the TRB, entered into a Concession Agreement covering the STAR Project.

Under the Concession Agreement, the following are the activities related to the components of the STAR Project:

1. The preliminary and final engineering design, financing and construction of Stage II of the STAR Project.
2. The design and construction of all ancillary toll road facilities, toll plazas, interchanges and related access facilities of Stage I of the STAR Project, an ROP-constructed toll road, and for Stage II of the STAR Project road to be constructed by SIDC.
3. The operation and maintenance of the STAR Project as toll road facilities within the concession period of 30 years from January 1, 2000 up to December 31, 2029.

In December 2006, the Concession Agreement was amended extending the concession period for an additional six years, to compensate for the delay in the commencement of the construction of the Stage II, Phase II of the STAR Project. Accordingly, the concession period is until December 31, 2035.

The STAR Project and any stage or phase or ancillary facilities thereof of a fixed and permanent nature shall be owned by the ROP, without prejudice to the rights and entitlements of SIDC. The legal transfer of ownership of the STAR Project and/or any stage, phase or ancillary thereof shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction and upon the ROP's issuance of the Certificate of Substantial Completion. The right of way shall be titled in the ROP's name regardless of the construction.

The STAR Project consists of two stages as follows:

Stage I	Operations and maintenance of the 22.16-km toll road from Sto. Tomas, Batangas to Lipa City, Batangas
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Stage II Finance, design, construction, operations and maintenance of the 19.74-km toll road from Lipa City, Batangas to Batangas City, Batangas

SIDC started its commercial operations on August 1, 2001 after the issuance by the TRB to SIDC of the TOC for the operations and maintenance of the Stage I of the STAR Project on July 31, 2001.

The TRB issued to SIDC the TOC for the operations and maintenance of the Stage II, Phase I of the STAR Project on April 16, 2008. SIDC started the construction of the remaining portion of Stage II in 2013 and was completed in October 17, 2014.

The TRB issued an Amended TOC for the STAR Project, including Stage II, Phase II on December 13, 2016. The Amended TOC supersedes all previously issued TOCs and is to be reckoned effective as of April 17, 2008.

o *Port Concession Agreements*

On November 19, 2009, MNHPI entered into a Contract for the Development, Operation and Maintenance of the Manila North Harbor (the Contract) with the PPA, a government agency. Under the Contract, the PPA grants MNHPI the sole and exclusive right to manage, operate, develop and maintain the Manila North Harbor for 25 years reckoning on the first day of the commencement of operations renewable for another 25 years under such terms and conditions as the parties may agree. In consideration, MNHPI shall remit a fixed fee every quarter and submit a performance security to the PPA.

In this regard, MNHPI shall provide services and development based on the operation and volume requirement of the port and shall be allowed to collect fees and charges, as approved by the PPA. The fees to be charged by MNHPI shall be in accordance with the price policy and rate setting mechanism adopted by the PPA and the laws and regulations promulgated by the ROP. Upon the expiration of the Contract or in the event of its termination or cancellation prior to its expiration, all existing improvements, structures, building and facilities at the Manila North Harbor, permanent or semi-permanent, constructed by or belonging to MNHPI shall automatically become the property of the PPA without any obligation to reimburse therefore, except for port equipment purchased five years prior to expiration or termination of the Contract wherein the PPA has option to either purchase or lease the same from MNHPI.

On April 12, 2010, the PPA turned over the operations of the Manila North Harbor to MNHPI. MNHPI recognized as concession assets all costs directly related to the Contract and development of the port.

On March 21, 2011, MNHPI and the PPA entered into a Clarificatory Agreement to the Contract related to the implementation of some terms and conditions to harmonize and be consistent with the date of the turnover, which was on April 12, 2010, and ensure fairness to both parties concerned as follows: (a) the fixed fee is exclusive of VAT; (b) the performance security shall be equivalent to 60% of the annual fixed fee, which shall be reckoned from April 12, 2010; (c) establishment of the Port Worker's Retirement and Separation Fund shall be within one year from April 12, 2010; (d) all rentals within the area of management, operation, development and maintenance of MNHPI from April 12, 2010 and thereafter shall accrue to MNHPI; and (e) applicable terms and conditions of the Contract shall become operative on April 12, 2010.

o *Water Concession Agreements*

On December 7, 2015, MWSS issued a NOA to SMC - K-water Consortium (the Consortium) awarding the Bulacan Bulk Water Supply Project. In accordance with the NOA, the LCWDC was registered by the Consortium as the concessionaire.

On January 15, 2016, a Concession Agreement was executed between MWSS and LCWDC for a 30-year period, subject to extensions as may be provided for under the Concession Agreement.

The salient features of the Concession Agreement are presented below:

1. LCWDC shall pay an annual concession fee to MWSS equivalent to 2.5% of Bulacan Bulk Water Supply Project's annual gross revenue.
2. LCWDC shall pay water right fee to the Provincial Government of Bulacan, as follows:
 - P5 as annual revenue share for the first five years of operations;
 - 0.5% of the Bulacan Bulk Water Supply Project's annual gross revenue starting from the sixth year until the 15th year of operation; and
 - 1.0% of the Bulacan Bulk Water Supply Project's annual gross revenue starting from the 16th year of operation until the transfer date.
3. The Bulacan Bulk Water Supply Project will be implemented in three stages in different localities around the Province of Bulacan. The Water Service Providers (WSPs) entered into separate Memoranda of Understanding (MOU) with MWSS pursuant to which they agreed to cooperate with each other towards the successful implementation of the Bulacan Bulk Water Supply Project. Furthermore, each MOU also provides that MWSS, respective WSP, and LCWDC will enter into a MOA simultaneous with the execution of the Concession Agreement.
4. LCWDC can use the National Housing Authority (NHA) site for the water treatment facility. NHA site is the 5.5 hectares located at Pleasant Hills, San Jose Del Monte, Bulacan intended as the site for the water treatment facility. LCWDC can either pay in staggered cash or in installment. Ownership of NHA site shall be and shall remain with MWSS at all times.

LCWDC may also opt to acquire an alternative site, including all land rights, and rights of way (whether permanent or temporary) required and otherwise necessary to access the alternative site and carry out the works for the water treatment facility. Ownership of alternative site, land rights and right of way required shall be with LCWDC and shall continue to be so until transfer date.

5. At the end of the concession period, LCWDC shall transfer the facilities to MWSS in the condition required for turnover as described in the Minimum Performance Standards and Specifications of the Concession Agreement.

Lease Commitments:

- Finance Leases

Group as Lessee

- a. IPPA Agreements

The IPPA Agreements provide the Group with a right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out. In accounting for the Group's IPPA Agreements with PSALM, the Group's management has made a judgment that the IPPA Agreements are agreements that contains a finance lease. The Group's management has also made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants. Accordingly, the carrying amount of the Group's capitalized asset and related liability of P172,573 and P154,794 as of December 31, 2017 and P177,760 and P170,089 as of December 31, 2016, respectively, (equivalent to the present value of the minimum lease payments using the Group's incremental borrowing rates for US dollar and Philippine peso payments) are presented as part of "Property, plant and equipment" and "Finance lease liabilities" accounts in the consolidated statements of financial position (Notes 4 and 14).

The Group's incremental borrowing rates are as follows:

	US Dollar	Philippine Peso
SMEC	3.89%	8.16%
SPPC	3.85%	8.05%
SPDC	3.30%	7.90%

The discount determined at the inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income. Interest expense amounted to P9,074, P9,668, and P10,213 in 2017, 2016 and 2015, respectively (Note 30).

The future minimum lease payments for each of the following periods are as follows:

2017

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US\$256	P12,771	P12,249	P25,020
More than one year and not later than five years	1,114	55,640	53,375	109,015
Later than five years	568	28,335	27,215	55,550
	1,938	96,746	92,839	189,585
Less: Future finance charges on finance lease liabilities	244	12,184	22,607	34,791
Present values of finance lease liabilities	US\$1,694	P84,562	P70,232	P154,794

2016

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US\$253	P12,577	P12,112	P24,689
More than one year and not later than five years	1,117	55,556	53,512	109,068
Later than five years	820	40,783	39,326	80,109
	2,190	108,916	104,950	213,866
Less: Future finance charges on finance lease liabilities	310	15,424	28,353	43,777
Present values of finance lease liabilities	US\$1,880	P93,492	P76,597	P170,089

The present values of minimum lease payments for each of the following periods are as follows:

2017

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US\$197	P9,822	P7,023	P16,845
More than one year and not later than five years	964	48,131	39,494	87,625
Later than five years	533	26,609	23,715	50,324
	US\$1,694	P84,562	P70,232	P154,794

2016

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US\$192	P9,544	P6,800	P16,344
More than one year and not later than five years	770	38,312	24,671	62,983
Later than five years	918	45,636	45,126	90,762
	US\$1,880	P93,492	P76,597	P170,089

b. Equipment

The Group's finance leases cover equipment needed for business operations. The agreements do not allow subleasing. The net carrying amount of leased assets is P166 and P170 as of December 31, 2017 and 2016, respectively (Notes 4 and 14).

Interest expense amounted to P10 and P8 in 2017 and 2016, respectively (Note 30).

The Group's share in the minimum lease payments for these finance lease liabilities are as follows:

2017

	Minimum Lease Payable	Interest	Principal
Within one year	P51	P7	P44
After one year but not more than five years	63	4	59
	P114	P11	P103

2016

	Minimum Lease Payable	Interest	Principal
Within one year	P58	P10	P48
After one year but not more than five years	113	10	103
	P171	P20	P151

▪ **Operating Leases**

Group as Lessor

The Group has entered into lease agreements on its investment property portfolio, consisting of surplus office spaces (Note 15) and certain service stations and other related structures and machinery and equipment (Note 14). The non-cancellable leases have remaining terms of three to ten years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

The future minimum lease receipts under non-cancellable operating leases are as follows:

	2017	2016
Within one year	P264	P344
After one year but not more than five years	336	330
After five years	14	51
	P614	P725

Rent income recognized in the consolidated statements of income amounted to P1,307, P1,378 and P1,173 in 2017, 2016 and 2015, respectively (Note 4).

Group as Lessee

The Group leases a number of office, warehouse, factory facilities and parcels of land under operating leases. The leases typically run for a period of 1 to 16 years. Some leases provide an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals.

Non-cancellable operating lease rentals are payable as follows:

	2017	2016
Within one year	P2,383	P2,563
After one year but not more than five years	7,247	5,580
More than five years	14,999	13,144
	P24,629	P21,287

Rent expense recognized in the consolidated statements of income amounted to P4,992, P2,895, and P3,593 in 2017, 2016 and 2015, respectively (Notes 4, 26 and 27).

35. Retirement Plans

The Parent Company and majority of its subsidiaries have funded, noncontributory, defined benefit retirement plans (collectively, the Retirement Plans) covering all of their permanent employees. The Retirement Plans of the Parent Company and majority of its subsidiaries pay out benefits based on final pay. Contributions and costs are determined in accordance with the actuarial studies made for the Retirement Plans. Annual cost is determined using the projected unit credit method. Majority of the Group's latest actuarial valuation date is December 31, 2017. Valuations are obtained on a periodic basis.

Majority of the Retirement Plans are registered with the Bureau of Internal Revenue (BIR) as tax-qualified plans under RA No. 4917, as amended. The control and administration of the Group's Retirement Plans are vested in the Board of Trustees of each Retirement Plan. Majority of the Board of Trustees of the Group's Retirement Plans who exercises voting rights over the shares and approves material transactions are employees and/or officers of the Parent Company and its subsidiaries. The Retirement Plans' accounting and administrative functions are undertaken by the Retirement Funds Office of the Parent Company.

The following table shows a reconciliation of the net defined benefit retirement asset (liability) and its components:

	Fair Value of Plan Assets		Present Value of Defined Benefit Retirement Obligation		Effect of Asset Ceiling		Net Defined Benefit Retirement Liability	
	2017	2016	2017	2016	2017	2016	2017	2016
Balance at beginning of year	P27,799	P21,410	(P28,595)	(P28,056)	(P2,957)	(P1,938)	(P3,753)	(P8,584)
Benefit asset (obligation) of newly-acquired and disposed subsidiaries	-	(296)	-	184	-	26	-	(86)
Recognized in profit or loss								
Service costs	-	-	(1,616)	(1,311)	-	-	(1,616)	(1,311)
Interest expense	-	-	(1,450)	(1,338)	-	-	(1,450)	(1,338)
Interest income	1,377	989	-	-	-	-	1,377	989
Interest on the effect of asset ceiling	-	-	-	-	(143)	(82)	(143)	(82)
	1,377	989	(3,066)	(2,649)	(143)	(82)	(1,832)	(1,742)
Recognized in other comprehensive income								
Remeasurements								
Actuarial gains (losses) arising from:								
Experience adjustments	-	-	(3,587)	(1,101)	-	-	(3,587)	(1,101)
Changes in financial assumptions	-	-	1,194	380	-	-	1,194	380
Changes in demographic assumptions	-	-	242	333	-	-	242	333
Return on plan assets excluding interest income	519	4,993	-	-	-	-	519	4,993
Changes in the effect of asset ceiling	-	-	-	-	(88)	(963)	(88)	(963)
	519	4,993	(2,151)	(388)	(88)	(963)	(1,720)	3,642
Others								
Contributions	1,506	2,943	-	-	-	-	1,506	2,943
Benefits paid	(1,461)	(2,288)	1,659	2,414	-	-	198	126
Transfers from other plans	60	-	(60)	(16)	-	-	-	(16)
Transfers to other plans	(60)	-	60	16	-	-	-	16
Other adjustments	8	48	(56)	(100)	-	-	(48)	(52)
	53	703	1,603	2,314	-	-	1,656	3,017
Balance at end of year	P29,748	P27,799	(P32,209)	(P28,595)	(P3,188)	(P2,957)	(P5,649)	(P3,753)

The Group's annual contribution to the Retirement Plans consists of payments covering the current service cost plus amortization of unfunded past service liability.

Retirement costs (benefits) recognized in the consolidated statements of income by the Parent Company amounted to (P18), P7 and (P26) in 2017, 2016 and 2015, respectively (Note 29).

Retirement costs recognized in the consolidated statements of income by the subsidiaries amounted to P1,850, P1,735 and P1,590 in 2017, 2016 and 2015, respectively, of which P8 of the costs in 2015 is included as part of "Income after income tax from discontinued operations" account in the consolidated statements of income in 2015 (Notes 6 and 29).

As of December 31, 2017, net retirement assets and liabilities, included as part of "Other noncurrent assets" account, amounted to P3,316 (Note 18) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P182 and P8,783, respectively (Notes 20 and 22).

As of December 31, 2016, net retirement assets and liabilities, included as part of "Other noncurrent assets" account, amounted to P3,487 (Note 18) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P87 and P7,153, respectively (Notes 20 and 22).

The carrying amounts of the Group's retirement fund approximate fair values as of December 31, 2017 and 2016.

The Group's plan assets consist of the following:

	In Percentages	
	2017	2016
Investments in marketable securities and shares of stock	76.57	77.35
Investments in pooled funds:		
Fixed income portfolio	9.62	8.48
Stock trading portfolio	5.19	5.86
Investments in real estate	0.82	0.85
Others	7.80	7.46

Investments in Marketable Securities

As of December 31, 2017, the plan assets include:

- 43,775,047 common shares and 30,338,700 Subseries "2-B", 2,712,300 Subseries "2-D", 4,000,000 Subseries "2-E", 8,000,000 Subseries "2-F", and 6,153,600 Subseries "2-I" preferred shares of the Parent Company with fair market value per share of P111.60, P76.50, P75.65, P76.50, P81.95 and P79.80, respectively;
- 731,516,097 common shares and 290,470 preferred shares of Petron with fair market value per share of P9.17 and P1,060.00, respectively;
- 25,338,285 common shares of GSMI with fair market value per share of P26.85;
- 226,998 common shares and 300,000 preferred shares of SMPFC with fair market value per share of P529.00 and P1,000.00, respectively;

- 33,635,700 common shares of SMB with fair market value per share of P20.00; and
- 5,954,871 common shares of Top Frontier with fair market value per share of P286.00.

As of December 31, 2016, the plan assets include:

- 46,597,467 common shares and 32,511,970 Subseries "2-B", 2,666,700 Subseries "2-D", 4,000,000 Subseries "2-E", 8,000,000 Subseries "2-F" and 6,153,600 Subseries "2-I" preferred shares of the Parent Company with fair market value per share of P92.30, P80.00, P76.00, P78.20, P79.50 and P78.00, respectively;
- 731,516,097 common shares and 290,470 preferred shares of Petron with fair market value per share of P9.95 and P1,045.00, respectively;
- 22,859,785 common shares of GSMI with fair market value per share of P12.70;
- 226,998 common shares and 300,000 preferred shares of SMPFC with fair market value per share of P231.00 and P1,028.00, respectively;
- 33,635,700 common shares of SMB with fair market value per share of P20.00; and
- 5,954,871 common shares of Top Frontier with fair market value per share of P262.00.

The fair market value per share of the above marketable securities is determined based on quoted market prices in active markets as of the reporting date (Note 4).

The Group's Retirement Plans recognized a gain on the investment in marketable securities of Top Frontier, Parent Company and its subsidiaries amounting to P794, P4,716 and P3,183 in 2017, 2016 and 2015, respectively.

Dividend income from the investment in shares of stock of the Parent Company and its subsidiaries amounted to P474, P457 and P350 in 2017, 2016 and 2015, respectively.

Investments in Shares of Stock

a. BOC

San Miguel Corporation Retirement Plan (SMCRP) has 39.94% equity interest in BOC representing 44,834,286 common shares, accounted for under the equity method, amounting to P10,366 and P10,168 as of December 31, 2017 and 2016, respectively. SMCRP recognized its share in total comprehensive income of BOC amounting to P198 and P230 in 2017 and 2016, respectively.

b. PAHL

On July 25, 2016, PCERP's investment in 375,142,858 ordinary shares of PAHL was sold to Petron for a total consideration of P1,921. Accordingly, the plan recognized gain on sale of investment amounting to P503.

c. BPI

The Group's plan assets also include San Miguel Brewery Inc. Retirement Plan's investment in 4,708,494 preferred shares of stock of BPI, accounted for under the cost method, amounting to P480 and P469 as of December 31, 2017 and 2016, respectively.

Investments in Pooled Funds

Investments in pooled funds were established mainly to put together a portion of the funds of the Retirement Plans of the Group to be able to draw, negotiate and obtain the best terms and financial deals for the investments resulting from big volume transactions.

The Board of Trustees approved the percentage of asset to be allocated to fixed income instruments and equities. The Retirement Plans have set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The Board of Trustees may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

Approximately 48% and 41% of the Retirement Plans' investments in pooled funds in stock trading portfolio include investments in shares of stock of the Parent Company and its subsidiaries as of December 31, 2017 and 2016, respectively.

Approximately 68% and 66% of the Retirement Plans' investments in pooled funds in fixed income portfolio include investments in shares of stock of the Parent Company and its subsidiaries as of December 31, 2017 and 2016, respectively.

Investments in Real Estate

The Retirement Plans of the Group have investments in real estate properties. The fair value of investment property amounted to P370 and P369 as of December 31, 2017 and 2016, respectively.

Others

Others include the Retirement Plans' investments in trust account, government securities, bonds and notes, cash and cash equivalents and receivables which earn interest. Investment in trust account represents funds entrusted to a financial institution for the purpose of maximizing the yield on investible funds.

The Board of Trustees reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Group's ALM objective is to match maturities of the plan assets to the defined benefit retirement obligation as they fall due. The Group monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Group is expected to contribute P2,197 to the Retirement Plans in 2018.

The Retirement Plans expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

Investment and Interest Rate Risks. The present value of the defined benefit retirement obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the defined benefit retirement obligation. However, this will be partially offset by an increase in the return on the Retirement Plans' investments and if the return on plan asset falls below this rate, it will create a deficit in the Retirement Plans. Due to the long-term nature of the defined benefit retirement obligation, a level of continuing equity investments is an appropriate element of the long-term strategy of the Group to manage the Retirement Plans efficiently.

Longevity and Salary Risks. The present value of the defined benefit retirement obligation is calculated by reference to the best estimates of: (1) the mortality of the plan participants, and (2) the future salaries of the plan participants. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the defined benefit retirement obligation.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages	
	2017	2016
Discount rate	5.50 - 7.00	4.81 - 8.25
Salary increase rate	5.00 - 8.00	5.00 - 8.00

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit retirement obligation ranges from 4.5 to 22.5 years and 1.5 to 23.9 years as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit retirement obligation by the amounts below, respectively:

	Defined Benefit Retirement Obligation			
	2017		2016	
	1 Percent Increase	1 Percent Decrease	1 Percent Increase	1 Percent Decrease
Discount rate	(P2,186)	P2,544	(P1,068)	P1,267
Salary increase rate	2,246	(1,967)	1,146	(988)

The outstanding balances of the Group's receivable from the retirement plans are as follows:

- a. The Parent Company has advances to SMCRP amounting to P6,943 and P6,771 as of December 31, 2017 and 2016, respectively, included as part of "Amounts owed by related parties" under "Trade and other receivables" account in the consolidated statements of financial position (Notes 9 and 33). The advances are subject to interest of 5.75% in 2017 and 2016 (Note 31).
- b. Petron has advances to PCERP amounting to P5,188 and P5,042 as of December 31, 2017 and 2016, respectively, included as part of "Amounts owed by related parties" under "Trade and other receivables" account in the consolidated statements of financial position (Notes 9 and 33). The advances are subject to interest of 5% in 2017 and 2016 (Note 31).

Transactions with the Retirement Plans are made at normal market prices and terms. Outstanding balances as of December 31, 2017 and 2016 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Group has not made any provision for impairment losses relating to the receivables from the Retirement Plans in 2017, 2016 and 2015.

36. Cash Dividends

The BOD of the Parent Company approved the declaration and payment of the following cash dividends to common and preferred stockholders as follows:

2017

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
Common	March 16, 2017	April 7, 2017	May 4, 2017	P0.35
	June 13, 2017	June 30, 2017	July 25, 2017	0.35
	September 14, 2017	October 9, 2017	November 6, 2017	0.35
	December 7, 2017	January 2, 2018	January 24, 2018	0.35
Preferred				
	SMCP1			
	January 12, 2017	March 21, 2017	April 5, 2017	1.0565625
	May 10, 2017	June 21, 2017	July 6, 2017	1.0565625
SMC2B	August 10, 2017	September 21, 2017	October 6, 2017	1.0565625
	November 10, 2017	December 21, 2017	January 5, 2018	1.0565625
	January 12, 2017	March 21, 2017	April 5, 2017	1.4296875
	May 10, 2017	June 21, 2017	July 6, 2017	1.4296875
SMC2C	August 10, 2017	September 21, 2017	October 6, 2017	1.4296875
	November 10, 2017	December 21, 2017	January 5, 2018	1.4296875
	January 12, 2017	March 21, 2017	April 5, 2017	1.50
	May 10, 2017	June 21, 2017	July 6, 2017	1.50
SMC2D	August 10, 2017	September 21, 2017	October 6, 2017	1.50
	November 10, 2017	December 21, 2017	January 5, 2018	1.50
	January 12, 2017	March 21, 2017	April 5, 2017	1.11433125
	May 10, 2017	June 21, 2017	July 6, 2017	1.11433125
SMC2E	August 10, 2017	September 21, 2017	October 6, 2017	1.11433125
	November 10, 2017	December 21, 2017	January 5, 2018	1.11433125
	January 12, 2017	March 21, 2017	April 5, 2017	1.18603125
	May 10, 2017	June 21, 2017	July 6, 2017	1.18603125
SMC2F	August 10, 2017	September 21, 2017	October 6, 2017	1.18603125
	November 10, 2017	December 21, 2017	January 5, 2018	1.18603125

Forward

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
SMC2F	January 12, 2017	March 21, 2017	April 5, 2017	1.27635
	May 10, 2017	June 21, 2017	July 6, 2017	1.27635
	August 10, 2017	September 21, 2017	October 6, 2017	1.27635
	November 10, 2017	December 21, 2017	January 5, 2018	1.27635
SMC2G	January 12, 2017	March 21, 2017	April 5, 2017	1.23361875
	May 10, 2017	June 21, 2017	July 6, 2017	1.23361875
	August 10, 2017	September 21, 2017	October 6, 2017	1.23361875
	November 10, 2017	December 21, 2017	January 5, 2018	1.23361875
SMC2H	January 12, 2017	March 21, 2017	April 5, 2017	1.1854125
	May 10, 2017	June 21, 2017	July 6, 2017	1.1854125
	August 10, 2017	September 21, 2017	October 6, 2017	1.1854125
	November 10, 2017	December 21, 2017	January 5, 2018	1.1854125
SMC2I	January 12, 2017	March 21, 2017	April 5, 2017	1.18790625
	May 10, 2017	June 21, 2017	July 6, 2017	1.18790625
	August 10, 2017	September 21, 2017	October 6, 2017	1.18790625
	November 10, 2017	December 21, 2017	January 5, 2018	1.18790625

2016

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
Common	March 17, 2016	April 8, 2016	May 4, 2016	P0.35
	June 14, 2016	July 1, 2016	July 27, 2016	0.35
	September 15, 2016	October 7, 2016	November 4, 2016	0.35
	December 8, 2016	January 2, 2017	January 25, 2017	0.35
Preferred SMCP1	January 15, 2016	March 21, 2016	April 5, 2016	1.0565625
	May 12, 2016	June 21, 2016	July 6, 2016	1.0565625
	August 10, 2016	September 21, 2016	October 6, 2016	1.0565625
	November 10, 2016	December 21, 2016	January 5, 2017	1.0565625
SMC2B	January 15, 2016	March 21, 2016	April 5, 2016	1.4296875
	May 12, 2016	June 21, 2016	July 6, 2016	1.4296875
	August 10, 2016	September 21, 2016	October 6, 2016	1.4296875
	November 10, 2016	December 21, 2016	January 5, 2017	1.4296875
SMC2C	January 15, 2016	March 21, 2016	April 5, 2016	1.50
	May 12, 2016	June 21, 2016	July 6, 2016	1.50
	August 10, 2016	September 21, 2016	October 6, 2016	1.50
	November 10, 2016	December 21, 2016	January 5, 2017	1.50
SMC2D	January 15, 2016	March 21, 2016	April 5, 2016	1.11433125
	May 12, 2016	June 21, 2016	July 6, 2016	1.11433125
	August 10, 2016	September 21, 2016	October 6, 2016	1.11433125
	November 10, 2016	December 21, 2016	January 5, 2017	1.11433125
SMC2E	January 15, 2016	March 21, 2016	April 5, 2016	1.18603125
	May 12, 2016	June 21, 2016	July 6, 2016	1.18603125
	August 10, 2016	September 21, 2016	October 6, 2016	1.18603125
	November 10, 2016	December 21, 2016	January 5, 2017	1.18603125
SMC2F	January 15, 2016	March 21, 2016	April 5, 2016	1.27635
	May 12, 2016	June 21, 2016	July 6, 2016	1.27635
	August 10, 2016	September 21, 2016	October 6, 2016	1.27635
	November 10, 2016	December 21, 2016	January 5, 2017	1.27635
SMC2G	May 12, 2016	June 21, 2016	July 6, 2016	1.23361875
	August 10, 2016	September 21, 2016	October 6, 2016	1.23361875
	November 10, 2016	December 21, 2016	January 5, 2017	1.23361875
SMC2H	May 12, 2016	June 21, 2016	July 6, 2016	1.1854125
	August 10, 2016	September 21, 2016	October 6, 2016	1.1854125
	November 10, 2016	December 21, 2016	January 5, 2017	1.1854125
SMC2I	May 12, 2016	June 21, 2016	July 6, 2016	1.18790625
	August 10, 2016	September 21, 2016	October 6, 2016	1.18790625
	November 10, 2016	December 21, 2016	January 5, 2017	1.18790625

On January 25, 2018, the BOD of the Parent Company declared cash dividends to all preferred stockholders of record as of March 8, 2018 on the following shares to be paid on April 5, 2018, as follows:

Class of Shares	Dividends Per Share
SMCP1	P1.0565625
SMC2B	1.4296875
SMC2C	1.50
SMC2D	1.11433125
SMC2E	1.18603125
SMC2F	1.27635
SMC2G	1.23361875
SMC2H	1.1854125
SMC2I	1.18790625

On March 15, 2018, the BOD of the Parent Company declared cash dividends at P0.35 per share to all common shareholders of record as of April 6, 2018 to be paid on May 4, 2018.

37. Basic and Diluted Earnings Per Share

Basic and diluted EPS is computed as follows:

	Note	2017	2016	2015
Net income from continuing operations attributable to equity holders of the Parent Company		P28,225	P17,533	P12,365
Dividends on preferred shares	24, 36	(7,317)	(6,839)	(6,425)
Net income from continuing operations attributable to common shareholders of the Parent Company (a)		20,908	10,694	5,940
Net income from discontinued operations attributable to common shareholders of the Parent Company (b)	6	-	11,756	83
Net income attributable to common shareholders of the Parent Company		P20,908	P22,450	P6,023
Weighted average number of common shares outstanding (in millions) - basic (c)		2,381	2,380	2,378
Effect of dilution of common shares (in millions)	39	2	4	7
Weighted average number of common shares outstanding (in millions) - diluted (d)		2,383	2,384	2,385
Earnings per common share attributable to equity holders of the Parent Company				
Basic EPS from continuing operations (a/c)		P8.78	P4.49	P2.50
Basic EPS from discontinued operations (b/c)		-	4.94	0.03
		P8.78	P9.43	P2.53
Diluted EPS from continuing operations (a/d)		P8.77	P4.49	P2.49
Diluted EPS from discontinued operations (b/d)		-	4.93	0.03
		P8.77	P9.42	P2.52

38. Supplemental Cash Flow Information

Supplemental information with respect to the consolidated statements of cash flows is presented below:

- a. Changes in noncash current assets, certain current liabilities and others are as follows (amounts reflect actual cash flows rather than increases or decreases of the accounts in the consolidated statements of financial position):

	2017	2016	2015
Trade and other receivables - net	(P10,677)	(P3,214)	P24,144
Inventories	(20,081)	(19,039)	21,854
Prepaid expenses and other current assets	(3,139)	(5,498)	(13,381)
Accounts payable and accrued expenses	11,732	16,004	(31,670)
Income and other taxes payable and others	2,624	(2,914)	(7,094)
Changes in noncash current assets, certain current liabilities and others	(P19,541)	(P14,661)	(P6,147)

- b. Acquisition of subsidiaries

	Note	2017	2016	2015
Cash and cash equivalents		P29	P37	P23,183
Trade and other receivables - net		897	59	7,496
Inventories		172	6	508
Prepaid expenses and other current assets		(264)	10	4,020
Property, plant and equipment - net	14	1,186	2,070	4,969
Investment property - net		707	-	-
Other intangible assets - net		-	-	83,886
Deferred tax assets		47	-	160
Other noncurrent assets - net		-	-	813
Loans payable		-	-	(2,345)
Accounts payable and accrued expenses		(1,233)	(89)	(21,093)
Income and other taxes payable		(63)	(12)	(726)
Dividends payable		-	-	(373)
Long-term debt - net of debt issue costs		-	-	(49,886)
Deferred tax liabilities		(43)	-	(5,165)
Finance lease liabilities		-	-	(75)
Other noncurrent liabilities		-	(36)	(12,872)
Non-controlling interests		-	-	(10,715)
Net assets		1,435	2,045	21,785
Cash and cash equivalents		(29)	(37)	(23,183)
Mineral rights and evaluation assets	17	-	14	-
Goodwill in subsidiaries	4, 17	1,162	4	18,918
Investments and advances		-	-	(24,302)
Gain on acquisition of a subsidiary		-	(121)	-
Net cash flows		P2,568	P1,905	(P6,782)

c. Changes in liabilities arising from financing activities

	Loans Payable	Long-term Debt	Finance Lease Liabilities	Dividends Payable
Balance as of January 1, 2017	P189,277	P328,600	P170,240	P3,992
Changes from financing cash flows				
Proceeds from borrowings	848,320	203,715	-	-
Payments of borrowings	(888,378)	(135,975)	-	-
Payments of finance lease liabilities	-	-	(24,924)	-
Dividends and distributions paid	-	-	-	(27,023)
Total changes from financing cash flows	(40,058)	67,740	(24,924)	(27,023)
The effect of changes in foreign exchange rates	644	397	497	-
Other changes	-	2,755	9,084	27,460
Balance as of December 31, 2017	P149,863	P399,492	P154,897	P4,429

39. Share-Based Transactions

ESPP

Under the ESPP, 80,396,659 shares (inclusive of stock dividends declared) of the Parent Company's unissued shares have been reserved for the employees of the Group. All permanent Philippine-based employees of the Group, who have been employed for a continuous period of one year prior to the subscription period, will be allowed to subscribe at 15% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. A participating employee may acquire at least 100 shares of stock through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to the Parent Company until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from the exercise date.

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions. The shares pertaining to withdrawn or cancelled subscriptions shall remain issued shares and shall revert to the pool of shares available under the ESPP or convert such shares to treasury stock. As of December 31, 2017 and 2016, 3,478,400 common shares under the ESPP, were cancelled and held in treasury (Note 24).

There were no shares offered under the ESPP in 2017 and 2016.

LTIP

The Parent Company also maintains LTIP for the executives of the Group. The options are exercisable at the fair market value of the Parent Company shares as of the date of grant, with adjustments depending on the average stock prices of the prior three months. A total of 54,244,905 shares, inclusive of stock dividends declared, are reserved for the LTIP over its ten-year life. The LTIP is administered by the Executive Compensation Committee of the Parent Company's BOD.

There were no LTIP offered to executives in 2017 and 2016.

Options to purchase 1,782,790 shares and 4,028,305 shares in 2017 and 2016, respectively, were outstanding at the end of each year. Options which were exercised and cancelled totaled 2,245,515 shares and 2,773,064 shares in 2017 and 2016, respectively.

The stock options granted under the LTIP cannot be assigned or transferred by a participant and are subject to a vesting schedule. After one complete year from the date of the grant, 33% of the stock option becomes vested. Another 33% is vested on the second year and the remaining option lot is fully vested on the third year.

Vested stock options may be exercised at any time, up to a maximum of eight years from the date of grant. All unexercised stock options after this period are considered forfeited.

A summary of the status of the outstanding share stock options and the related weighted average price under the LTIP is shown below:

		2017		2016	
	Note	Number of Share Stock Options	Weighted Average Price	Number of Share Stock Options	Weighted Average Price
Class “A”					
Number of shares at beginning of year		3,712,210	P89.33	5,729,418	P73.79
Exercised during the year	24	(1,753,747)	58.05	(1,226,991)	42.71
Expired during the year		(175,673)	87.08	(790,217)	49.13
Number of shares at end of year		1,782,790	120.33	3,712,210	89.33
Class “B”					
Number of shares at beginning of year		316,095	63.35	1,071,951	46.15
Exercised during the year	24	(303,718)	58.05	(456,281)	41.44
Expired during the year		(12,377)	58.05	(299,575)	40.75
Number of shares at end of year		-	-	316,095	63.35

Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company were declassified and considered as common shares without distinction. However, as of December 31, 2017 and 2016, the number of the outstanding share stock options and related weighted average price under LTIP were presented as Class "A" and Class "B" common shares to recognize the average price of stock options granted prior to August 26, 2010.

The fair value of equity-settled share options granted is estimated as of the date of grant using Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Expected volatility is estimated by considering average share price volatility.

The price for options outstanding as of December 31, 2017 was P120.33. The range of prices for options outstanding as of December 31, 2016 was P58.05 to P120.33 as of December 31, 2016.

Share-based payment charged to operations, included under "Administrative expenses - personnel expenses" account, amounted to P44 and P29 in 2017 and 2016, respectively (Note 27).

40. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Interest Rate Risk
- Foreign Currency Risk
- Commodity Price Risk
- Liquidity Risk
- Credit Risk

This note presents information about the exposure to each of the foregoing risks, the objectives, policies and processes for measuring and managing these risks, and for management of capital.

The principal non-trade related financial instruments of the Group include cash and cash equivalents, AFS financial assets, financial assets at FVPL, restricted cash, short-term and long-term loans, and derivative instruments. These financial instruments, except financial assets at FVPL and derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, noncurrent receivables and deposits, accounts payable and accrued expenses, finance lease liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The outstanding derivative instruments of the Group such as commodity and currency options, forwards and swaps are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency, interest rate and commodity price risks arising from the operating and financing activities. The accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

The BOD has the overall responsibility for the establishment and oversight of the risk management framework of the Group.

The risk management policies of the Group are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The BOD constituted the Audit and Risk Oversight Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the consolidated financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the consolidated financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with tax, legal and regulatory requirements; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit and Risk Oversight Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual report of the Group and other corporate disclosures as may be required by the SEC and/or the PSE.

The Audit and Risk Oversight Committee also oversees how management monitors compliance with the risk management policies and procedures of the Group and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit assists the Audit and Risk Oversight Committee in monitoring and evaluating the effectiveness of the risk management and governance processes of the Group. Internal Audit undertakes both regular and special reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Oversight Committee.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the long-term borrowings and investment securities. Investment securities acquired or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investment securities acquired or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

On the other hand, the investment policy of the Group is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P1,037, P1,342 and P1,933 in 2017, 2016 and 2015, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

The terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

December 31, 2017	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated Interest rate	P11,996 5.4583% - 8.6615%	P28,165 5.4583% - 10.50%	P17,858 4.9925% - 8.6615%	P50,526 4.0032% - 8.0589%	P48,193 4.8243% - 8.0589%	P117,266 4.5219% - 8.0589%	P274,004
Foreign currency-denominated (expressed in Philippine peso) Interest rate	- -	- -	- -	- -	- -	25,783 4.875%	25,783
Floating Rate							
Philippine peso-denominated Interest rate	1,304 PDST-R2 + margin or BSP overnight rate, whichever is higher	1,059 PDST-R2 + margin or BSP overnight rate, whichever is higher	545 PDST-R2 + margin or 5.75%, whichever is higher	534 PDST-R2 + margin or 5.75%, whichever is higher	1,379 PDST-R2 + margin	-	4,821
Foreign currency-denominated (expressed in Philippine peso) Interest rate	23,966 LIBOR + margin	24,252 LIBOR + margin	18,260 LIBOR + margin	14,266 LIBOR + margin	13,623 LIBOR + margin	4,494 LIBOR + margin	98,861
	P37,266	P53,476	P36,663	P65,326	P63,195	P147,543	P403,469
December 31, 2016	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated Interest rate	P28,388 5.65% - 8.74899%	P8,654 5.4583% - 8.74899%	P22,539 5.4853% - 10.50%	P13,235 4.9925% - 8.74899%	P44,511 4.0032% - 8.74899%	P55,361 4.5219% - 7.6567%	P172,688
Foreign currency-denominated (expressed in Philippine peso) Interest rate	- -	- -	- -	- -	- -	25,674 4.875%	25,674
Floating Rate							
Philippine peso-denominated Interest rate	1,216 PDST-R2 + margin or BSP overnight rate, whichever is higher	1,304 PDST-R2 + margin or BSP overnight rate, whichever is higher	1,059 PDST-R2 + margin or BSP overnight rate, whichever is higher	545 PDST-R2 + margin or 5.75%, whichever is higher	534 PDST-R2 + margin or 5.75%, whichever is higher	1,379 PDST-R2 + margin	6,037
Foreign currency-denominated (expressed in Philippine peso) Interest rate	2,138 LIBOR + margin, COF + margin	77,230 LIBOR + margin, COF + margin	13,294 LIBOR + margin, COF + margin	23,853 LIBOR + margin	1,893 LIBOR + margin	9,718 LIBOR + margin	128,126
	P31,742	P87,188	P36,892	P37,633	P46,938	P92,132	P332,525

Foreign Currency Risk

The functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using a combination of non-derivative and derivative instruments such as foreign currency forwards, options or swaps to manage its foreign currency risk exposure.

Short-term currency forward contracts (deliverable and non-deliverable) and options are entered into to manage foreign currency risks arising from importations, revenue and expense transactions, and other foreign currency-denominated obligations. Currency swaps are entered into to manage foreign currency risks relating to long-term foreign currency-denominated borrowings.

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents is as follows:

	December 31, 2017		December 31, 2016	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$1,507	P75,302	US\$2,011	P99,956
Trade and other receivables	411	20,495	482	24,060
Prepaid expenses and other current assets	3	124	5	241
Noncurrent receivables	-	16	50	2,496
	1,921	95,937	2,548	126,753
Liabilities				
Loans payable	173	8,630	491	24,410
Accounts payable and accrued expenses	872	43,569	1,166	58,007
Long-term debt (including current maturities)	2,496	124,645	3,093	153,800
Finance lease liabilities (including current portion)	1,694	84,563	1,880	93,499
Other noncurrent liabilities	158	7,891	155	7,667
	5,393	269,298	6,785	337,383
Net foreign currency-denominated monetary liabilities	(US\$3,472)	(P173,361)	(US\$4,237)	(P210,630)

The Group reported net gains (losses) on foreign exchange amounting to P241, (P11,961) and (P12,140) in 2017, 2016 and 2015, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 32). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2017	49.93
December 31, 2016	49.72
December 31, 2015	47.06

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations):

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
December 31, 2017				
Cash and cash equivalents	(P1,269)	(P1,249)	P1,269	P1,249
Trade and other receivables	(261)	(501)	261	501
Prepaid expenses and other current assets	(3)	(6)	3	6
Noncurrent receivables	-	(6)	-	6
	(1,533)	(1,762)	1,533	1,762
Loans payable	121	137	(121)	(137)
Accounts payable and accrued expenses	526	1,194	(526)	(1,194)
Long-term debt (including current maturities)	2,496	1,747	(2,496)	(1,747)
Finance lease liabilities (including current portion)	1,694	1,185	(1,694)	(1,185)
Other noncurrent liabilities	2	9	(2)	(9)
	4,839	4,272	(4,839)	(4,272)
	P3,306	P2,510	(P3,306)	(P2,510)

December 31, 2016	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P1,673)	(P1,510)	P1,673	P1,510
Trade and other receivables	(271)	(402)	271	402
Prepaid expenses and other current assets	-	(5)	-	5
Noncurrent receivables	-	(50)	-	50
	(1,944)	(1,967)	1,944	1,967
Loans payable	420	365	(420)	(365)
Accounts payable and accrued expenses	718	867	(718)	(867)
Long-term debt (including current maturities)	3,047	2,179	(3,047)	(2,179)
Finance lease liabilities (including current portion)	1,880	1,316	(1,880)	(1,316)
Other noncurrent liabilities	12	149	(12)	(149)
	6,077	4,876	(6,077)	(4,876)
	P4,133	P2,909	(P4,133)	(P2,909)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices.

The Group enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost.

The Parent Company enters into commodity derivative transactions on behalf of its subsidiaries to reduce cost by optimizing purchasing synergies within the Group and managing inventory levels of common materials.

Commodity Swaps, Futures and Options. Commodity swaps, futures and options are used to manage the Group's exposures to volatility in prices of certain commodities such as fuel oil, crude oil, aluminum, soybean meal and wheat.

Commodity Forwards. The Group enters into forward purchases of various commodities. The prices of the commodity forwards are fixed either through direct agreement with suppliers or by reference to a relevant commodity price index.

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall due under normal and stress circumstances.

The Group's objectives to manage its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps and surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted receipts and payments used for liquidity management.

December 31, 2017	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P206,073	P206,073	P206,073	P -	P -	P -
Trade and other receivables - net	116,040	116,040	116,040	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	333	333	333	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	170	170	170	-	-	-
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	42,268	42,314	246	41,731	309	28
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	14,543	14,582	-	2,248	9,731	2,603
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	8,634	8,634	2,878	5,756	-	-
Financial Liabilities						
Loans payable	149,863	150,333	150,333	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	131,320	131,320	131,320	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	3,487	3,487	3,487	-	-	-
Long-term debt (including current maturities)	399,492	504,499	57,728	71,619	206,266	168,886
Finance lease liabilities (including current portion)	154,897	189,698	25,072	26,263	82,814	55,549
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and other noncurrent non-financial liabilities)	12,930	15,740	-	2,531	8,302	4,907

December 31, 2016	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P203,153	P203,153	P203,153	P -	P -	P -
Trade and other receivables - net	114,525	114,525	114,525	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	84	84	84	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	157	157	157	-	-	-
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	42,139	42,182	96	41,810	172	104
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	10,068	10,122	-	2,648	1,749	5,725
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	3,857	3,857	3,059	798	-	-
Financial Liabilities						
Loans payable	189,277	190,263	190,263	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO and deferred income)	118,006	118,006	118,006	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	2,475	2,475	2,475	-	-	-
Long-term debt (including current maturities)	328,600	396,688	47,387	100,172	146,987	102,142
Finance lease liabilities (including current portion)	170,240	214,018	24,737	25,011	84,160	80,110
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	11,870	11,974	-	8,949	422	2,603

Credit Risk

Credit risk is the risk of financial loss to the Group when a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade and other receivables and investment securities. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk.

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

Trade and Other Receivables

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on the credit risk.

The Group obtains collateral or arranges master netting agreements, where appropriate, so that in the event of default, the Group would have a secured claim.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance include a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Investments

The Group recognizes impairment losses based on specific and collective impairment tests, when objective evidence of impairment has been identified either on an individual account or on a portfolio level.

Financial information on the Group's maximum exposure to credit risk, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	<i>Note</i>	2017	2016
Cash and cash equivalents (excluding cash on hand)	8	P203,180	P201,249
Trade and other receivables - net	9	116,040	114,525
Derivative assets	11	333	84
Financial assets at FVPL	11	170	157
AFS financial assets	11, 13	42,268	42,139
Noncurrent receivables and deposits - net	18	14,543	10,068
Restricted cash	11, 18	8,634	3,857
		P385,168	P372,079

The credit risk for cash and cash equivalents, derivative assets, financial assets at FVPL, AFS financial assets and restricted cash is considered negligible, since the counterparties are reputable entities with high quality external credit ratings.

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables and noncurrent receivables and deposits is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous counterparties. The Group does not execute any credit guarantee in favor of any counterparty.

Financial and Other Risks Relating to Livestock

The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling prices of chicken, hogs and cattle and related products, all of which are determined by constantly changing market forces such as supply and demand and other factors. The other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed below:

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing and meat plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.
- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.
- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at a reasonable price.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (financial assets at FVPL and AFS financial assets). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

The Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock and equity reserves are excluded from capital for purposes of capital management.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the external environment and the risks underlying the Group's business, operation and industry.

The Group, except for BOC which is subject to certain capitalization requirements by the BSP, is not subject to externally imposed capital requirements.

41. Financial Assets and Financial Liabilities

The table below presents a comparison by category of the carrying amounts and fair values of the Group's financial instruments:

	December 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P206,073	P206,073	P203,153	P203,153
Trade and other receivables - net	116,040	116,040	114,525	114,525
Derivative assets (included under "Prepaid expenses and other current assets" account)	333	333	84	84
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	170	170	157	157
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	42,268	42,268	42,139	42,139
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	14,543	14,543	10,068	10,068
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	8,634	8,634	3,857	3,857
Financial Liabilities				
Loans payable	149,863	149,863	189,277	189,277
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	131,320	131,320	118,006	118,006
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	3,487	3,487	2,475	2,475
Long-term debt (including current maturities)	399,492	419,198	328,600	346,523
Finance lease liabilities (including current portion)	154,897	154,897	170,240	170,240
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and other noncurrent non-financial liabilities)	12,930	12,930	11,870	11,870

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Trade and Other Receivables, Noncurrent Receivables and Deposits and Restricted Cash. The carrying amount of cash and cash equivalents, and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent receivables and deposits and restricted cash, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

Financial Assets at FVPL and AFS Financial Assets. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets. Unquoted equity securities are carried at cost less impairment.

Loans Payable and Accounts Payable and Accrued Expenses. The carrying amount of loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 2.4% to 5.7% and 1.8% to 4.9% as of December 31, 2017 and 2016, respectively. The discount rates used for foreign currency-denominated loans range from 1.7% to 2.2% and 1.1% to 2.2% as of December 31, 2017 and 2016, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments are discussed below.

The Group enters into various currency and commodity derivative contracts to manage its exposure on foreign currency, interest rate and commodity price risk. The portfolio is a mixture of instruments including forwards, swaps and options.

Derivative Instruments not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the consolidated statements of income. Details are as follows:

Freestanding Derivatives

Freestanding derivatives consist of interest rate, currency and commodity derivatives entered into by the Group.

Interest Rate Swap

As of December 31, 2017 and 2016, the Group has outstanding interest rate swap with notional amount of US\$300. Under the agreement, the Group receives quarterly floating interest rate based on LIBOR and pays annual fixed interest rate adjusted based on a specified index up to March 2020. The negative fair value of the swap amounted to P1,563 and P1,288 as of December 31, 2017 and 2016, respectively.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$1,283 and US\$875 as of December 31, 2017 and 2016, and with various maturities in 2018 and 2017, respectively. The net negative fair value of these currency forwards amounted to P445 and P38 as of December 31, 2017 and 2016, respectively.

Currency Options

As of December 31, 2017, the Group has no outstanding currency options. As of December 31, 2016, the Group has outstanding currency options with an aggregate notional amount of US\$360, and with various maturities in 2017. The negative fair value of these currency options amounted to P150 as of December 31, 2016.

Commodity Swaps

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2016. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index.

The Group has no outstanding commodity swaps on the purchase of aluminum as of December 31, 2017 and 2016.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2018 and 2017. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps were 42.6 and 26.3 million barrels as of December 31, 2017 and 2016, respectively. The negative fair value of these swaps amounted to P1,177 and P676 as of December 31, 2017 and 2016, respectively.

The Group has outstanding fixed swap agreements covering the coal requirements of a subsidiary, with various maturities in 2019. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding notional quantity covered by the commodity swaps is 60,000 metric tons as of December 31, 2017. The positive fair value of these swaps amounted to P62 as of December 31, 2017.

Commodity Options

As of December 31, 2017 and 2016, the Group has no outstanding bought and sold options covering the wheat and soybean meal requirements.

The Group has no outstanding three-way options designated as hedge of forecasted purchases of crude oil as of December 31, 2017 and 2016.

Embedded Derivatives

The Group's embedded derivatives include currency derivatives (forwards and options) embedded in non-financial contracts.

Embedded Currency Forwards

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$169 and US\$140 as of December 31, 2017 and 2016, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The net fair value of these embedded currency forwards amounted to P93 and (P239) as of December 31, 2017 and 2016, respectively.

Embedded Currency Options

As of December 31, 2017 and 2016, the Group has no outstanding currency options embedded in non-financial contracts.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P3,665), (P616) and P3,971 in 2017, 2016 and 2015, respectively (Note 32).

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments are as follows:

	2017	2016
Balance at beginning of year	(P2,391)	(P2,190)
Net change in fair value of non-accounting hedges	(3,665)	(616)
	(6,056)	(2,806)
Less fair value of settled instruments	(2,902)	(415)
Balance at end of year	(P3,154)	(P2,391)

Fair Value Hierarchy

Financial assets and financial liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities (Note 3).

The table below analyzes financial instruments carried at fair value by valuation method:

	December 31, 2017			December 31, 2016		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets						
Derivative assets	P -	P333	P333	P -	P84	P84
Financial assets at FVPL	-	170	170	-	157	157
AFS financial assets	1,002	41,266	42,268	910	41,229	42,139
Financial Liabilities						
Derivative liabilities	-	3,487	3,487	-	2,475	2,475

The Group has no financial instruments valued based on Level 3 as of December 31, 2017 and 2016. In 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

42. Registration with the Board of Investments (BOI)

a. SMC Global

- In 2013, SMCPC and SCPC were granted incentives by the BOI on a pioneer status for six years subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investments Code of 1987 (Executive Order (EO) No. 226), the rules and regulations of the BOI and the terms and conditions prescribed. On October 5, 2016, BOI granted SCPC's request to move the start of its commercial operation and Income Tax Holiday (ITH) reckoning date from February 2016 to September 2017 or when the first kWh of energy was transmitted after commissioning or testing, or one month from the date of such commissioning or testing, whichever comes earlier as certified by National Grid Corporation of the Philippines. Subsequently, on December 21, 2016, BOI granted a similar request of SMCPC to move the start of its commercial operation and ITH reckoning date from December 2015 to July 2016, or the actual date of commercial operations subject to compliance with the Specific Terms and

Conditions, due to delay in the implementation of the project for reasons beyond its control. SMCPD has a pending request with BOI on the further extension of the ITH reckoning date from July 2016 to September 2017. The ITH period for Unit 1 and Unit 2 of SCPC commenced on May 26, 2017 and September 26, 2017, respectively. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of their respective BOI registrations.

- On September 20, 2016, LPPC was registered with the BOI under EO No. 226 as expanding operator of 2 x 150 MW Circulating Fluidized Bed Coal-fired Power Plant (Phase II Limay Power Plant) on a non-pioneer status. The BOI categorized LPPC as an "Expansion" based on the 2014 to 2016 IPP's Specific Guidelines for "Energy" in relation to SCPC's 2 x 150 MW Coal-fired Power Plant (Phase I Limay Power Plant). As a registered entity, LPPC is entitled to certain incentives that include, among others, an ITH for three years from January 2018 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions LPPC's BOI registrations.

In June 2017, the BOI approved the transfer of ownership and registration of Phase II Limay Power Plant from LPPC to SCPC. SCPC has a pending request with BOI on the extension of the ITH reckoning date for Phase II Limay Power Plant from January 2018 to December 2018 or actual start of commercial operations, whichever is earlier.

- On August 26, 2015, February 11, 2016 and October 26, 2016, the BOI issued a Certificate of Authority (COA) to SMCPD, SCPC and LPPC, respectively, subject to provisions and implementing rules and regulations of EO No. 70, entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises." The COA shall be valid for one year from the date of issuance. All capital equipment, spare parts and accessories imported by SMCPD and SCPC for the construction of the power plants were ordered, delivered and completed within the validity period of their respective COAs.

On July 10, 2017, the BOI issued a new COA to SCPC, as the new owner of the Phase II Limay Power Plant, subject to provisions and implementing rules and regulations of EO No. 22 (which replaced EO No. 70), also entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises." The new COA shall be valid for one year from the date of issuance or up to the expiration of EO No. 22 or until a new law amending EO No. 226 is enacted, whichever comes earlier.

- SMEC, SPDC and SPPC are registered with the BOI as administrator/operator of their respective power plants on a pioneer status with non-pioneer incentives and were granted ITH for four years without extension beginning August 1, 2010 up to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants.
- On August 21, 2007, SEPC was registered with the BOI under EO No. 226, as New Domestic Producer of Coal on a Non-Pioneer Status.

License Granted by the ERC

On August 22, 2011 and August 24, 2016, SMELC and SCPC, respectively, were granted a RES License by the ERC pursuant to Section 29 of the Electric Power Industry Reform Act of 2001 (EPIRA), which requires all suppliers of electricity to the contestable market to secure a license from the ERC. The term of the RES License is for a period of five years from the time it was granted and renewable thereafter.

On August 19, 2016, the ERC approved the renewal of SMELC's RES License for another five years from August 22, 2016 up to August 21, 2021.

b. SMPFC

Certain expansion projects of consolidated subsidiaries of SMPFC are registered either with the BOI, as pioneer or non-pioneer status, or with Authority of the Freeport Area of Bataan (AFAB). As registered enterprises, the consolidated subsidiaries are subject to certain requirements and are entitled to certain tax and non-tax incentives.

SMFI

SMFI is registered with the BOI for certain poultry, feedmill and meats projects. In accordance with the provisions of EO No. 226, the projects are entitled, among others, to the following incentives:

- *New Producer of Hogs.* SMFI's (formerly Monterey Foods Corporation) Sumilao hog project (Sumilao Hog Project) was registered with the BOI on a pioneer status on July 30, 2008 under Registration No. 2008-192. The Sumilao Hog Project was entitled to ITH for a period of six years, extendable under certain conditions to eight years.

SMFI's six-year ITH for the Sumilao Hog Project ended on January 31, 2015. SMFI's application for one year extension of ITH from February 1, 2015 to January 31, 2016 was approved by the BOI on May 20, 2016. SMFI management decided to no longer apply for the second year extension of ITH.

- *New Producer of Animal Feeds (Pellet, Crumble and Mash).* The Mandaue, Cebu feedmill project (Cebu Feedmill Project) was registered on a non-pioneer status on November 10, 2015 under Registration No. 2015-251. The Cebu Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier but in no case earlier than the date of registration, extendable under certain conditions to eight years.
- *New Producer of Animal and Aqua Feeds.* The Sta. Cruz, Davao feedmill project (Davao Feedmill Project) was registered on a non-pioneer status on April 14, 2016 under Registration No. 2016-073. The Davao Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier but in no case earlier than the date of registration, extendable under certain conditions to eight years.

- *New Producer of Animal Feeds (Pellet, Crumble and Mash)*. The San Ildefonso, Bulacan feedmill project (Bulacan Feedmill Project) was registered on a non-pioneer status on April 14, 2016 under Registration No. 2016-074. The Bulacan Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier but in no case earlier than the date of registration, extendable under certain conditions to eight years.
- *New Producer of Whole Dressed Chicken and Further Processed (Marinated, Deboned) Chicken Parts*. The Sta. Cruz, Davao poultry project (Davao Poultry Project) was registered on a non-pioneer status on February 3, 2017 under Registration No. 2017-035. The Davao Poultry Project is entitled to ITH for four years from January 2018 or actual start of commercial operations, whichever is earlier but in no case earlier than the date of registration.
- *New Producer of Whole Dressed Chicken and Further Processed (Marinated, Deboned) Chicken Parts*. The Pagbilao, Quezon poultry project (Quezon Poultry Project) was registered on a non-pioneer status on March 30, 2017 under Registration No. 2017-082. The Quezon Poultry Project is entitled to ITH for four years from January 2018 or actual start of commercial operations, whichever is earlier but in no case earlier than the date of registration.
- *New Producer of Ready-to-Eat Meals*. The Sta. Rosa, Laguna Great Food Solutions project (Ready-to-Eat Project) was registered on a non-pioneer status on December 13, 2017 under Registration No. 2017-335. The Ready-to-Eat Project is entitled to ITH for four years from March 2019 or actual start of commercial operations, whichever is earlier but in no case earlier than the date of registration.

SMFI's Bataan feedmill project (Bataan Feedmill Project) was registered with AFAB as a Manufacturer of Feeds for Poultry, Livestock and Marine Species on January 6, 2017 under Registration No. 2017-057. Under the terms of SMFI's AFAB registration, Bataan Feedmill Project is entitled to incentives which include, among others, ITH for four years from May 2018 or actual start of commercial operations, whichever is earlier but in no case earlier than the date of registration.

GBGTC

GBGTC was registered with the BOI under Registration No. 2012-223 on a non-pioneer status as a New Operator of Warehouse for its grain terminal project in Mabini, Batangas on October 19, 2012.

Under the terms of GBGTC's BOI registration and subject to certain requirements as provided in EO No. 226, GBGTC is entitled to incentives which include, among others, ITH for a period of four years from July 2013 until June 2017.

SMMI

SMMI was registered with BOI under Registration No. 2016-035 on a non-pioneer status as an Expanding Producer of Wheat Flour and its By-Product (Bran and Pollard) for its flour mill expansion project in Mabini, Batangas on February 16, 2016.

Under the terms of SMMI's BOI registration and subject to certain requirements as provided in EO No. 226, SMMI is entitled to incentives which include, among others, ITH for three years from July 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

On November 9, 2017, the BOI approved the change in the start date of the ITH entitlement of the flour mill expansion project to December 2018 or actual start of commercial operations, whichever is earlier.

PF-Hormel

PF-Hormel was registered with BOI under Registration No. 2017-033 on a non-pioneer status as an Expanding Producer of Processed Meat (Hotdog) for its project in General Trias, Cavite on January 31, 2017.

Under the terms of PF-Hormel's BOI registration and subject to certain requirements as provided in EO No. 226, PF-Hormel is entitled to incentives which include, among others, ITH for three years from December 2017 or actual start of commercial operations, whichever is earlier but in no case earlier than the date of registration.

c. Petron

Benzene, Toluene and Propylene Recovery Units

On October 20, 2005, Petron registered with the BOI under EO No. 226 as: (1) a pioneer, new export producer status of Benzene and Toluene; and (2) a pioneer, new domestic producer status of Propylene. Under the terms of its registration, Petron is subject to certain requirements principally that of exporting at least 50% of the combined production of Benzene and Toluene.

As a registered enterprise, Petron is entitled to certain benefits on its production of petroleum products used as petrochemical feedstock, mainly, among others, ITH for six years from May 2008 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Benzene and Toluene.

The BOI extended Petron's ITH incentive for its Benzene and Toluene sales from May 2014 to April 2015.

RMP-2 Project

On June 3, 2011, the BOI approved Petron's application under the Downstream Oil Industry Deregulation Act (RA No. 8479) as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

- ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based on the formula of the ITH rate of exemption.
- Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.

- Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.
- Exemption from real property tax on production equipment or machinery.
- Exemption from contractor's tax.

The RMP-2 Project commenced its commercial operations on January 1, 2016 and Petron availed of the ITH in 2016 and 2017.

On August 11, 2017, the BOI approved Petron's application for the ITH incentive. The approval also covers the claim for income tax exemption in Petron's 2016 Income Tax Return, subject to adjustment, if any, after the completion of the audit by the BIR.

Yearly certificates of entitlement have been timely obtained by Petron to support its ITH credits.

d. SMCSLC

SMCSLC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

i. *ITH*

Operation of Brand New Oil Tanker (SL Bignay). The project was registered on August 13, 2010, where SMCSLC is entitled to ITH for six years from June 2011 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

Operation of Brand New Non-Propelled Barge (M/V Katapatan 2). The project was registered on June 9, 2011, where SMCSLC is entitled to ITH for six years from July 2011 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

Operation of Brand New Domestic/Inter-Island Shipping Vessel (M/T SL Beluga). The project was registered on February 20, 2013, where SMCSLC is entitled to ITH for six years from February 2013 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% incentives shall be limited only to the revenue generated by the registered project.

Operation of New Domestic/Inter-Island Shipping Operator Vessel (M/V SL Venus 8). The project was registered on February 27, 2014, where SMCSLC is entitled to ITH for four years from February 2014 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% incentives shall be limited only to the sales/revenue generated by the registered project.

- ii. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The president, general manager and treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.
- iii. *Importation of Consigned Equipment.* For the operation of cargo vessels, SMCSLC is entitled for importation of consigned equipment for a period of ten years from November 11, 2008, subject to the posting of re-export bond.
- iv. *Importation of Capital Equipment, Spare Parts and Accessories.* For the operation of motor tankers, SMCSLC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above pursuant to EO No. 528 and its implementing rules and regulations.

e. SLHBTC

In 2014, SLHBTC's registration with the BOI as an oil terminal for storage and bulk marketing of petroleum products in its Main Office located at Tondo, Manila was granted with Registration No. 2013-068. In 2015, SLHBTC also registered its own fuel storage facilities at Limay, Bataan under Registration No. 2015-027. In 2016, its newly built oil terminal located at Tagoloan, Cagayan de Oro was also registered with the BOI under Registration No. 2016-145. With the registration, SLHBTC is entitled to the following incentives under the RA No. 8479 from date of registration or date of actual start of commercial operations whichever is earlier, and upon fulfillment of the terms enumerated below:

i. *ITH*

SLHBTC is entitled to ITH for five years without extension from date of registration or actual start of operations, whichever is earlier but in no case earlier than the date of registration.

Only income directly attributable to the revenue generated from the registered project [Storage and Bulk Marketing of 172,000,000 liters (Tagoloan) or 35,000,000 liters (Tondo and Limay) of petroleum products covered by Import Entry Declaration or sourced locally from new industry participants] pertaining to the capacity of the registered storage terminal shall be qualified for the ITH.

- ii. *Additional Deduction from Taxable Income.* SLHBTC shall be allowed an additional deduction from taxable income of 50% of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the BOI and provided that this incentive shall not be availed of simultaneously with the ITH.
- iii. *Minimum Duty of 3% and VAT on Imported Capital Equipment.* Importation of brand new capital equipment, machinery and accompanying spare parts, shall be entitled to this incentive subject to the following conditions:
 - they are not manufactured domestically in sufficient quantity of comparable quality and at reasonable prices;

- the equipment is reasonably needed and will be exclusively used in the registered activity; and
 - prior BOI approval is obtained for the importation as endorsed by the DOE.
- iv. *Tax Credit on Domestic Capital Equipment.* This shall be granted on locally fabricated capital equipment equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.
- v. *Importation of Consigned Equipment.* SLHBTC is entitled for importation of consigned equipment for a period of five years from the date of registration subject to posting of the appropriate bond, provided that such consigned equipment shall be for the exclusive use of the registered activity.
- vi. *Exemption from Taxes and Duties on Imported Spare Parts for Consigned Equipment with Bonded Manufacturing Warehouse.* SLHBTC is entitled to this exemption upon compliance with the following requirements:
- at least 70% of production is imported;
 - such spare parts and supplies are not locally available at reasonable prices, sufficient quantity and comparable quality; and
 - all such spare and supplies shall be used only on bonded manufacturing warehouse on the registered enterprise under such requirements as the Bureau of Customs may impose.
- vii. *Exemption from Real Property Tax on Production Equipment or Machinery.* Equipment and machineries shall refer to those reasonably needed in the operations of the registered enterprise and will be used exclusively in its registered activity. BOI Certification to the appropriate Local Government Unit will be issued stating therein the fact of the applicant's registration with the BOI.
- viii. *Exemption from the Contractor's Tax.* BOI certification to the BIR will be issued stating therein the fact of the applicant's registration with the BOI.
- ix. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from date of registration. The President, General Manager and Treasurer of foreign-owned registered enterprise or their equivalent shall not be subject to the foregoing limitations.

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of five years from date of registration and/or actual start of commercial operations.

f. MTC

MTC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

i. ITH

Operation of Oil Tanker Vessel (MTC Apitong, 2993GT). The project was registered on January 11, 2017, where MTC is entitled to ITH for four years from January 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

New Domestic Shipping Operator (Oil Tanker Vessel - MTC Guijo - 2,993 GT). The project was registered on May 24, 2017, where MTC is entitled to ITH for four years from May 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

- ii. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.
- iii. *Importation of Consigned Equipment.* For the operation of cargo vessels, MTC is entitled to importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.
- iv. *Importation of Capital Equipment, Spare Parts and Accessories.* For the operation of motor tankers, MTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above pursuant to EO No. 528 and its implementing rules and regulations.

g. BTC

BTC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

i. ITH

New Domestic Shipping Operator (LPG Carrier/Tanker Vessel - BTC Balyena, 3,404 GT). The project was registered on December 14, 2016, where BTC is entitled to ITH for four years from December 2016 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

- ii. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.

- iii. *Importation of Consigned Equipment.* For the operation of cargo vessels, BTC is entitled for importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.
- iv. *Importation of Capital Equipment, Spare Parts and Accessories.* For the operation of motor tankers, BTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above pursuant to EO No. 528 and its implementing rules and regulations.

h. NTC

NTC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

i. *ITH*

New Domestic Shipping Operator (Oil Tanker Vessel - NTC Agila, 1-2,112 GT). The project was registered on May 24, 2017, where NTC is entitled to ITH for four years from May 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

- ii. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.
- iii. *Importation of Consigned Equipment.* For the operation of cargo vessels, NTC is entitled for importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.
- iv. *Importation of Capital Equipment, Spare Parts and Accessories.* For the operation of motor tankers, NTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above pursuant to EO No. 528 and its implementing rules and regulations.

43. Subsequent Events

Parent Company

On March 2, 2018, the SEC issued to the Parent Company the Permit to Sell for the third tranche, consisting of P20,000 peso denominated fixed rate bonds with an oversubscription option of up to P10,000, to be issued out of the P60,000 shelf registered Peso bonds of the Parent Company.

The bonds were issued and listed in the PDEX on March 19, 2018. The bonds comprised of the five-year Series E Bonds due 2023, seven-year Series F Bonds due 2025 and ten-year Series G Bonds due 2028.

The Series E Bonds, Series F Bonds and Series G Bonds have fixed interest rate equivalent to 6.2500% per annum, 6.6250% per annum and 7.1250% per annum, respectively.

On March 9, 2018, the BOD of SMC Global approved the issuance of Redeemable Perpetual Securities (RPS) amounting to US\$650 in favor of the Parent Company, to be used to partially finance the acquisition of the Masinloc power assets.

On March 15, 2018, the BOD of the Parent Company approved the subscription to the US\$650 RPS to be issued by SMC Global.

SMC Global

On December 17, 2017, the SMC Global executed a Share Purchase Agreement with AES Phil Investment Pte. Ltd. (AES Phil) and Gen Plus B. V. (Gen Plus) for the purchase by SMC Global of (a) 51% and 49% equity interests of AES Phil and Gen Plus, respectively, in Masin-AES Pte. Ltd. (the "Target Company"); (b) 100% equity interest of The AES Corporation in AES Transpower Private Ltd. (ATPL); and (c) 100% equity interest of AES Phil in AES Philippines Inc. (API), (collectively, "the Transaction").

The Target Company, through its subsidiaries [including Masinloc Power Partners Co. Ltd. (MPPCL)], owns and/or operates (i) the 2 x 315 MW coal-fired power plant; (ii) the under construction project expansion of the 335 MW unit known as Unit 3; (iii) the 10 MW battery energy storage project, all located in the Province of Zambales, Philippines; and (iv) the 2 x 20 MW battery energy storage facility in Kabankalan, Negros Occidental, which is still at the pre-development stage. ATPL has a Philippine Regional Office and Headquarters which provides the corporate support services to MPPCL, while API provides energy marketing services to MPPCL.

With the acquisition by SMC Global of the Target Company, ATPL and API, SMC Global aims to improve its existing baseload capacity to further ensure its ability to provide affordable and reliable supply of power to its customers. The additional power assets provide an opportunity for SMC Global to increase its footprint in clean coal technology that provides reliable and affordable power, particularly in Luzon. The Transaction will result in the production of electricity in an environmentally responsible way.

The total consideration for the Transaction is US\$1,900, subject to a post-closing purchase price adjustment. The total consideration will be paid in cash by SMC Global to be funded through a combination of its: (a) availment of US dollar-denominated long-term borrowings from various financial institutions totaling to US\$1,200; and (b) issuing RPS to, and obtaining advances from, SMC amounting to US\$650 and US\$150, respectively.

On February 23, 2018, the Philippine Competition Commission (PCC) issued its decision which states that the Transaction does not result in a substantial lessening of competition in the relevant markets, and as such, the PCC resolved that it will take no further action with respect to the Transaction (the PCC Decision).

Other than the issuance of the PCC Decision, there are other conditions precedent that are required for the closing and completion of the Transaction.

The following summarizes the initial financial information as of December 31, 2017 of assets to be acquired and liabilities to be assumed:

	Provisionary Amounts
Assets	
Cash and cash equivalents	P2,152
Trade and other receivables - net	2,609
Inventories - net	1,616
Prepaid expenses and other current assets	1,516
Property, plant and equipment - net	56,694
Other noncurrent assets	1,728
Liabilities	
Loans payable	(2,243)
Accounts payable and accrued expenses	(9,474)
Finance lease liabilities - net (including current portion)	(42)
Long-term debt - net (including current maturities)	(28,080)
Other noncurrent liabilities	(285)
Total Identifiable Net Assets at Fair Value	P26,191

Based on the foregoing initial amounts of net assets to be acquired, the goodwill is estimated to be as follows:

	Provisionary Amounts
Consideration transferred	P94,867
Non-controlling interest measured at proportionate interest in identifiable net assets	88
Total identifiable net assets at fair value	(26,191)
Goodwill	P68,764

The estimates above will be updated to their fair values as at the date of acquisition when the Transaction is closed for purposes of recognizing the business combination and will involve identification and recognition of identifiable assets or intangible assets and will likely reduce the amount of initial goodwill above.

Acquisition-related Costs

As of December 31, 2017, SMC Global incurred acquisition-related costs of P195 which have been included in the "Selling and administrative expenses" account in the consolidated statements of income.

Goodwill expected to arise from the Transaction is attributable to the benefit of expected synergies, revenue growth, future development and the assembled workforce. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Petron

On January 8, 2018, Petron announced a tender offer to holders of its US\$750 Undated Subordinated Capital Securities (USCS) with expiration deadline on January 16, 2018. Tenders amounted to US\$402 and were settled by Petron on January 22, 2018. The USCS redeemed by Petron pursuant to the Tender Offer were cancelled.

On January 19, 2018, Petron issued US\$500 Senior Perpetual Capital Securities (the “SPCS”) with an issue price of 100% to partially refinance the redemption of its existing US\$750 USCS, for the repayment of indebtedness and for general corporate purposes, including capital expenditures. The SPCS were listed with the SGX-ST on January 22, 2018.

44. Other Matters

a. Contingencies

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements of the Group.

▪ Penalties for Late Filing

On March 20, 2012, the Parent Company was assessed by the Corporate Finance Department of the SEC (SEC-CFD) for a penalty amounting to P769, in connection with the filing of the Statement of Initial Beneficial Ownership and Statement of Changes in the Beneficial Ownership (SEC Form 23-A and B, respectively) relating to the purchase by the Parent Company of the shares in Manila Electric Company. The Parent Company filed an appeal from the order of the SEC-CFD to the SEC *En Banc* on April 17, 2012.

On November 21, 2017, the SEC *En Banc* rendered a Decision denying the appeal of the Parent Company.

On December 7, 2017, the Parent Company filed a petition for review of the Decision of the SEC *En Banc* to set aside the imposition of the penalty, with an urgent application for issuance of ex parte temporary restraining order and/or writ of preliminary injunction to enjoin the SEC from enforcing the said Decision.

▪ Deficiency Excise Tax

Parent Company

On April 12, 2004 and May 26, 2004, the Parent Company was assessed by the BIR for deficiency excise tax on “San Mig Light”, one of its beer products. The Parent Company contested the assessments before the Court of Tax Appeals (CTA) (1st Division) under CTA Case Nos. 7052 and 7053.

In relation to the aforesaid contested assessments, the Parent Company, on January 31, 2006, filed with the CTA (1st Division), under CTA Case No. 7405, a claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it.

The above assessment cases (CTA Case Nos. 7052 and 7053) and claim for refund (CTA Case No. 7405), which involve common questions of fact and law, were subsequently consolidated and jointly tried.

On November 27, 2007, the Parent Company filed with the CTA (3rd Division), under CTA Case No. 7708, a second claim for refund, also in relation to the contested assessments, as it was obliged to continue paying excise taxes in excess of what it believes to be the applicable excise tax rate.

On January 11, 2008, the BIR addressed a letter to the Parent Company, appealing to the Parent Company to settle its alleged tax liabilities subject of CTA Case Nos. 7052 and 7053 “in order to obviate the necessity of issuing a Warrant of Dstraint and Garnishment and/or Levy”. The Parent Company’s external legal counsel responded to the aforesaid letter and met with appropriate officials of the BIR and explained to the latter the unfairness of the issuance of a Warrant of Dstraint and Garnishment and/or Levy against the Parent Company, especially in view of the Parent Company’s pending claims for refund.

As of December 31, 2017, the BIR has taken no further action on the matter.

On July 24, 2009, the Parent Company filed its third claim for refund with the CTA (3rd Division), under CTA Case No. 7953, also in relation to the contested assessments. This case is still undergoing trial.

On January 7, 2011, the CTA (3rd Division) under CTA Case No. 7708 rendered its decision in this case, granting the Parent Company’s petition for review on its claim for refund and ordering respondent Commissioner of Internal Revenue to refund or issue a tax credit certificate in favor of the Parent Company in the amount of P926, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on “San Mig Light” during the period from December 1, 2005 up to July 31, 2007. This decision was elevated by the BIR Commissioner to the CTA *En Banc* and the appeal was denied in the case docketed as CTA EB No. 755. The Office of the Solicitor General filed with the Supreme Court a Petition for Review which was docketed as G.R. No. 205045.

On October 18, 2011, the CTA (1st Division) rendered its joint decision in CTA Case Nos. 7052, 7053 and 7405, cancelling and setting aside the deficiency excise tax assessments against the Parent Company, granting the latter’s claim for refund and ordering the BIR Commissioner to refund or issue a tax credit certificate in its favor in the amount of P782, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on “San Mig Light” during the period from February 1, 2004 to November 30, 2005.

A motion for reconsideration filed by the BIR Commissioner on the aforesaid decision was denied and the Commissioner elevated the decision to CTA *En Banc* for review, which was docketed as CTA EB No. 873, the same was dismissed in a Decision dated October 24, 2012. The subsequent Motion for Reconsideration filed by the Commissioner was likewise denied. The CTA *En Banc* Decision was later elevated by the Office of the Solicitor General to the Supreme Court by Petition for Review, which was docketed as G.R. No. 20573 and raffled to the Third Division. This case was subsequently consolidated with G.R. No. 205045.

In a Resolution dated July 21, 2014, a copy of which was received by the Parent Company’s counsel on August 27, 2014, the Third Division of the Supreme Court required the parties to submit memoranda. Both the Parent Company’s counsel and the BIR Commissioner, through the Office of the Solicitor General, filed their respective memorandum.

On January 25, 2017, the Supreme Court decided in the consolidated cases of G.R. Nos. 205045 and 205723 to uphold the decision of the CTA requiring the BIR to refund excess taxes erroneously collected in the amount of P926 for the period of December 1, 2005 to July 31, 2007, and P782 for the period of February 2, 2004 to November 30, 2005. The Office of the Solicitor General filed motions for reconsideration, which were denied by the Supreme Court with finality on April 19, 2017.

In the meantime, effective October 1, 2007, the Parent Company spun off its domestic beer business into a new company, SMB. SMB continued to pay the excise taxes on "San Mig Light" at the higher rate required by the BIR and in excess of what it believes to be the excise tax rate applicable to it.

SMB

SMB filed nine claims for refund for overpayments of excise taxes with the BIR which were then elevated to the CTA by way of petition for review on the following dates:

- (a) first claim for refund of overpayments for the period from October 1, 2007 to December 31, 2008 - Second Division docketed as CTA Case No. 7973 (September 28, 2009);
- (b) second claim for refund of overpayments for the period of January 1, 2009 to December 31, 2009 - First Division docketed as CTA Case No. 8209 (December 28, 2010);
- (c) third claim for refund of overpayments for the period of January 1, 2010 to December 31, 2010 - Third Division docketed as CTA Case No. 8400 (December 23, 2011);
- (d) fourth claim for refund of overpayments for the period of January 1, 2011 to December 31, 2011 - Second Division docketed as CTA Case No. 8591 (December 21, 2012);
- (e) fifth claim for refund of overpayments for the period of January 1, 2012 to December 31, 2012 - Second Division docketed as CTA Case No. 8748 (December 19, 2013);
- (f) sixth claim for refund of overpayments for the period of January 1, 2013 to December 31, 2013 - docketed as CTA Case No. 8955 (December 2014);
- (g) seventh claim for refund of overpayments for the period of January 1, 2014 to December 31, 2014 - docketed as CTA Case No. 9223 (December 2015);
- (h) eighth claim for refund of overpayments for the period of January 1, 2015 to December 31, 2015 - docketed as CTA Case No. 9513 (December 2016); and
- (i) ninth claim for refund of overpayments for the period from January 1, 2016 to December 31, 2016 - docketed as CTA Case No. 9743 (December 2017).

CTA Case No. 7973, which was consolidated with CTA Case No. 7953, had been decided in favor of SMB by the Third Division, ordering the BIR in the consolidated cases to refund to SMC SMB the joint amount of P934, which decision was appealed by the BIR before the CTA *En Banc*. The CTA *En Banc* affirmed the Decision of the Third Division and, subsequently, the BIR filed a Motion for Reconsideration, which was denied. The BIR elevated the CTA *En Banc* decision to the Supreme Court by way of a petition for review, which was docketed thereat as G.R. No. 232404. The petition was denied by the Supreme Court on September 11, 2017, thereby affirming the decision of the CTA *En Banc*.

CTA Case No. 8209 was decided in favor of SMB by the CTA's First Division, ordering the BIR to refund the amount of P730. The case was not appealed by the BIR within the prescribed period, thus, the decision was deemed final and executory. The First Division granted SMB's Motion for Execution, while the BIR filed a petition for certiorari before the Supreme Court, where it was docketed as G.R. No. 221790. The petition was dismissed by the Supreme Court with finality but the BIR still filed an urgent motion for clarification. Subsequently, SMB, through counsel, received a clarificatory resolution dated February 20, 2017 wherein the Supreme Court reiterated its grounds for the denial of the BIR's petition for certiorari.

CTA Case No. 8400 was decided in favor of SMB by both the CTA's Third Division and the CTA *En Banc*, ordering the BIR to refund the amount of P699. The BIR filed a motion for reconsideration, which the CTA *En Banc* denied. Subsequently, the BIR elevated the decision of the CTA *En Banc* to the Supreme Court by way of petition for review, where it was docketed as G.R. No. 226768. On March 20, 2017, the Supreme Court denied the petition for review, thereby affirming the CTA *En Banc* decision. The Office of the Solicitor General filed a motion for reconsideration, which was denied on July 24, 2017.

CTA Case No. 8591 was decided in favor of SMB by the Second Division. The BIR was ordered to refund to SMB the amount of P740. On appeal to the CTA *En Banc*, the latter affirmed the decision of the division. The BIR filed a motion for reconsideration, which was denied by the CTA *En Banc*. The BIR, through the Office of the Solicitor General, appealed the CTA *En Banc* decision to the Supreme Court by way of petition for review, where it was docketed as G.R. No. 232776. The case is still pending in the Supreme Court.

In CTA Case No. 8748, the Second Division rendered a decision on June 9, 2017, granting SMB's claim for refund of P761, which was appealed by the BIR to the CTA *En Banc*, where the case is still pending.

The petition for review in CTA Case No. 8955 was denied by the Third Division on the ground that the same involves a collateral attack on issuances of the BIR, the court ruling that the petition should have been filed in the Regional Trial Court (RTC). SMB through counsel filed a motion for reconsideration, arguing that the case involves a claim for refund and is at the same time a direct attack on the BIR issuances which imposed excise tax rates which are contradictory to, and violative of, the rates imposed in the Tax Code. The motion for reconsideration has been deemed submitted for resolution by the court.

In CTA Cases Nos. 9223 and 9513, the trial has been finished and documentary evidence submitted by SMB is still under consideration by the court.

CTA Case No. 9743 will be scheduled for pre-trial after the respondent BIR Commissioner shall have filed his answer to SMB's petition for review.

GSMI

CTA Case Nos. 8953 and 8954: These cases pertain to GSMI's Claims for Refund with the BIR, in the amount of P581 in Case No. 8953, and P133 in Case No. 8954 representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the periods from January 1, 2013 up to May 31, 2013 in Case No. 8953, and from January 8, 2013 up to March 31, 2013 in Case No. 8954.

The aforementioned assessment and collection arose from the imposition and collection of excise taxes on GSMI's finished products processed and produced exclusively from its inventory of ethyl alcohol, notwithstanding that excise taxes had already been previously paid by GSMI on said ethyl alcohol. These cases are still pending with the CTA.

CTA Case No. 9059: This case pertains to GSMI's Claim for Refund with the BIR, in the total amount of P26, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the period from June 1, 2013 up to July 31, 2013.

The aforementioned assessment and collection arose from the imposition and collection of excise taxes on GSMI's finished products processed and produced exclusively from its inventory of ethyl alcohol, notwithstanding that excise taxes had already been previously paid by GSMI on the said ethyl alcohol. This case is still pending with the CTA.

▪ Deficiency Tax Liabilities

The BIR issued a Final Assessment Notice dated March 30, 2012 (2009 Assessment), imposing on IBI deficiency tax liabilities, including interest and penalties, for the tax year 2009. IBI treated the royalty income earned from the licensing of its intellectual properties to SMB as passive income, and therefore subject to 20% final tax. However, the BIR is of the position that said royalty income is regular business income subject to the 30% regular corporate income tax.

On May 16, 2012, IBI filed a protest against the 2009 Assessment. In its Final Decision on Disputed Assessment issued on January 7, 2013, the BIR denied IBI's protest and reiterated its demand to pay the deficiency income tax, including interests and penalties. On February 6, 2013, IBI filed a Petition for Review before the CTA contesting the 2009 Assessment. The case was docketed as CTA Case No. 8607 with the First Division. On August 14, 2015, the CTA partially granted the Petition for Review of IBI, by cancelling the compromise penalty assessed by the BIR. However, IBI was still found liable to pay the deficiency income tax, interests and penalties as assessed by the BIR. The Motion for Reconsideration was denied by the CTA's First Division on January 6, 2016. On January 22, 2016, IBI filed its Petition for Review before the CTA *En Banc* and the case was docketed as

CTA EB Case No. 1417. The petition is pending before the CTA *En Banc*. To interrupt the running of interests, IBI filed a Motion to Pay without Prejudice, which was granted by the CTA *En Banc*. As a result, IBI paid the amount of P270 on August 26, 2016.

As of December 31, 2017, the Petition for Review remains pending before the CTA *En Banc*.

On November 17, 2013, IBI received a Formal Letter of Demand with the Final Assessment Notice for tax year 2010 (2010 Assessment) from the BIR with a demand for payment of income tax and VAT deficiencies with administrative penalties. The BIR maintained its position that royalties are business income subject to the 30% regular corporate tax. The 2010 Assessment was protested by IBI before the BIR through a letter dated November 29, 2013. A Petition for Review was filed with the CTA and the case was docketed as CTA Case No. 8813. IBI also filed its Petition for Review before the CTA *En Banc* where it remains pending to date. In 2017, IBI filed an application for abatement where the Company requested for the cancellation of the surcharge and interests. As of December 31, 2017, both the Petition for Review and IBI's application for abatement remain pending for resolution by the CTA *En Banc* and the BIR, respectively.

On December 27, 2016, IBI received a Formal Letter of Demand for tax year 2012 with a demand for payment of income tax, VAT, withholding tax, documentary stamp tax and miscellaneous tax deficiencies with administrative penalties. SMB addressed the assessment of each tax type with factual and legal bases in a Protest filed within the reglementary period. Due to the inaction of the BIR, IBI filed a Petition for Review with the CTA. The case is currently pending while, at the same time, an application for abatement was submitted to the BIR in August 2017. As of December 31, 2017, both the Petition for Review and the application for abatement remain pending for resolution by the CTA and the BIR, respectively.

- Tax Credit Certificates Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron relating to its use of P659 worth of Tax Credit Certificates (TCCs) to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron contested the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron was a qualified transferee of the TCCs and that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to Petron. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the CTA in its Resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012. On June 17, 2013, Petron filed its comment on the petition for review filed by the BIR. The petition is still pending as of December 31, 2017.

- Pandacan Terminal Operations

In November 2001, the City of Manila enacted Ordinance No. 8027 reclassifying the areas occupied by the oil terminals of Petron, Pilipinas Shell Petroleum Corporation (Shell) and Chevron Philippines Inc. (Chevron) from industrial to commercial. This reclassification made the operation of the oil terminals in Pandacan, Manila illegal. In December 2002, the Social Justice Society (SJS) filed a petition with the Supreme Court against the Mayor of Manila asking that the latter be ordered to enforce Ordinance No. 8027. In April 2003, Petron filed a petition with the RTC to annul Ordinance No. 8027 and enjoin its implementation. On the basis of a *status quo* order issued by the RTC, Mayor of Manila ceased implementation of Ordinance No. 8027.

The City of Manila subsequently issued Ordinance 8119, the Comprehensive Land Use Plan and Zoning Ordinance, which applied to the entire City of Manila. Ordinance No. 8119 allowed Petron (and other non-conforming establishments) a seven-year grace period to vacate. As a result of the passage of Ordinance No. 8119, which was thought to effectively repeal Ordinance No. 8027, in April 2007, the RTC dismissed the petition filed by Petron questioning Ordinance No. 8027.

However, on March 7, 2007, in the case filed by SJS, the Supreme Court rendered a decision (the “March 7 Decision”) directing the Mayor of Manila to immediately enforce Ordinance No. 8027. On March 12, 2007, Petron, together with Shell and Chevron, filed motions with the Supreme Court seeking intervention and reconsideration of the March 7 Decision. In the same year, Petron also filed a petition before the RTC of Manila praying for the nullification of Ordinance No. 8119 on the grounds that the reclassification of the oil terminals was arbitrary, oppressive and confiscatory, and thus unconstitutional, and that the said Ordinance contravened the provisions of the Water Code of the Philippines (Presidential Decree No. 1067, the Water Code). On February 13, 2008, Petron, Shell and Chevron were allowed by the Supreme Court to intervene in the case filed by SJS but their motions for reconsideration were denied. The Supreme Court declared Ordinance No. 8027 valid and dissolved all existing injunctions against the implementation of the Ordinance No. 8027.

In May 2009, the Mayor of Manila approved Ordinance No. 8187, which amended Ordinance No. 8027 and Ordinance No. 8119 and permitted the continued operations of the oil terminals in Pandacan.

On August 24, 2012 (the “August 24 Decision”), the RTC of Manila ruled that Section 23 of Ordinance No. 8119 relating to the reclassification of subject oil terminals had already been repealed by Ordinance No. 8187; hence any issue pertaining thereto had become moot and academic. The RTC of Manila also declared Section 55 of Ordinance No. 8119 null and void for being in conflict with the Water Code. Nonetheless, the RTC upheld the validity of all other provisions of Ordinance No. 8119. Petron filed with the RTC a Notice of Appeal to the Court of Appeals on January 23, 2013.

In a decision dated September 19, 2017, the Court of Appeals denied the appeal of Petron, finding that Manila's Comprehensive Land Use Plan was valid, except for Section 55 of Ordinance No. 8119. Section 55, which imposed an easement of ten meters from the riverbank to serve as a linear park, was struck down as invalid because it violated the Water Code which required only a three-meter easement. Petron no longer filed a motion for reconsideration or elevated the matter to the Supreme Court since the issue has already become moot following the cessation by Petron of the operations of its petroleum storage facilities in Pandacan in August 2015.

With regard to Ordinance No. 8187, petitions were filed before the Supreme Court, seeking for its nullification and the enjoinder of its implementation. Petron filed a manifestation on November 30, 2010 informing the Supreme Court that, without prejudice to its position in the cases, it had decided to cease operation of its petroleum product storage facilities in Pandacan within five years or not later than January 2016 due to the many unfounded environmental issues being raised that tarnish the image of Petron and the various amendments being made to the zoning ordinances of the City of Manila when the composition of the local government changes that prevented Petron from making long-term plans. In a letter dated July 6, 2012 (with copies to the offices of the Vice Mayor and the City Council of Manila), Petron reiterated its commitment to cease the operation of its petroleum product storage facilities and transfer them to another location by January 2016.

On November 25, 2014, the Supreme Court issued a Decision (the "November 25 Decision") declaring Ordinance No. 8187 unconstitutional and invalid with respect to the continued stay of the oil terminals in Pandacan. Petron, Shell and Chevron were given 45 days from receipt of the November 25 Decision to submit a comprehensive plan and relocation schedule to the RTC of Manila and implement full relocation of their fuel storage facilities within six months from the submission of the required documents. On March 10, 2015, acting on a Motion for Reconsideration filed by Shell, a Motion for Clarification filed by Chevron, and a Manifestation filed by Petron, the Supreme Court denied Shell's motion with finality and clarified that relocation and transfer necessarily included removal of the facilities in the Pandacan terminals and should be part of the required comprehensive plan and relocation schedule. On May 14, 2015, Petron filed its submission in compliance with the November 25 Decision.

- Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the DOTr and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amounted to P292. The cases are still pending as of December 31, 2017.

- Leases with PNOC

On October 20, 2017, Petron filed with the RTC of Mandaluyong City a complaint against the PNOC for Resolution and Reconveyance, and Damages, with Verified Ex-Parte Application for 72-hour Temporary Restraining Order and Verified Applications for 20-day Temporary Restraining Order and Writ of Preliminary Injunction. In its complaint, Petron seeks the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated privatization of Petron. These landholdings consist of the refinery lots in Limay, Bataan, 23 bulk plant sites and 66 service station lots located in different parts of the country. The Deeds of Conveyance covering the landholdings provide that the transfer of these lots to PNOC was without prejudice to the continued long-term use by Petron of the conveyed lots for its business operation. Thus, PNOC and Petron executed three lease agreements covering the refinery lots, the bulk plants, and the service station sites, all with an initial lease term of 25 years to expire in August 2018, with a provision for automatic renewal for another 25 years. In 2009, Petron, through its realty subsidiary, NVRC, had an early renewal of the lease agreement for the refinery lots with an initial lease term of 30 years, renewable for another 25 years.

The complaint stemmed from PNOC's refusal to honor the automatic renewal clause in the lease agreements for the bulk plants and the service station sites and the renewed lease agreement for the refinery lots on the alleged ground that all such lease agreements were grossly disadvantageous to PNOC, a government-owned-and-controlled corporation.

Petron alleged that by unilaterally setting aside the renewal clauses of the lease agreements and by categorically declaring its refusal to honor them, PNOC committed a fundamental breach of such lease agreements with Petron.

On December 11, 2017, the trial court granted Petron's prayer for a writ of preliminary injunction, enjoining PNOC from committing any act aimed at ousting Petron from possession of the subject properties until the case is decided. On December 29, 2017, the trial court mandated the conduct of mediation proceedings on February 5, 2018 before the Philippine Mediation Center. The case was still pending as of December 31, 2017.

The court-mandated mediation conference held at the Philippine Mediation Center in Mandaluyong City on February 5, 2018 was terminated without any agreement between the parties. In an Order dated February 28, 2018, upon motion of Petron, the trial court directed that the case be returned to the Office of the Clerk of Court for re-raffle for the judicial dispute resolution proceeding. As of March 13, 2018, Petron is awaiting the notice on the date for re-raffle.

- Generation Payments to PSALM

SPPC and PSALM are parties to the Ilijan IPPA Agreement covering the appointment of SPPC as the IPP administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments calculated based on its interpretation and the amount which has already been paid by the SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain that it has fully paid all of its obligations to PSALM. Notwithstanding the bona fide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the Performance Bond posted by SPPC pursuant to the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the RTC of Mandaluyong City. In its Complaint, SPPC requested the RTC that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour TRO be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the Performance Bond. On even date, the RTC issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the status quo ante between the parties before PSALM issued the termination notice and drew on the Performance Bond. The TRO was extended for until September 28, 2015.

On September 28, 2015, the RTC issued an Order granting a Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPPA Agreement while the main case is pending.

On October 22, 2015, the RTC also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco.

In an Order dated June 27, 2016, the RTC denied PSALM's: (1) Motion for Reconsideration of the Order dated September 28, 2015, which issued a writ of preliminary injunction enjoining PSALM from further proceedings with the termination of the IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the Order, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to this Order, PSALM filed a petition for certiorari with the Court of Appeals seeking to annul the RTC's Orders granting the writ of preliminary injunction, allowing Meralco's intervention, and the Orders denying PSALM's motions for reconsideration of said injunction and intervention orders. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction "against public respondent RTC and its assailed Orders." The Court of Appeals, however, denied the petition filed by PSALM in its Decision dated December 19, 2017.

The preliminary conference on the RTC case was suspended to pave way for mediation between the parties. During the last mediation conference on January 6, 2017, mediation between the parties was terminated. Thereafter, the case was referred to judicial dispute resolution. During the dispute conference between the parties on September 28, 2017, the judicial dispute process was terminated. The parties were required to submit their respective position papers on whether or not the case should be re-raffled, in compliance with the Order of the RTC dated October 24, 2017. On December 8, 2017, SPPC filed its Comment and Opposition to the Motion for Inhibition filed by PSALM. On December 18, 2017, the presiding judge of the RTC who conducted the judicial dispute resolution issued an Order inhibiting himself in the instant case. The case was then re-raffled to another RTC which scheduled the Pre-Trial Conference on May 11, 2018. SPPC filed a Request for Motion for Production of Documents on February 28, 2018, while PSALM filed its Manifestation with Motion to Hear Affirmative Defenses and Objections Ad Cautelam. Both motions are still pending with the court as of March 15, 2018.

Meanwhile, there are no restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its PSA with the latter.

By virtue of the Preliminary Injunction issued by the RTC, SPPC continues to be the IPP administrator for the Ilijan Power Plant.

- Intellectual Property Rights

G.R. No. 196372: This case pertains to GSMI's application for the registration of the trademark "GINEBRA" under Class 33 ("gin") with the Intellectual Property Office of the Philippines ("IPOPHL"). The IPOPHL rejected GSMI's application on the ground that "GINEBRA" is a Spanish word for gin, and is a generic term incapable of appropriation.

When the Court of Appeals affirmed the IPOPHL's ruling, GSMI filed a Petition for Review on Certiorari (the "Petition") with the Supreme Court. The Supreme Court denied GSMI's Petition. GSMI moved for a reconsideration thereof, and likewise filed a Motion to Refer its Motion for Reconsideration to the Supreme Court *En Banc*. Unfortunately, the Supreme Court denied GSMI's Motion for Reconsideration "with FINALITY", as well as GSMI's Motion to Refer to Court *En Banc*.

Subsequently, GSMI filed a Manifestation with Motion for Relief from Judgment and invoked the case of *League of Cities vs. Commission of Elections* (G.R. Nos. 176951, 177499 and 178056) to invite the Supreme Court *En Banc* to re-examine the case. This case is still pending with the Supreme Court.

G.R. Nos. 210224 and 219632: These cases pertain to GSMI's complaint for trademark infringement and unfair competition against Tanduary Distillers, Inc. ("TDI") filed with the RTC, arising from TDI's distribution and sale of "Ginebra Kapitan" and use of a bottle design similar to that used by GSMI. The RTC dismissed GSMI's complaint.

When GSMI elevated the case to the Court of Appeals, due to technicalities, two (2) cases were lodged in the Court of Appeals: 1.) Petition for Review (CA-G.R. SP No. 127255), and 2.) Notice of Appeal (CA-G.R. SP No. 100332).

Acting on GSMI's Petition for Review, the Court of Appeals reversed, set aside the RTC's Decision, and ruled that "GINEBRA" is associated by the consuming public with GSMI. Giving probative value to the surveys submitted by GSMI, the Court of Appeals ruled that TDI's use of "GINEBRA" in "Ginebra Kapitan" produces a likelihood of confusion between GSMI's "Ginebra San Miguel" gin product and TDI's "Ginebra Kapitan" gin product. The Court of Appeals likewise ruled that "TDI knew fully well that GSMI has been using the mark/word 'GINEBRA' in its gin products and that GSMI's 'Ginebra San Miguel' had already obtained, over the years, a considerable number of loyal customers who associate the mark 'GINEBRA' with GSMI.

On the other hand, upon GSMI's Appeal, the Court of Appeals also set aside the RTC's Decision and ruled that "GINEBRA" is not a generic term, there being no evidence to show that an ordinary person in the Philippines would know that "GINEBRA" is a Spanish word for "gin". According to the Court of Appeals, because of GSMI's use of the term in the Philippines since the 1800s, the term "GINEBRA" now exclusively refers to GSMI's gin products and to GSMI as a manufacturer. The Court of Appeals added that "the mere use of the word 'GINEBRA' in 'Ginebra Kapitan' is sufficient to incite an average person, even a gin-drinker, to associate it with GSMI's gin product, and that TDI 'has designed its bottle and label to somehow make a colorable similarity with the bottle and label of Ginebra S. Miguel'".

TDI filed separate Petitions for Review with the Supreme Court, docketed as G.R. Nos. 210224 and 219632, which were eventually consolidated by the Supreme Court. These cases are still pending with the Supreme Court.

G.R. No. 216104: This case pertains to TDI's application for the registration of the trademark "GINEBRA KAPITAN" for Class 33 ("gin") with the IPOPHL.

GSMI opposed TDI's application, alleging that it would be damaged by the registration of "GINEBRA KAPITAN" because the term "GINEBRA" has acquired secondary meaning and is now exclusively associated with GSMI's gin products. GSMI argued that the registration of "GINEBRA KAPITAN" for use in TDI's gin products will confuse the public and cause damage to GSMI. TDI countered that "GINEBRA" is generic and incapable of exclusive appropriation, and that "GINEBRA KAPITAN" is not identical or confusingly similar to GSMI's mark.

The IPOPHL ruled in favor of TDI and held that: (a) "GINEBRA" is generic for "gin", (b) GSMI's products are too well known for the purchasing public to be deceived by a new product like Ginebra Kapitan, and (c) TDI's use of "GINEBRA" would supposedly stimulate market competition.

The Court of Appeals reversed and set aside the IPOPHL's ruling and disapproved the registration of "GINEBRA KAPITAN". The Court of Appeals ruled that "GINEBRA" could not be considered as a generic word in the Philippines considering that, to the Filipino gin-drinking public, it does not relate to a class of liquor/alcohol but rather has come to refer specifically and exclusively to the gin products of GSMI.

TDI filed a Petition for Review on Certiorari with the Supreme Court, which was subsequently consolidated with the case of "*Tanduy Distillers, Inc. vs. Ginebra San Miguel Inc.*", docketed as G.R. No. 210224. This case is still pending with the Supreme Court.

- Imported Industrial Fuel Oil

SLHBTC is a party to an investigation by the Bureau of Customs under Section 1113 (f) of the Customs Modernization and Tariff Act, in relation to an importation of industrial fuel oil which arrived at the Port of Limay, Bataan on December 14, 2016. The said imported fuel is subject to a Decision of Forfeiture issued by the district collector of the Bureau of Customs Limay, Bataan on January 20, 2017. The case was docketed as CTA Case No. 9551.

On February 2, 2017, a Notice of Appeal was filed by SLHBTC with the commissioner of Bureau of Customs.

On April 19, 2017, SLHBTC filed a Motion for Special Order on the necessity of releasing the 44,000 metric tons of fuel seized on January 20, 2017.

On January 23, 2018, the request to release the seized fuel was granted. The CTA directed the Bureau of Customs to release the 44,000 metric tons of imported industrial fuel oil, valued approximately at P759, only upon SLHBTC's posting of surety bond equivalent to one and a half times the assessed amount of P82 or P123. SLHBTC complied with the CTA's directive, and on February 6, 2018, it started releasing the seized fuel.

The pre-trial conference is scheduled on April 28, 2018.

- Criminal Cases

SPPC

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of RA No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act, before the DOJ, against certain officers of PSALM, in connection with the termination of SPPC's IPPA Agreement, which was made by PSALM with manifest partiality and evident bad faith. Further, it was alleged that PSALM fraudulently misrepresented its entitlement to draw on the Performance Bond posted by SPPC, resulting in actual injury to SPPC in the amount US\$60. The case is still pending with the DOJ as of December 31, 2017.

SMEC

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA No. 3019, before the DOJ against a certain officer of PSALM, and certain officers of Team Philippines Energy Corp. (TPEC) and Team Sual Corporation (TSC), relating to the illegal grant of the so-called "excess capacity" of the Sual Power Plant in favor of TPEC which enabled it to receive a certain amount at the expense of the Government and SMEC.

In a Resolution dated July 29, 2016, the DOJ found probable cause to file Information against the respondents for (a) Plunder; (b) Violation of Section 3(e) of the Anti-Graft and Corrupt Practices Act; and (c) Violation of Section 3(f) of the Anti-Graft and Corrupt Practices Act. The DOJ further resolved to forward the entire records of the case to the Office of the Ombudsman for their proper action. Respondents have respectively appealed said DOJ's Resolution of July 29, 2016 with the Secretary of Justice. On October 25, 2017, the DOJ issued a Resolution partially granting

the Petition for Review by reversing the July 29, 2016 DOJ Resolution insofar as the conduct of the preliminary investigation. On November 17, 2017, SMEC filed a motion for partial reconsideration of said October 25, 2017 DOJ Resolution.

On June 17, 2016, SMEC filed with the RTC Pasig a civil complaint for consignment against PSALM arising from PSALM's refusal to accept SMEC's remittances corresponding to the proceeds of the sale on the WESM of electricity generated from capacity in excess of the 1000 MW of the Sual Power Plant ("Sale of the Excess Capacity"). With the filing of the complaint, SMEC also consigned with the RTC Pasig, the amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods December 26, 2015 to April 25, 2016.

On October 3, 2016, SMEC filed an Omnibus Motion (To Admit Supplemental Complaint and To Allow Future Consignation without Tender). Together with this Omnibus Motion, SMEC consigned with the RTC Pasig an additional amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods from April 26, 2016 to July 25, 2016.

Pending for resolution are (a) PSALM's Motion for Preliminary Hearing and Special and Affirmative Defenses and (b) SMEC's Omnibus Motion (To Admit Supplemental Complaint and To Allow Future Consignations without Tender).

Further related thereto, on December 1, 2016, SMEC received a copy of a Complaint filed by TPEC and TSC with the ERC against SMEC and PSALM in relation to the Excess Capacity issues, which issues have already been raised in the abovementioned cases. SMEC filed a Motion to Dismiss and Motion to Suspend Proceeding of the instant case.

On July 5, 2017, SMEC consigned with the RTC the amount representing additional proceeds of Sale of the Excess Capacity for the billing period July 26, 2016 to August 25, 2016. SMEC also filed a Motion to Admit Second Supplemental Complaint in relation to said consignation. With the submission of manifestation from PSALM, the Motion to Admit Second Supplemental Complaint is submitted for resolution.

- TRO Issued to Meralco

On December 23, 2013, the Supreme Court issued a TRO, effective immediately, preventing Meralco from collecting from its customers the power rate increase pertaining to November 2013 billing. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of P5.67/kWh. Claiming that since the power supplied by generators, including SMEC and SPPC is billed to Meralco's customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able to collect the full amount of its generation cost. Further, on December 27, 2013, the DOE, ERC, and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price will be effective for 90 days until a new cap is decided upon.

On January 16, 2014, the Supreme Court granted Meralco's plea to include other power supplier and generation companies, including SMEC and SPPC, as respondents to an inquiry. On February 18, 2014, the Supreme Court extended the period of the TRO until April 22, 2014 and enjoined the respondents (PEMC and the generators) from demanding and collecting the deferred amounts.

On March 3, 2014, the ERC issued an order declaring the November and December 2013 Luzon WESM prices void and imposed the application of regulated prices. Accordingly, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment, the settlement of which have been covered by a 24-month Special Payment Arrangement with PEMC which was already completed on May 25, 2016.

On June 26, 2014, SMEC, SPPC, SPDC and SPI filed with the Court of Appeals a Petition for Review of these orders.

In a Decision dated November 7, 2017 ("Decision"), the Court of Appeals granted the Petition for Review filed by SMEC, SPPC, SPDC and SPI, declaring the aforesaid ERC Order null and void and set aside the Orders of the ERC dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply of months of November to December 2013.

Upon finality of the Decision, a claim for refund may be made by the relevant subsidiaries with PEMC for an amount up to P3, plus interest.

b. EPIRA

The EPIRA sets forth the following: (i) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (ii) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (iii) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements (Note 34).

The EPIRA requires generation and DU companies to undergo public offering within five years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity. The Group is in compliance with the restrictions as of December 31, 2017.

c. Commitments

The outstanding purchase commitments of the Group amounted to P101,881 as of December 31, 2017.

Amount authorized but not yet disbursed for capital projects is approximately P141,914 as of December 31, 2017.

d. Foreign Exchange Rates

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries, associates and joint ventures to Philippine peso were closing rates of P49.93 and P49.72 in 2017 and 2016, respectively, for consolidated statements of financial position accounts; and average rates of P50.40, P47.48, and P45.50 in 2017, 2016 and 2015, respectively, for income and expense accounts.

- e.* Certain accounts in prior years have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	-	0	0	0	2	7	7		
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COMPANY NAME

S	A	N		M	I	G	U	E	L		C	O	R	P	O	R	A	T	I	O	N		A	N	D				
S	U	B	S	I	D	I	A	R	I	E	S																		

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

N	o	.		4	0		S	a	n		M	i	g	u	e	l		A	v	e	n	u	e						
M	a	n	d	a	l	u	y	o	n	g		C	i	t	y														

Form Type

A A F S

Department requiring the report

--

Secondary License Type, If Applicable

--

COMPANY INFORMATION

Company's email Address

--

Company's Telephone Number/s

632-3000

Mobile Number

--

No. of Stockholders

35,541

Annual Meeting (Month / Day)

Second Tuesday of June

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Ms. Bella O. Navarra

Email Address

--

Telephone Number/s

632 - 3000

Mobile Number

--

CONTACT PERSON'S ADDRESS

No. 40 San Miguel Avenue, Mandaluyong City

Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders
San Miguel Corporation
No. 40 San Miguel Avenue
Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Corporation (the Company) and Subsidiaries (the Group) as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, and have issued our report thereon dated March 15, 2018.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Group's management.

- Map of the Conglomerate
- Schedule of Philippine Financial Reporting Standards and Interpretations
- Supplementary Schedules of Annex 68-E

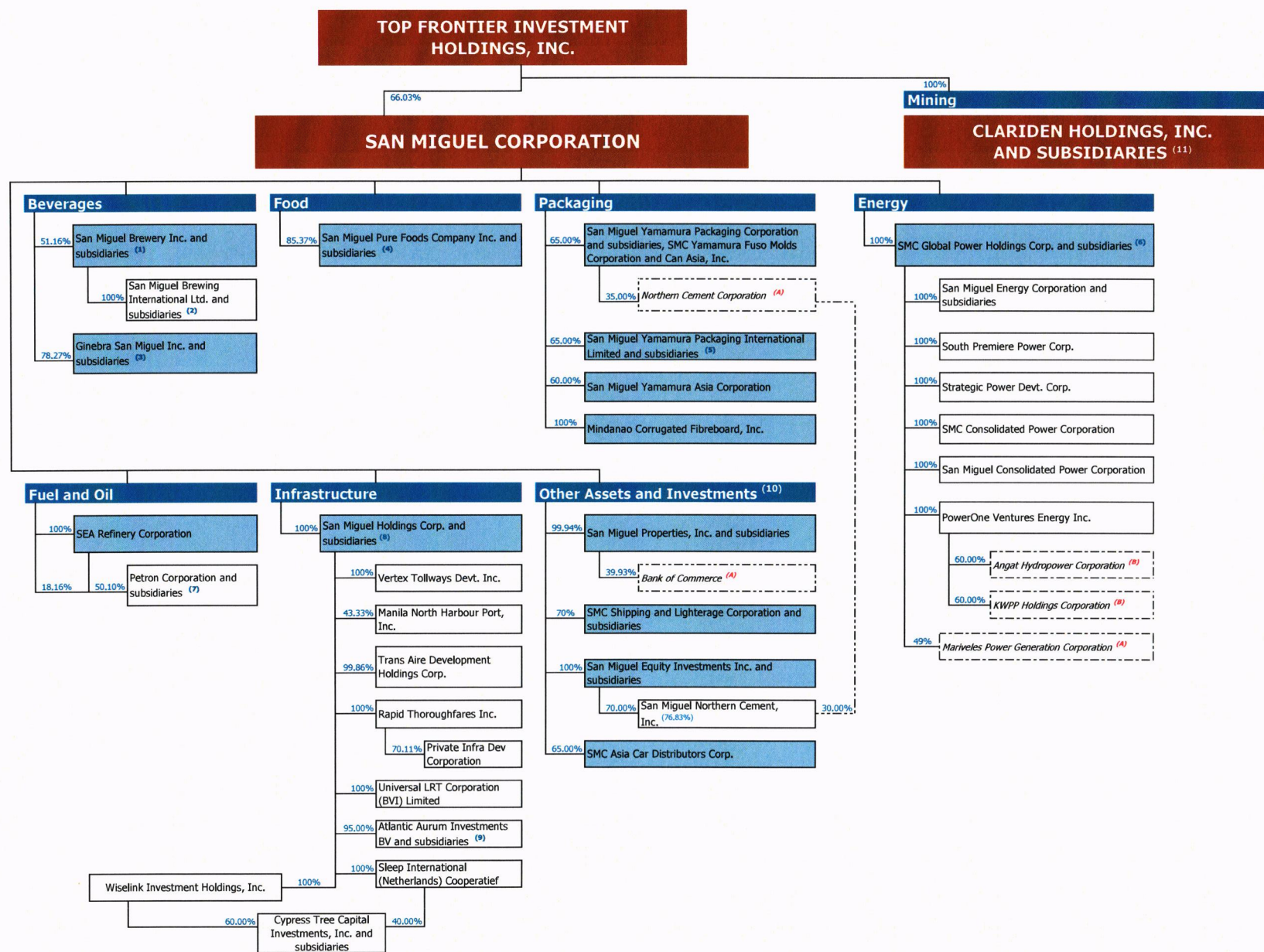
This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the consolidated financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

R.G. MANABAT & CO.

NOEL A. BALADIANG
Partner
CPA License No. 106166
SEC Accreditation No. 1473-A, Group A, valid until April 30, 2018
Tax Identification No. 223-804-972
BIR Accreditation No. 08-001987-33-2017
Issued September 5, 2017; valid until September 4, 2020
PTR No. 6615125MD
Issued January 3, 2018 at Makati City

March 15, 2018
Makati City, Metro Manila

SAN MIGUEL CORPORATION GROUP STRUCTURE *



* The group structure includes the Parent Company, Top Frontier Investment Holdings, Inc., its co-subsidiary, Clariden Holdings, Inc. and its subsidiaries and San Miguel Corporation's major subsidiaries, associates and joint ventures.

Note:

(A) Associate
(B) Joint Venture

I. Subsidiaries

1. San Miguel Brewery Inc. subsidiaries also include Iconic Beverages, Inc. and Brewery Properties Inc. and subsidiary.
2. San Miguel Brewing International Ltd. subsidiaries include San Miguel Brewery Hong Kong Limited and subsidiaries, PT. Delta Djakarta Tbk. and subsidiary, San Miguel (Baoding) Brewery Company Limited, San Miguel Brewery Vietnam Limited, San Miguel Beer (Thailand) Limited and San Miguel Marketing (Thailand) Limited.
3. Ginebra San Miguel Inc. subsidiaries include Distileria Bago, Inc., East Pacific Star Bottlers Phils Inc., Ginebra San Miguel International, Ltd., GSM International Holdings Limited, Global Beverage Holdings Limited and Siam Holdings Limited.
4. San Miguel Pure Foods Company Inc. subsidiaries include San Miguel Foods, Inc. and subsidiary, San Miguel Mills, Inc. and subsidiaries, The Purefoods-Hormel Company, Inc., Magnolia, Inc. and subsidiaries, San Miguel Super Coffeemix Co., Inc., PT San Miguel Pure Foods Indonesia and San Miguel Pure Foods International, Limited and subsidiary, San Miguel Pure Foods Investment (BVI) Limited and subsidiary, San Miguel Pure Foods (VN) Co., Ltd., formerly San Miguel Hormel (VN) Co., Ltd.
5. San Miguel Yamamura Packaging International Limited subsidiaries include San Miguel Yamamura Phu Tho Packaging Company Limited, Zhaoqing San Miguel Yamamura Glass Company Limited, Foshan San Miguel Yamamura Packaging Company Limited, San Miguel Yamamura Packaging and Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd., Packaging Research Centre Sdn. Bhd., San Miguel Yamamura Plastic Films Sdn. Bhd., San Miguel Yamamura Australasia Pty Ltd and subsidiaries including SMYC Pty Ltd (formerly Cospak Pty Ltd) and subsidiary, SMYV Pty Ltd, SMYB Pty Ltd, SMYP Pty Ltd, Cospak Limited and SMYBB Pty Ltd, and San Miguel Yamamura Glass (Vietnam) Limited and subsidiary.
6. SMC Global Power Holdings Corp. subsidiaries also include San Miguel Electric Corp., SMC PowerGen Inc. and subsidiary, SMC Power Generation Corp., Albay Power and Energy Corp. and Limay Premiere Power Corp.
7. Petron Corporation subsidiaries include Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation, Overseas Ventures Insurance Corporation Ltd., Limay Energen Corporation, New Ventures Realty Corporation and subsidiaries, Petron Singapore Trading Pte., Ltd., Petron Global Limited, Petron Oil & Gas International Sdn. Bhd. and subsidiaries including Petron Fuel International Sdn. Bhd., Petron Oil (M) Sdn. Bhd. and Petron Malaysia Refining & Marketing Bhd. (collectively Petron Malaysia), Petron Finance (Labuan) Limited and Petrochemical Asia (HK) Limited and subsidiaries.
8. San Miguel Holdings Corp. subsidiaries include Optimal Infrastructure Development, Inc., ULCOM Company Inc., Terramino Holdings, Inc. and subsidiary, Alloy Manila Toll Expressways Inc., SMC Mass Rail Transit 7 Inc. and Luzon Clean Water Development Corporation.
9. Atlantic Aurum Investments B.V. subsidiaries include Atlantic Aurum Investments Philippines Corporation and subsidiaries including Stage 3 Connector Tollways Holding Corporation and subsidiary, Citra Central Expressway Corp. and Citra Metro Manila Tollways Corporation and subsidiary, Skyway O&M Corp., MTD Manila Expressways Inc. and subsidiaries, Alloy Manila Toll Expressways Inc., Manila Toll Expressway Systems Inc. and South Luzon Tollway Corporation.
10. Other Assets and Investments also include SMC Stock Transfer Service Corporation, ArchEn Technologies Inc., SMITS, Inc. and subsidiaries, Anchor Insurance Brokerage Corporation and Davana Heights Development Corporation.

II. Co-Subsidiary

11. Clariden Holdings, Inc. subsidiaries include V.I.L. Mines, Incorporated, Asia-Alliance Mining Resources Corp., Prima Lumina Gold Mining Corp., Excelon Asia Holding Corporation, New Manila Properties, Inc. and Philnico Holdings Limited and subsidiaries including Pacific Nickel Philippines, Inc., Philnico Industrial Corporation and Philnico Processing Corp. (collectively the Philnico Group).



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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders
San Miguel Corporation
No. 40 San Miguel Avenue
Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the separate financial statements of San Miguel Corporation (the Company), which comprise the separate statements of financial position as at December 31, 2017 and 2016, and the separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and have issued our report thereon dated March 15, 2018.

Our audits were made for the purpose of forming an opinion on the separate financial statements of the Company taken as a whole. The supplementary information included in the Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management.

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the separate financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the separate financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the separate financial statements taken as a whole.

R.G. MANABAT & CO.

NOEL A. BALADIANG
Partner

CPA License No. 106166

SEC Accreditation No. 1473-A, Group A, valid until April 30, 2018

Tax Identification No. 223-804-972

BIR Accreditation No. 08-001987-33-2017

Issued September 5, 2017; valid until September 4, 2020

PTR No. 6615125MD

Issued January 3, 2018 at Makati City



March 15, 2018
Makati City, Metro Manila

SAN MIGUEL CORPORATION
No. 40 San Miguel Avenue, Mandaluyong City
RECONCILIATION OF RETAINED EARNINGS
FOR DIVIDEND DECLARATION
(In Millions)

Retained Earnings, January 1, 2017	P151,032
Adjustments:	
<i>(see adjustments in previous year's reconciliation)</i>	(75,229)
Retained earnings as adjusted, January 1, 2017	75,803
Add: Net income actually earned/realized during the period	
Net Income during the period closed to retained earnings	4,580
Deferred tax assets	352
Net Income actually earned during the period	4,932
	80,735
Less: Dividend declarations during the period	(10,651)
TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, DECEMBER 31, 2017	P70,084



SAN MIGUEL CORPORATION AND SUBSIDIARIES

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Repeated Application of PFRS 1			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Borrowing Cost Exemption			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: PFRS version that a first-time adopter can apply			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Deletion of short-term exemptions for first-time adopters*			
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Meaning of 'vesting condition'	✓		
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions*			
PFRS 3 (Revised)	Business Combinations	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Classification and measurement of contingent consideration	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope exclusion for the formation of joint arrangements	✓		
PFRS 4	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments, with PFRS 4, Insurance Contracts*			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Changes in method for disposal	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources	✓		
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures*			
	Annual Improvements to PFRSs 2012 - 2014 Cycle: 'Continuing involvement' for servicing contracts			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Offsetting disclosures in condensed interim financial statements			✓
PFRS 8	Operating Segments	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Disclosures on the aggregation of operating segments	✓		
PFRS 9	Financial Instruments (2014)*			
	Amendments to PFRS 9: Prepayment Features with Negative Compensation*			
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10, PFRS 12, and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10, PFRS 12, and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Clarification of the scope of the standard	✓		
PFRS 13	Fair Value Measurement	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Measurement of short-term receivables and payables	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope of portfolio exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers*			
PFRS 16	Leases*			
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Comparative Information beyond Minimum Requirements			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Classification of Servicing Equipment	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Discount rate in a regional market sharing the same currency - e.g. the Eurozone			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment to PAS 21: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Definition of 'related party'	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Measuring an associate or joint venture at fair value*			
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures*			
PAS 29	Financial Reporting in Hyperinflationary Economies			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Income Tax Consequences of Distributions	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Segment Assets and Liabilities	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Disclosure of information 'elsewhere in the interim financial report'	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40	✓		
	Amendments to PAS 40: Transfers of Investment Property*			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 41	Agriculture	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✓		
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements	✓		
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretation IFRIC 14: Prepayments of a Minimum Funding Requirement	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	✓		
IFRIC 17	Distributions of Non-cash Assets to Owners	✓		
IFRIC 18	Transfers of Assets from Customers	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	✓		
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration*			
IFRIC 23	Uncertainty over Income Tax Treatments*			
SIC 7	Introduction of the Euro			✓
SIC 10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC 15	Operating Leases - Incentives	✓		
SIC 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC 29	Service Concession Arrangements: Disclosures	✓		
SIC 31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC 32	Intangible Assets - Web Site Costs			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
Philippine Interpretations Committee Questions and Answers				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 - Revenue recognition for sales of property units under pre-completion contracts	✓		
PIC Q&A 2006-02	PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements	✓		
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)			✓
PIC Q&A 2008-01-Revised	PAS 19.78 - Rate used in discounting post-employment benefit obligations	✓		
PIC Q&A 2009-01	Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern			✓
PIC Q&A 2010-02	PAS 1R.16 - Basis of preparation of financial statements	✓		
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term loan			✓
PIC Q&A 2011-02	PFRS 3.2 - Common Control Business Combinations	✓		
PIC Q&A 2011-03	Accounting for Inter-company Loans	✓		
PIC Q&A 2011-04	PAS 32.37-38 - Costs of Public Offering of Shares	✓		
PIC Q&A 2011-05	PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost			✓
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property - Acquisition of investment properties - asset acquisition or business combination?	✓		
PIC Q&A 2012-01	PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements	✓		
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building	✓		
PIC Q&A 2013-02	Conforming Changes to PIC Q&As - Cycle 2013	✓		
PIC Q&A 2013-03 (Revised)	PAS 19 - Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law	✓		
PIC Q&A 2015-01	Conforming Changes to PIC Q&As - Cycle 2015	✓		
PIC Q&A 2016-01	Conforming Changes to PIC Q&As - Cycle 2016	✓		
PIC Q&A 2016-02	PAS 32 and PAS 38 - Accounting Treatment of Club Shares Held by an Entity	✓		
PIC Q&A 2016-03	Accounting for Common Areas and the Related Subsequent Costs by Condominium Corporations			✓
PIC Q&A 2016-04	Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-completion Contracts*			
PIC Q&A 2017-01	Conforming Changes to PIC Q&As - Cycle 2017	✓		
PIC Q&A 2017-02	PAS 2 and PAS 16 - Capitalization of operating lease cost as part of construction costs of a building	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PIC Q&A 2017-03	PAS 28 - Elimination of profits and losses resulting from transactions between associates and/or joint ventures	✓		
PIC Q&A 2017-04	PAS 24 - Related party relationships between parents, subsidiary, associate and non-controlling shareholder	✓		
PIC Q&A 2017-05	PFRS 7 - Frequently asked questions on the disclosure requirements of financial instruments under PFRS 7, Financial Instruments: Disclosures	✓		
PIC Q&A 2017-06	PAS 2, 16 and 40 - Accounting for collector's items	✓		
PIC Q&A 2017-07	PFRS 10 - Accounting for reciprocal holdings in associates and joint ventures			✓
PIC Q&A 2017-08	PFRS 10 - Requirement to prepare consolidated financial statements where an entity disposes of its single investment in a subsidiary, associate or joint venture			✓
PIC Q&A 2017-09	PAS 17 and Philippine Interpretation SIC 15 - Accounting for payments between and among lessors and lessees	✓		
PIC Q&A 2017-10	PAS 40 - Separation of property and classification as investment property	✓		
PIC Q&A 2017-11	PFRS 10 and PAS 32 - Transaction costs incurred to acquire outstanding non-controlling interest or to sell non-controlling interest without a loss of control	✓		
PIC Q&A 2017-12	Subsequent Treatment of Equity Component Arising from Intercompany Loans	✓		

Legend:

Adopted - means a particular standard or interpretation is relevant to the operations of the Group (even if it has no effect or no material effect on the financial statements), for which there may be a related particular accounting policy made in the financial statements and/or there are current transactions the amounts or balances of which are disclosed on the face or in the notes of the financial statements.

Not Adopted - means a particular standard or interpretation is effective but the Group did not adopt it due to either of these two reasons: 1) The Group has deviated or departed from the requirements of such standard or interpretation; or 2) The standard provides for an option to early adopt it but the Group decided otherwise.

Not Applicable - means the standard or interpretation is not relevant at all to the operations of the Group.

*These standards, amendments or interpretations will become effective subsequent to December 31, 2017. The Group will adopt these new and amended standards and interpretations on the respective effective dates.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

The following are the major performance measures that San Miguel Corporation and Subsidiaries (the Group) uses. Analyses are employed by comparisons and measurements based on the financial data as of December 31, 2017 and 2016 for liquidity, solvency and profitability ratios and for the periods ending December 31, 2017 and 2016 for operating efficiency ratios.

	December 31	
	2017	2016
<u>Liquidity:</u>		
Current Ratio	1.40	1.26
<u>Solvency:</u>		
Debt to Equity Ratio	1.93	1.99
Asset to Equity Ratio	2.93	2.99
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	9.73%	11.31%
Interest Rate Coverage Ratio	3.27	2.99
<u>Operating Efficiency:</u>		
Volume Growth	4%	7%
Revenue Growth	21%	2%
Operating Margin	13%	15%

The manner by which the Group calculates the key performance indicators is as follows:

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

SAN MIGUEL CORPORATION AND SUBSIDIARIES

**INDEX TO FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2017**

A	- FINANCIAL ASSETS	
B	- AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)	NOT APPLICABLE
C	- AMOUNTS RECEIVABLE/PAYABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS	
D	- INTANGIBLE ASSETS - OTHER ASSETS	
E	- LONG-TERM DEBT	
F	- INDEBTEDNESS TO RELATED PARTIES	NOT APPLICABLE*
G	- GUARANTEES OF SECURITIES OF OTHER ISSUERS	NOT APPLICABLE
H	- CAPITAL STOCK	

* Balance of account is less than 5% of total assets of the Group

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE A - FINANCIAL ASSETS
DECEMBER 31, 2017
(Amounts in Millions, except No. of Shares Data)

Name of Issuing Entity / Description of Each Issue	Number of shares or Principal Amount of Bonds and Notes	Amount Shown in the Statements of Financial Position	Value Based on Market Quotations at Dec. 31, 2017	Income (Loss) Received and Accrued
Cash and cash equivalents	-	₱ 206,073	Not applicable	₱ 3,825
Trade and other receivables - net	-	116,040	Not applicable	562
Derivative assets	-	333	Not applicable	(3,665) *
Financial assets at FVPL	-	170	Not applicable	13
Available for sale financial assets**	-	42,268	₱ 42,268	1,374
Noncurrent receivables and deposits - net	-	14,543	Not applicable	38
Restricted cash	-	8,634	Not applicable	78
		₱ <u>388,061</u>	₱ <u>42,268</u>	₱ <u>2,225</u>

* This represents net marked-to-market gains/losses from derivative assets and derivative liabilities that have matured during the year and those that are still outstanding as of year-end.

** The number of shares or principal amounts of bonds and notes are presented in ATTACHMENT TO SCHEDULE A - AVAILABLE - FOR - SALE FINANCIAL ASSETS.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
ATTACHMENT TO SCHEDULE A - AVAILABLE FOR SALE FINANCIAL ASSETS
DECEMBER 31, 2017
(Amounts in Millions, Except No. of Shares Data)

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Value Based on Market Quotation at December 31, 2017 (a)
San Miguel Corporation		
Alabang Country Club	7 P	42
Alta Vista Golf and Country Club	2	1
Apo Golf & Country Club	3	-
Baguio Country Club	1	2
Bancom Group Inc	999,546	-
Calatagan Golf Club	1	-
Camp John Hay	2	1
Canlubang Golf Club	3	3
Capitol Hills Golf & Country Club	1	-
Carmen Red Ltd.	-	5,139
Casino Espanol de Manila	2	-
Cebu Country Club	1	5
Celebrity Sports Plaza	3	1
Club Filipino	8	2
Continental Potash	7,909	-
Evercrest	2	-
Export & Industry Bank	940,560,000	-
Green Valley Club - Baguio	1	-
Greenfield Tennis Club	3	-
Iloilo Golf Club	1	-
Inter island Broadcasting Corp	4,458,928	-
Landgolf Inc	2	-
Makati Executive Center	1	-
Makati Sports Club	11	4
Manila Bankers Life	250,000	1
Manila Electric Company	100,331	1
Manila Golf & Country Club	3	80
Manila Polo Club	2	33
Manila Southwoods Golf & Country Club	1	1
Medical Doctors Inc.	83,379	136
Merchant Investment	41,660	-
Metropolitan Club	2	-
Metropolitan Theater	198	-
Mimosa Golf & Country Club	3	2
Monserrat Trading	1,000	-
Motor Services	52,500	-
Naga Telephone Co.	220	-
Negros Occidental Golf club	6	-
Norcem Philippines	80,000	-
Orchard Golf & Country Club	5	2
Pacific Club Corporate	1	-
Pantranco South Express	340,992	-
People's Press	1,500	-
Phil. Columbian Club	3	-
Phil. Dealing Sytem Holding Corp.	250,000	25
Phil. International Fair	500	-
Phil. Long Distance Tel. Co	230,594	2
Phil. Overseas Resources	10,000	-

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Value Based on Market Quotation at December 31, 2017 (a)
Pilipino Telephone	600 P	-
Puerto Azul Golf Club	3	-
Quezon City Sports Club	1	-
Sta Elena Properties	7	5
Sta Elena Golf Club	1	3
Sta Lucia Realty Golf Club	2	1
Subic Bay Yacht Club	1	-
Tagaytay Highland Golf and Country Club	2	1
Tagaytay Midlands Country Club	1	1
The Country Club - Canlubang	2	4
Top Frontier Holdings, Inc. - Common	2,561,031	723
Top Frontier Holdings, Inc. - Preferred	1,904,540	35,424
Universal Leisure Club	1	-
Valle Verde Golf Club	53	21
Valley Golf Club Inc.	2	1
Victorias Country Club	1	-
Petron Corporation		
Government Security - PIBD 0518 E723	30	30
Government Security - PIBD 0719 K560	40	40
Government Security - PIBD 0316 D206	-	-
Government Security - PIID 0320 D087 (RTB 03-08)	71	71
Government Security - PIBD 0522 L114 (RTB 5-11)	60	60
Megaworld Bond	166	169
Aboitiz Power Bonds	28	28
ABOITIZ EQUITY VENTURES, INC. (AEV 11-20)	37	38
Ayala Bond	45	44
SM Investments Corporation Bond	50	51
PSALM (PSAL0717D019)	-	-
San Miguel International Limited		
Others	-	-
San Miguel Brewery Inc.		
Royal Orchid International Golf Club	-	-
Guangzhou Luhua Golf Club	1	-
HSBC Holdings	20,400	10
Pacific Club Kowloon	2	7
Hongkong Arts Centre Ltd.	1	-
The American Club Hong Kong	1	9
Hong Kong Football Club	1	6
Discovery Bay Golf Club	1	9
San Miguel Properties, Inc.		
Apo Golf & Country Club	1	1
Mimosa Golf & Country Club	4	2
Sta. Elena Golf & Country Club	1	3
Metro Club	1	-
Phil. Long Distance Tel Co	41,850	-
Meralco	273,119	1
Riviera Golf Course and Country Club	1	4
Tagaytay Midlands Country Club	1	-
Pacific Central Properties, Inc.		
Corporate Investment Phils Inc	200,000	-
Herald Publications	410	-

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Value Based on Market Quotation at December 31, 2017 (a)
San Miguel Paper Packaging Corp.		
Phil Long Distance Tel.	5,200 P	-
Evercrest Golf & Country Club	1	-
Orchard Golf & Country Club	1	1
Apo Golf & Country Club	1	-
Anchor Insurance Brokerage Corporation		
Phil. Long Distance Tel. Co.	50	-
Export & Industry Bank	766,000	-
San Miguel Yamamura Asia Corporation		
Manila Southwoods Golf & Country Club	1	1
Orchard Golf and Country Club	1	-
Evercrest Golf & Country Club	1	-
San Miguel Yamamura Packaging Corporation		
Canlubang Golf & Country Club	1	1
Manila Southwoods	1	2
Orchard Golf & Country Club	1	1
Puerto Azul	1	-
Manila Southwoods Golf and Country Club	1	-
Orchard Golf and Country Club	1	-
Philippine Longdistance Tel. Co.	1,800	-
Riviera Golf Club	1	-
San Miguel Purefoods Company, Inc.		
Club Filipino	1	-
Makati Sports Club, Inc.	1	1
Philippine Long Distance Tel. Co.	325	1
Valle Verde Country Club	1	-
Capitol Hills Golf and Country Club, Inc.	1	-
Alabang Country Club	1	4
Golf Club Bogor Raya	1	-
Manila Southwoods Golf & Country Club	1	1
Sta Elena Golf Club	1	3
Manila Electric Co.	73,894	1
Tagaytay Highland Golf and Country Club	1	1
Club Filipino	1	-
Piltel	11,100	-
Royal Tagaytay Country Club	1	-
Orchard Golf and Country Club	1	-
Philippine Long Distance Tel. Co.	3,928	-
Makati Sports Club, Inc.	1	-

Total Available - for - Sale Financial Assets

P 42,268

See Notes 4, 12, 14, 41 and 42 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2017
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS COLLECTED/ CREDIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Sea Refinery Corporation	P 32,494 P	- P	- P	- P	32,494 P	32,494 P	- P	32,494
San Miguel Corporation	19,457	3,516	(12,647)	-	10,326	10,263	63	10,326
San Miguel Holdings Corp. and Subsidiaries	36,432	(12,573)	(877)	-	22,982	22,834	148	22,982
San Miguel Equity Investments, Inc.	9,697	5	(9,698)	-	4	4	-	4
Petron Corporation and Subsidiaries	5,874	11,983	(17,085)	-	772	772	-	772
San Miguel International Limited and Subsidiaries	5,560	(3,991)	(530)	-	1,039	66	973	1,039
Challenger Aero Air Corporation	2,688	332	(308)	-	2,712	2,712	-	2,712
Fortunate Land Inc. and a Subsidiary	2,015	-	(5)	-	2,010	-	2,010	2,010
San Miguel Brewery Inc. and Subsidiaries	1,874	3,547	(3,040)	-	2,381	2,379	2	2,381
San Miguel Yamamura Packaging Corp. and a Subsidiary	1,254	3,295	(2,974)	-	1,575	1,575	-	1,575
San Miguel Pure Foods Company, Inc. and Subsidiaries	1,532	9,393	(8,817)	-	2,108	2,076	32	2,108
San Miguel Yamamura Asia Corporation	713	883	(674)	-	922	922	-	922
SMC Shipping and Lighterage Corporation	696	2,150	(2,050)	-	796	796	-	796
San Miguel Beverages, Inc.	656	-	-	-	656	656	-	656
Ginebra San Miguel, Inc. and Subsidiaries	603	4,563	(4,482)	-	684	683	1	684
Advantage Properties Corporation	546	158	-	-	704	546	158	704
SMC Global Power Holdings Corp. and Subsidiaries	575	30,183	(30,265)	-	493	493	-	493
San Miguel Paper Packaging Corp.	431	-	-	-	431	12	419	431
San Miguel Campo Carne Corporation	398	-	-	-	398	398	-	398
San Miguel Properties, Inc. and Subsidiaries	284	182	(192)	-	274	259	15	274
Pacific Central Properties, Inc.	220	5	(1)	-	224	219	5	224
Others	1,648	3,521	(156)	-	5,013	1,376	3,637	5,013
	P <u>125,647</u> P	<u>57,152</u> P	<u>(93,801)</u> P	<u>-</u> P	<u>88,998</u> P	<u>81,535</u> P	<u>7,463</u> P	<u>88,998</u>

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2017
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS PAID/ DEBIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
San Miguel Corporation	₱ 87,291	₱ (5,083)	₱ (13,867)	-	₱ 68,341	₱ 62,598	₱ 5,743	₱ 68,341
San Miguel International Limited and Subsidiaries	14,145	(6,356)	(466)	-	7,323	7,323	-	7,323
San Miguel Equity Investments Inc.	9,944	-	(9,944)	-	-	-	-	-
SMC Global Power Holdings Corp. and Subsidiaries	5,854	2,912	(7,689)	-	1,077	1,015	62	1,077
SMC Shipping and Lighterage Corporation	2,031	20,332	(19,594)	-	2,769	2,769	-	2,769
San Miguel Holdings Corp. and Subsidiaries	1,231	2,149	(579)	-	2,801	2,641	160	2,801
San Miguel Yamamura Packaging Corp. and Subsidiaries	1,531	8,260	(8,200)	-	1,591	1,524	67	1,591
Petron Corporation and Subsidiaries	1,100	5,231	(5,488)	-	843	843	-	843
San Miguel Yamamura Asia Corporation	630	1,381	(274)	-	1,737	754	983	1,737
Archen Technologies, Inc.	460	1,531	(1,537)	-	454	454	-	454
San Miguel Pure Foods Company, Inc. and Subsidiaries	314	299	(158)	-	455	394	61	455
SMITS, Inc. and Subsidiaries	240	1,515	(1,481)	(10)	264	262	2	264
San Miguel Properties, Inc. and Subsidiaries	102	659	(508)	-	253	178	75	253
Ginebra San Miguel, Inc. and Subsidiaries	119	243	(188)	-	174	174	-	174
San Miguel Brewery Inc. and Subsidiaries	110	419	(408)	-	121	121	-	121
Others	545	1,453	(1,203)	-	795	790	5	795
	<u>₱ 125,647</u>	<u>₱ 34,945</u>	<u>₱ (71,584)</u>	<u>₱ (10)</u>	<u>₱ 88,998</u>	<u>₱ 81,840</u>	<u>₱ 7,158</u>	<u>₱ 88,998</u>

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS AND OTHER ASSETS
DECEMBER 31, 2017
(Amounts in Millions)

Part A - Goodwill and Other Intangible Assets

Description	Beginning Balance	Additions/ Acquisition of Subsidiaries	Disposal / Reclassified to other Accounts	Charged to Costs and Expenses	Currency Translation Adjustment	Ending Balance
Goodwill	P 58,113	P 1,162	P -	P -	P 849	P 60,124
Trademarks and Other Intangibles						
Cost:						
Trademarks and brand names	P 909	P 27	P -	P -	P -	P 936
Licenses	1,829	-	-	-	183	2,012
Toll road concession rights	123,418	8,528	(47)	-	-	131,899
Port concession rights	12,061	1,700	-	-	-	13,761
Airport concession rights	5,574	733	319	-	-	6,626
Mineral rights and evaluation assets	1,734	-	-	-	-	1,734
Leasehold and land use rights	1,828	-	650	-	55	2,533
Power concession right	770	122	2	-	-	894
Water concession right	824	2,114	-	-	-	2,938
Computer software, licenses and other intangible assets	2,807	449	(20)	-	58	3,294
	P 151,754	P 13,673	P 904	P -	P 296	P 166,627
Accumulated Amortization and Impairment Losses:						
Trademarks and brand names	P 231	P -	P -	P -	P -	P 231
Toll road concession rights	22,459	-	(2)	3,939	-	26,396
Port concession rights	971	-	-	745	-	1,716
Airport concession rights	85	-	-	287	-	372
Leasehold and land use rights	622	-	183	62	24	891
Power concession right	81	-	1	30	-	112
Computer software, licenses and other intangible assets	2,140	-	(26)	301	56	2,471
	P 26,589	P -	P 156	P 5,364	P 80	P 32,189
Net Book Value:	P 125,165	P 13,673	P 748	P (5,364)	P 216	P 134,438

See Notes 4, 5, 17 and 38 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS AND OTHER ASSETS
DECEMBER 31, 2017
(Amounts in Millions)

Part B - Other Noncurrent Assets

Description		Beginning Balance		Additions / Acquisition of Subsidiaries		Charged to Cost and Expenses		Other Changes/ Reclassifications/ (Disposal)		Currency Translation Adjustment		Ending Balance
Noncurrent receivables and deposits	P	10,068	P	5,434	P	(42)	P	(946)	P	29	P	14,543
Deferred containers expense - net of accumulated amortization		7,141		4,858		(1,991)		(2,071)		12		7,949
Restricted Cash		798		-		-		4,958		-		5,756
Noncurrent prepaid input tax		2,971		2,500		-		(646)		-		4,825
Advances to contractors and suppliers		2,947		1,655		-		(906)		-		3,696
Retirement assets		3,487		-		(14)		(157)		-		3,316
Noncurrent prepaid rent		2,211		289		(195)		99		203		2,607
Deposits on land for future development		1,968		387		(7)		(259)		-		2,089
Others - net		3,412		1,298		(976)		716		51		4,501
	P	<u>35,003</u>	P	<u>16,421</u>	P	<u>(3,225)</u>	P	<u>788</u>	P	<u>295</u>	P	<u>49,282</u>

See Notes 4, 5, 18, 33, 34, 35, 40 and 41 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
DECEMBER 31, 2017
(Amounts in Millions)

TITLE OF ISSUE	AGENT / LENDER	Amount Shown as Current	Amount Shown as Noncurrent	Outstanding Balance	INTEREST RATES	Number of Periodic Installments	Interest Payments	Final Maturity
Parent Company								
<u>Peso denominated:</u>								
Fixed	Philippine Depository and Trust Corp.	-	29,693	29,693	4.8243%, 5.1923%, 5.2840% and 5.7613%	Bullet	Quarterly	April 2022, March 2024 and March 2027
<u>Foreign currency - denominated:</u>								
Fixed	DB Trustees (Hong Kong) Limited	-	25,588	25,588	4.875%	Bullet	Semi-annual	April 2023
Floating	Various foreign banks	23,865	4,986	28,851	LIBOR + margin	Bullet	1/3/6 months	November 2018 and May 2019
Floating	Various foreign banks	-	14,760	14,760	LIBOR + margin	Bullet	1/3/6 months	October 2020, 2022 and 2024
Floating	DBS Bank Ltd.	-	4,969	4,969	LIBOR + margin	Bullet	1/3/6 months	May 2019
		<u>23,865</u>	<u>79,996</u>	<u>103,861</u>				
Subsidiaries								
<u>Peso denominated:</u>								
<u>Petron Corporation</u>								
Fixed	Philippine Depository and Trust Corp.	-	12,896	12,896	4.0032%	Bullet	Quarterly	October 2021
Fixed	Philippine Depository and Trust Corp.	-	<u>6,939</u>	<u>6,939</u>	4.5219%	Bullet	Quarterly	October 2023
		-	19,835	19,835				
<u>SMC Global Power Holdings Corp.</u>								
Fixed	Philippine Depository and Trust Corp.	131	19,654	19,785	5.375%, 6.25% and 6.625%	Bullet	Quarterly	December 2022, 2024 and 2027
<u>SM Brewery Inc.</u>								
Fixed	Philippine Depository & Trust Corp.	-	9,979	9,979	5.930%	Bullet	Semi-annual	April 2019
Fixed	Philippine Depository & Trust Corp.	-	<u>6,963</u>	<u>6,963</u>	6.60%	Bullet	Semi-annual	April 2022
		-	16,942	16,942				
<u>SM Brewery Inc.</u>								
Fixed	Philippine Depository & Trust Corp.	-	12,398	12,398	5.50%	Bullet	Semi-annual	April 2021
Fixed	Philippine Depository & Trust Corp.	-	<u>2,521</u>	<u>2,521</u>	6.00%	Bullet	Semi-annual	April 2024
		-	14,919	14,919				
<u>SMC Global Power Holdings Corp.</u>								
Fixed	Philippine Depository & Trust Corp.	-	6,102	6,102	4.3458%	Bullet	Quarterly	July 2021
Fixed	Philippine Depository & Trust Corp.	-	4,054	4,054	4.7575%	Bullet	Quarterly	July 2023
Fixed	Philippine Depository & Trust Corp.	-	<u>4,709</u>	<u>4,709</u>	5.1792%	Bullet	Quarterly	July 2026
		-	14,865	14,865				
<u>South Luzon Tollway Corporation</u>								
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	-	7,232	7,232	4.9925%, 5.5796% and 6.4872%	Bullet	Quarterly	May 2020, May 2022 and May 2025
<u>SM Brewery Inc.</u>								
Fixed	Philippine Depository & Trust Corp.	-	2,804	2,804	10.50%	Bullet	Semi-annual	April 2019
<u>SMC Consolidated Power Corporation</u>								
Fixed	Philippine National Bank as Trustee	1,009	40,213	41,222	6.2836% and 6.5361%	Amortized	Quarterly	June 2029
<u>Atlantic Aurum Investments Philippines Corporation</u>								
Fixed	Philippine National Bank as Trustee	1,598	2,324	3,922	6.52%	Amortized	Semi-annual	September 2021
Fixed	Philippine National Bank as Trustee	<u>472</u>	<u>11,938</u>	<u>12,410</u>	6.7394%	Amortized	Semi-annual	March 2026
		2,070	14,262	16,332				
<u>SMC Global Power Holdings Corp.</u>								
Fixed	BDO Unibank, Inc.	-	14,857	14,857	6.9265%	Amortized	Quarterly	April 2024
<u>Petron Corporation</u>								
Fixed	BDO Unibank, Inc.	2,121	12,259	14,380	5.5276%	Amortized	Quarterly	June 2024
<u>Private Infra Dev Corporation</u>								
Fixed	Banco De Oro Unibank, Inc. as Trustee	2,244	10,368	12,612	6.50%	Amortized	Quarterly	September 2021
<u>Citra Central Expressway Corp.</u>								
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	-	8,604	8,604	6.865%, 6.9283%, 7.4817%	Amortized	Quarterly	August 2027
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	-	<u>3,157</u>	<u>3,157</u>	8.0589%	Amortized	Quarterly	August 2027
		-	11,761	11,761				

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
DECEMBER 31, 2017
(Amounts in Millions)

TITLE OF ISSUE	AGENT / LENDER	Amount Shown as Current	Amount Shown as Noncurrent	Outstanding Balance	INTEREST RATES	Number of Periodic Installments	Interest Payments	Final Maturity
<u>Petron Corporation</u>								
Fixed	Bank of the Philippine Islands	-	9,950	9,950	5.7584%	Amortized	Quarterly	December 2022
<u>Vertex Tollways Devt. Inc.</u>								
Fixed	Philippine National Bank as Trustee	552	6,465	7,017	6.7495%, 6.7701%, 7.165%, 7.5933% and 7.6567%	Amortized	Quarterly	February 2025
<u>Petron Corporation</u>								
Fixed	Union Bank of the Philippines	995	3,991	4,986	5.4583%	Amortized	Quarterly	October 2022
<u>MTD Manila Expressways Inc.</u>								
Fixed	Standard Chartered Bank, Philippines Branch as Security Agent	981	2,573	3,554	8.6615%	Amortized	Semi-annual	March 2022
<u>Petron Corporation</u>								
Fixed	Rizal Commercial Banking Corporation	674	(2)	672	6.3212%	Amortized	Semi-annual	October 2018
Fixed	Rizal Commercial Banking Corporation	-	2,697	2,697	7.1827%	Amortized	Semi-annual	October 2021
		674	2,695	3,369				
<u>Star Infrastructure Development Corporation</u>								
Fixed	Philippine National Bank as Trustee	402	2,265	2,667	6.6583%	Amortized	Quarterly	July 2023
<u>SMC Shipping and Lighterage Corporation</u>								
Fixed	Union Bank of the Philippines	-	1,495	1,495	5.000%	Bullet	Quarterly	July 2021
<u>Manila North Harbour Port, Inc.</u>								
Fixed	Land Bank of the Philippines - Trust Banking Group as Trustee	600	450	1,050	5.65%	Amortized	Quarterly	May 2019
<u>Trans Aire Development Holdings Corp.</u>								
Floating	Bank of Commerce	245	2,721	2,966	PDST-R2 + margin	Amortized	Quarterly	October 2022
<u>San Miguel Yamamura Packaging Corporation</u>								
Floating	Bank of Commerce	874	625	1,499	PDST-R2 + margin or BSP overnight rate plus margin, whichever is higher	Amortized	Quarterly	October 2019
<u>Can Asia, Inc.</u>								
Floating	Bank of Commerce	67	166	233	PDST-R2 + margin or 5.75%, whichever is higher	Amortized	Quarterly	April 2021
<u>East Pacific Star Bottlers Phils Inc.</u>								
Floating	Development Bank of the Philippines	114	-	114	PDST-R2 + margin or BSP overnight rate plus margin, whichever is higher	Amortized	Quarterly	September 2018
<u>Foreign currency - denominated</u>								
<u>Petron Corporation</u>								
Floating	Standard Chartered Bank (Hongkong) Limited	-	49,185	49,185	LIBOR + margin	Amortized	1, 3, or 6 months	June 2022
		13,079	282,552	295,631				
Total Long-term Debt		P 36,944	P 362,548	P 399,492				

See Notes 5, 21, 30, 33, 40 and 41 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE H - CAPITAL STOCK
December 31, 2017

DESCRIPTION	NUMBER OF SHARES AUTHORIZED	NUMBER OF SHARES ISSUED	TREASURY SHARES	NUMBER OF SHARES OUTSTANDING	NUMBER OF SHARES RESERVED FOR OPTIONS *	NUMBER OF SHARES HELD BY: AFFILIATES	DIRECTORS, OFFICERS AND EMPLOYEES
ISSUED SHARES							
COMMON STOCK	3,790,000,000	3,287,018,252	904,752,537	2,382,265,715	134,641,564	16,395	8,625,691
SERIES "1" PREFERRED SHARES	300,000,000	279,406,667	-	279,406,667	-	-	
SERIES "2" PREFERRED SHARES	1,910,000,000	1,758,099,686	565,445,086	1,192,654,600		26,435,700	1,067,600
	<u>6,000,000,000</u>	<u>5,324,524,605</u>	<u>1,470,197,623</u>	<u>3,854,326,982</u>	<u>134,641,564</u>	<u>26,452,095</u>	<u>9,693,291</u>

* See Notes 24, 36, 37 and 39 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
DECEMBER 31, 2017
(In Millions)

	Total	Current	Past Due		
			1 - 30 Days	31 - 60 Days	Over 60 Days
Trade	67,996	49,017	5,617	1,922	11,440
Non-trade	41,317	20,061	1,042	552	19,662
Others	19,693	17,996	131	20	1,546
Total	129,006	87,074	6,790	2,494	32,648
Less allowance for impairment losses	12,966				
Net	116,040				