SAN MIGUEL CORPORATION



IT'S NEVER JUST BUSINESS

2016

ANNUAL REPORT

Hilary Masongsong, 10, and Katrina Tecla, 9, who appear on the cover, are students at Buntog Elementary School in Canlubang, Laguna. School principal Ma. De Belen Quilao, who grew up in Buntog and who was herself a student at the same school, says that ever since she can remember, the school and the community have never had access to running water.

That all changed in 2016 when our subsidiary, San Miguel Yamamura Packaging Corp. (SMYPC) installed an electric water pump and overhead tank in the school grounds. SMYPC also built a communal hand-washing area and rest rooms for each classroom. A solar power system, also donated by SMYPC, runs the pump and provides basic electricity to the school.

This is but one example of how San Miguel Corporation, its businesses, and the large-scale projects we undertake, are built not just for growth and profit, but to improve lives. What drives us as a company is our desire to do good for as many Filipinos as we can.

Ten years since we diversified, we are a markedly different company. We're much bigger and our operations are far more complex.

Yet the core of who we are remains: a company committed to spark positive change and support the nation's social development.

FOR US, IT'S NEVER JUST BUSINESS.

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MESSAGE TO STOCKHOLDERS

WE'RE NOT DONE YET

This year, 2017, marks the tenth year since we started our ambitious diversification. In business, a decade isn't a very long time, but for your company, it has been a period of great transformation. Today, we are more resilient because of our entry into businesses like power, infrastructure, oil refining, and petrochemicals. We have more diverse income streams, improved profitability, and more paths to growth than ever before. The changes to our organization and our portfolio have also helped us grow in confidence in terms of what we can achieve, and allowed us to constantly raise the bar on our performance.

In 2016, we turned in a record year—our biggest by far. We registered consolidated revenues of P685.3 billion and operating income of P99.7 billion, a 24% increase over the previous year. Our net income reached P52 billion, an 80% jump from 2015. Consolidated Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) was also at its highest—P130.9 billion, representing a 19% growth over the previous year.

Like many Philippine companies, we benefited from substantial tailwind gains: growth in Gross Domestic Product, election-spending, low fuel prices, and higher remittances from overseas Filipino workers. These factors raised real disposable incomes and consumer spending, and in turn, our performance. Yet we realize we are where we are not so much from these external factors as from how well each of our businesses were able to implement our strategies over the last decade.

Now that our core and new businesses are running side-by-side at the same accelerated pace, we are finally starting to realize their combined revenue potential. And with the advantages of experience, track record, and better resources now firmly under our belt, we are in a much better position to pursue the new opportunities that diversification has opened up for us.

Ten years ago, when we set out to expand, our aim was to build a company that could grow faster, perform more consistently, and contribute meaningfully to national development. Then as now, we have constantly sought a balance between our growth and helping our country grow.

Initially, our objectives may have seemed too ambitious. But by challenging ourselves to be more, we have delivered more to our shareholders.

In 2016, we turned in a record year—our biggest by far. We registered consolidated revenues of P685.3 billion and operating income of P99.7 billion, a 24% increase over the previous year. Our net income reached P52 billion, an 80% jump from 2015.

Pursuing new growth, strengthening our core

We said then that we must diversify into new industries because the markets we were in were largely mature. To continue creating long-term value for our shareholders and at the same time serve the needs of the public, we said we needed to be in key industries that could catalyze progress. This is why we chose to be in businesses that harness synergies and produce combined value bigger than the sum of their parts.



Ramon S. Ang
President and Chief Operating Officer



Eduardo M. Cojuangco, Jr.
Chairman and Chief Executive Officer

Thus, we took the lead in investing in then-underdeveloped industries—principally in infrastructure, power, and oil refining. All of these industries benefited from renewed investor interest, not just from San Miguel, but from our competitors as well. As a result, government was able to access the best contracts and the best value for its infrastructure projects.

Today, our portfolio is a healthy balance of businesses that expand our revenue stream and overall impact on our markets. Through our products and services, we help people make the most of their lives.

Of particular note is how our food and beverage businesses more than held their own in contributing to our total revenues. They remain strong cash and profit generators, with San Miguel Brewery Inc. at the forefront. To maximize synergies, we're investing heavily in programs that will strengthen the competitiveness and profitability of each business unit.

Addressing chokepoints to development

We also said that we wanted to address issues that limit economic growth and our country's progress. Among them: the lack of infrastructure which hinders direct investment and competitiveness, the unstable supply and high cost of power, and the need to meet the fuel demands of a growing nation.

→ In infrastructure development, as of end-2016, we've built a total of 73 kilometers of new tollroads, bringing to 180 km the total road network we manage. To put this achievement in context, consider that in the past 30 years, there has been very little development of major infrastructure in our country. Of our nation's 378 km total operational tollroad network, we now account for 48%. In the next three years, our tollroad network will reach 308 km, accounting for 54% of the country's total.

→ We are proud that we have been able to build and operationalize key infrastructure in less than five years, as well as improve, modernize, and professionally manage existing tollroads.

→ Among the major projects we delivered in 2016 were the NAIA Expressway, the Tarlac City to Binalonan section of the Tarlac-Pangasinan-La Union Expressway (TPLEX), and the expansion of the Boracay Airport runway from 950 to 1,800 meters—with new ramps and an apron to accommodate 12 planes.

→ Work continues on the Skyway Stage 3 project, one of the biggest infrastructure undertakings in the country today.

→ In 2016, we also broke ground for two major projects: the MRT7 rail and road system, our entry into mass rail transit systems, and the Bulacan Bulk Water project, our initial venture in bulk water supply.

→ Through our infrastructure business, San Miguel Holdings Corp., we've also increased our stake in Manila North Harbour Port Inc., operator of the 52.5-hectare Manila North Harbor. Aggressive expansion and modernization of this vital port facility is ongoing.

→ In the fuel and oil industry, we completed the Petron Bataan refinery upgrade (RMP-2) and maximized the facility's full capacity of 180,000 barrels per day. The plant, now in full commercial operation, is able to process cheaper-type crude and produce more higher-value products.

→ The ongoing expansion of our service station network in the Philippines is enabling us to reach more people and serve more industries. Petron's Malaysia operations, meanwhile, continue to grow, adding significant value to the company's overall performance.

→ We have also made significant headway in the power sector. At the end of 2016, our total capacity was 2,763 megawatts. With the commissioning of our greenfield power plants in Davao and Bataan, our total capacity will reach 3,363 MW by the end of 2017, as an additional 600 MW from the total 900 MW we're working to build, is set to come online. On top of this, we're also expecting to put up another 1200 MW of new capacity in Mariveles, Bataan.

→ Utilizing Circulating Fluidized Bed (CFB) technology, the most modern and environmentally smart process in coal power production, our new plants represent a new and higher standard in power generation. We're investing in these environment-friendly facilities to ensure our country's rising demand for industrial power is compatible with the need to preserve the quality of the environment.

→ We also remain committed to ensuring power efficiency and affordability. In Davao, our new plant has helped reduce the incidence of power outages and was able to bring down rates to P3.00 per kilowatt hour—setting a new benchmark we hope others will follow.

Delivering on our commitments

It also bears saying that sound financial management has been crucial to carrying out these initiatives. Like all other companies, we're vulnerable to cyclical weaknesses, currency volatility, and the uneven pace of economic recovery in major markets. Our strong cash position and our track record in delivering on our commitments ensure reliable access to flexible financing for our programs.

Equally important is the proactive management of our liabilities. In recent years characterized by currency fluctuations and dips in interest rates, we've managed to refinance and retire much of our debts and convert part of our dollar-denominated debt into peso instruments.

The next phase of growth

And we're not done yet. We continue to pursue opportunities to scale up our engagement in the business of nation-building. We've kept our entrepreneurial mindset and the boldness of a start-up. We see our size as an advantage as it allows us greater flexibility in finding where we can add value and make a difference.

> We make ourselves accountable, not just for the targets we set, but also for the promises we make to everyone we deal with. **Today, we are bigger, stronger, more profitable, and all the better for it.**

It's with this mindset that we've laid out the next phase of our growth:

→ We're expanding our core businesses. Already, San Miguel Brewery Inc. and San Miguel Pure Foods Company Inc. have started executing on their respective expansion programs. This involves the construction of new facilities and new manufacturing lines in key regions across the Philippines.

→ We will continue to add scale to our new businesses. Plans are underway to build additional power plants and extend our operating tollroads to benefit more people in more rural areas.

→ One of San Miguel's goals is to master renewable energy technology that will provide cost-effective alternatives for Filipino consumers. Part of our expansion plan is to explore hydro, solar, and tidal energy sources.

→ We are looking to start construction of Skyway Stage 4, a 58-km expressway that will begin at the existing Skyway to San Jose del Monte, Bulacan via C5 in Taguig. We're also set to begin work on SLEX TR4, a 57-km, four-lane toll road that will extend our existing South Luzon Expressway (SLEX) from Sto. Tomas, Batangas, to Lucena City in Quezon province.

→ We will deliver in full on our ongoing infrastructure projects: Skyway Stage 3, the remaining section of TPLEX, the modernization of the Boracay Airport—including the construction of a new international terminal—and construction of the MRT7 and the Bulacan Bulk Water projects.

Going beyond business targets

With the benefit of hindsight, we're able to assess, with a fair amount of objectivity, the strategic decisions we've made over the past couple of years.

We've had some great wins, but have also had our fair share of setbacks. What we are most proud of is that in every one of the businesses we've taken on, we've given it everything we've got.

We make ourselves accountable, not just for the targets we set, but also for the promises we make to everyone we deal with. Today, we are bigger, stronger, more profitable, and all the better for it.

Of course, our sights are always trained on our business goals. But much of the success we've achieved has been brought on by our core belief that we're not just doing business, but helping everyone—including ourselves—meet the dream of a better Philippines.

We believe it's this approach—aligning our core values and business goals into a single corporate strategy— that sets San Miguel apart and makes our social responsibility that much more sincere.

It's in this spirit that we've decided to take on the issue of water sustainability. Given the scale of our need for water, and knowing that for many Filipinos, access to potable water and sanitation is still unattainable, we're working to reduce our footprint on the country's water supply.

We declared early this year our most ambitious environmental and social goal yet: to cut our use of utility and domestic water by 50% by 2025, and to bring water sustainability to our communities.

As we get down to work on these new goals, we become ever more aware of our role and our responsibility to everyone we serve. At San Miguel, we hold a vision of the future much larger than ourselves.





IT'S NEVER JUST BUSINESS

As you read through our annual report, you'll discover that we've had an incredible year. We delivered strong results and completed a good number of projects and initiatives that have had great impact on the industries in which we compete.





So far, what we have done is make catalytic investments that have not only put us at the forefront of industries like power, fuel and oil, and infrastructure, but have also encouraged others to invest in areas that can drive growth and opportunity for our country.

We invest in these industries not only because it makes good business sense (if the cities and communities we serve are thriving, our company will thrive), but also because we believe the private sector needs to do its part.

We succeed when we help others succeed

But as always, we have a much broader and nuanced definition of success. For one, we measure ourselves not just by returns or market share, but how successful we have been in improving the quality of life and well-being of people.

We're channeling our resources to address the most pressing economic, social and environmental challenges of our times.

In education—one of our most important areas of focus—we are working to help give more underprivileged students across the country better access to quality instruction and facilities.

As of the end of 2016, we have built 516 new classrooms in public schools in the poorest barangays and provided scholarships for over 3,500 students.

One very important milestone in 2016 was the graduation from college of the very first batch of Grade 1 students, who enrolled as Petron *Tulong Aral* scholars almost 15 years ago.

The brightest of our scholars end up joining our company as professionals. At the Petron Bataan Refinery, a good number of our young engineers are former scholars.



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We answer the call for *malasakit*

Malasakit—the willingness to go out of one's way to be of help to others and to give more of oneself than what is generally expected—is a Filipino value deeply embedded in San Miguel culture.

It's a trait that derives from 127 years of close interaction with the customer and serving their various needs, and it carries through to today. Where we see a need that we can address—we never hesitate to put our best resources to work and find a way to move forward.

Such was the case when we decided to expand the Tarlac-Pangasinan-La Union Expressway to four lanes, because the required two lanes were inadequate, impractical and unsafe for motorists. The same was true when we rehabilitated and widened the Southern Tagalog Arterial Road (STAR). *Malasakit* for our fellow Filipinos was also what drove our decision to donate P1 billion to build housing communities for victims of typhoons in areas not even remotely near where we operate.

Malasakit prompted us to donate P1 billion in 2016 for the construction of drug rehabilitation facilities in various provinces. It's also why our nationwide network of community clinics continues to expand.

We're especially proud of employees who have taken this value to heart.

Today, Team *Malasakit*, our employee volunteer program, is over 3,000-strong. They devote their personal time during weekends to build or repair houses, re-paint and clean schools, re-plant watersheds, or teach children to read. *Malasakit* runs deep in San Miguel.





So whether it's building roads and power plants, strengthening communities, attending to the needs of the underprivileged, or reducing damage to the environment, significantly improving lives is factored into our business model.

Our work improves lives

Our bias for long-term, lasting solutions—rather than quick fixes—and our willingness to wait out the best results, is not merely strategy. Rather, it comes from a culture where improving everything we put our name on, is second nature.

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One example is our assemblers program for contract growers of cassava, in North Luzon, Western Visayas and Mindanao, which has been running since 2001.

We provide the farmers financing and technical assistance and, at the end of the planting cycle, a guaranteed, stable market for their produce. In return, they provide us a steady source of critical raw materials that we would otherwise have to source abroad.

Over the last 15 years, San Miguel has provided livelihood for close to 100,000 farmers and incomes for many of our farmer-partners have been raised by as much as P10,000-P15,000 per hectare, per cropping season.

For a family in rural Philippines, that's the difference between keeping a child in school for another year versus pulling him out so he can contribute to the family income. The assemblers program is just one example of how we're developing projects that are both scalable and sustainable.



We work with people at the front lines to turn issues into opportunities.



We turn issues into opportunities

We continue our philanthropic work, but we've also gone beyond corporate giving. We have become far more successful at synthesizing our core values and business goals into a single corporate strategy.

We work with people at the front lines to turn issues into opportunities.

One example—in April 2017, we signed an agreement with the Quezon City government to employ, for at least three years, recovered and rehabilitated drug users as workers for the MRT7 project.

Social responsibility is hardwired into many of the major decisions San Miguel makes as a company. As another (and somewhat bigger) example of investing for both a social and financial return, we are looking to invest in tidal-powered energy.

While we know that the initial investment will be great, we also believe that renewable energy offers critical alternatives in addressing the real threats posed by climate change.

The reality is that it will take some time before renewables are cheap enough to be cost competitive without any special incentives like rate subsidies. But, by exploring this new technology, we may be helping create solutions that otherwise might not come about, if we didn't take the first step and make it easier for others to follow.



We are values-driven

We're a values-driven organization and are owners of a strong company culture that makes sure our employees are invested in what we as a company believe in.

Our employees play an active and positive role in our communities. Just as we are finding the courage to shape a better future by setting bigger sustainability goals and asking ourselves what capabilities we might have that can make people's lives better, our employees have taken on the same challenge themselves.



Many of our community projects are employee-initiated. Ten years ago, employees from San Miguel Yamamura Packaging Corp.'s (SMYPC) facility in Laguna were moved to help the small barangay of Buntog in Canlubang. Some of our employees knew families who lived there.

Although the community was only a couple of kilometers away from a rapidly growing urban area, Buntog is cut off by dirt roads and completely without electricity or water. There is a small public elementary school and every year, the company would extend a helping hand, offering feeding programs and helping repair classrooms.

Two years ago, employees lobbied for funds to provide water to the school. Today, Buntog Elementary School has the only running water available in the barangay. We also built a hand-washing area as well as toilets in each classroom. This year, SMYPC also installed solar panels to power both the water pump and provide base load electricity.

We are proud of our employees who have shown that we can, even as individuals, make choices on how to chip away at the problems that will be our children's to inherit.

No matter how large we grow, our people truly feel that each and every one can make a difference.



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One of our favorite stories is the initiative taken by Gerry Olayta, a Human Resources manager at San Miguel Foods, Inc., and his fellow employees in San Fernando, Pampanga.

Every month, they would set aside a portion of their salaries for a common fund so that come Christmas time, they could organize a party for a small Aeta community in Pampanga.

There are many other inspiring stories of generosity throughout the San Miguel group. Employees from San Miguel Brewing International and SMYPC have long established a yearly tradition of holding Christmas parties at orphanages which they fund themselves.

By living our company's values, our employees bring to life our slogan of "Your World Made Better", cultivating for themselves a strong sense of pride in SMC. It's our values that define who we are as an organization and serve as a rallying point for everyone in the San Miguel family.

MANAGEMENT REPORT

It's been an outstanding 2016 for San Miguel Corporation (SMC), with all our businesses executing well on their growth strategies and with the tailwind of economic growth, lower fuel prices, election spending, and strong consumer confidence working to our advantage.

Consolidated revenues for the year reached P685.3 billion, 2% higher than 2015. Our core Beverage, Food, and Packaging businesses delivered a combined 10% revenue growth for the full year. Our Power and Infrastructure businesses also turned in higher revenues, but Petron's revenues were weighed down by lower fuel oil prices during the year.

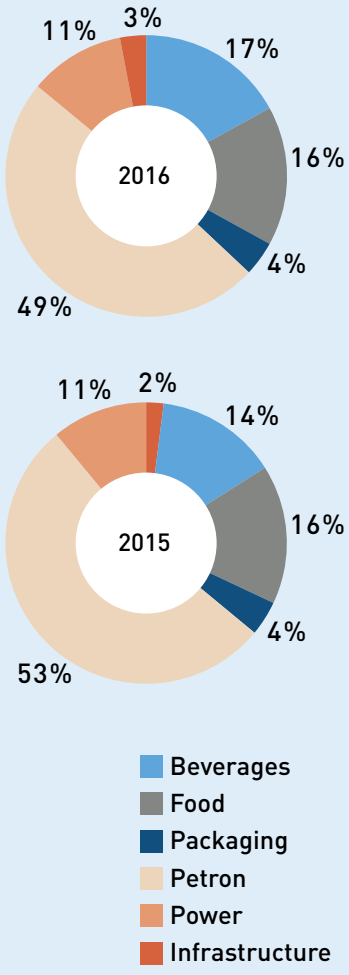
Consolidated operating income grew 24% to P99.7 billion from last year's P80.5 billion. This was mainly driven by higher revenues and better margins across most of our businesses, which resulted to double-digit income growth.

Net income surged to P52.2 billion, 80% higher than the P29.0 billion we posted in 2015. Consolidated EBITDA was also significantly higher at P130.9 billion, a 19% growth from the prior year.

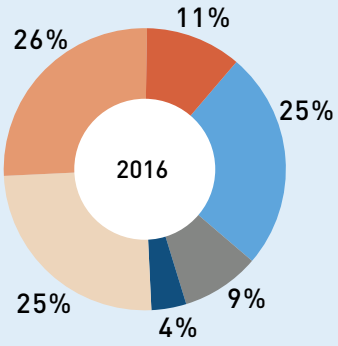
Our company also continued to streamline our business portfolio. On May 30, 2016, we sold our entire telecommunications business to PLDT and Globe for an enterprise value of P69.1 billion. Total consideration amounted to P52.1 billion, which included the outstanding advances and the assumption of liabilities of Vega Telecom Holdings and its subsidiaries, amounting to P17.0 billion. Fifty percent of the total consideration was paid on the same date, while the balance was scheduled in two tranches. We received the first tranche last December, 2016 and the remaining balance is due by May 30, 2017.

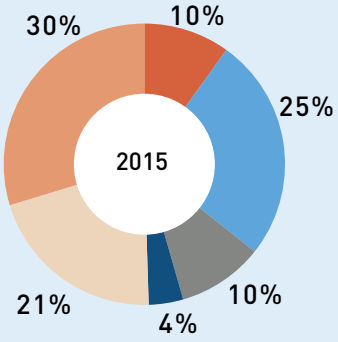
With a strong balance sheet, we continued to look for attractive opportunities and invested our resources to further enhance our business portfolio. While majority of our investments during the year were focused on power and infrastructure, all our businesses executed on their major plans. These include our two new power plants in Limay,

CONTRIBUTION BY REVENUE

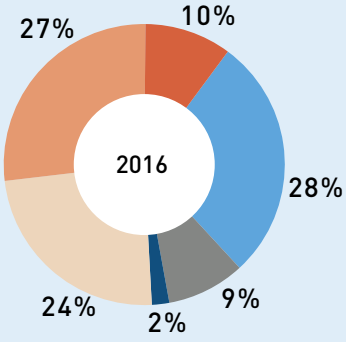


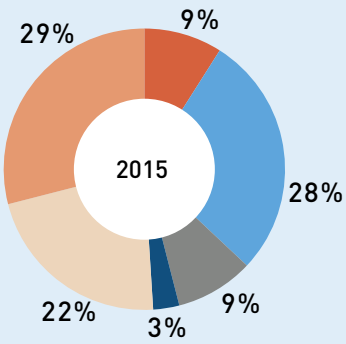
CONTRIBUTION BY EBITDA





CONTRIBUTION BY OPERATING INCOME





Bataan and Malita, Davao; several major infrastructure projects, additional gasoline service stations, and new manufacturing facilities for food and beer.

We're going to keep an eye on key macroeconomic indicators that reflect the overall prospects of the Philippine economy and have an impact on consumers' propensity to spend. Notwithstanding our cautious optimism about the economy, SMC is positioned for growth. As an organization, we will continue to adapt, evolve, and invest in our operations to align with our strategic priorities and remain resilient and sustainable in the long term. Clearly, the work we've done the last few years to build our capabilities and streamline our portfolio is paying off.

BEVERAGES

San Miguel Brewery Inc.

San Miguel Brewery Inc. (SMB) delivered excellent results in 2016. Consolidated revenues amounted to P97.2 billion, 18% higher than 2015. Consolidated sales volume reached 230.4 million cases, 12% higher than the previous year.

With a strong domestic performance and significantly improved results from International Operations, SMB's operating income rose 20% to P27.2 billion and net income of P17.7 billion was 31% higher than the previous year.

Domestic Operations

Sales volumes reflected a growth of 15% versus year-ago levels, helped by demand-generating marketing campaigns and favorable economic conditions. Revenue grew 20% to P84.7 billion, while operating income reached P26.4 billion, 18% higher than the previous year.

SMB's major brands, Red Horse, San Miguel Pale Pilsen, and San Mig Light posted impressive sales, while San Miguel Flavored Beer continued to grow its share of the market.

SMB continues to implement multi-platform marketing campaigns for each of its brands to further increase consumption and reinforce its market leadership. Thematic ads "True Love", "*Bakit Nga Ba Type Kita*", and "Sincere" were developed to strengthen love for beer. Red Horse asserted its position as "The No. 1 Beer" by capitalizing on its "*Astig*" equity, while consumer interest in San Miguel Pale Pilsen was revived by reinforcing its image as the original beer, via the "*Sarap ng Orig, Sarap ng Totoo*" thematic campaign.

San Mig Light further cornered the bar channel and resonated with upscale drinkers using its nationwide "Alarm" and "Let's Bar" advertising campaigns and on-ground activations such as "Bucket Nights" and "Party All Night DJ Spin Off".

San Miguel Flavored Beer sustained its robust expansion by building on its fresh and youthful equity. Brand awareness was further improved and demand soared as a result of its "Proposal" and "Proximity" ad materials and digital campaigns, aimed at reaching tech-savvy consumers.

International Operations

San Miguel Brewing International Limited (SMBIL) posted a strong recovery in 2016. Revenues rose 2% to US$261 million and operating income was significantly higher, driven by margin improvements, tight cost management, and enhanced operational efficiencies.

SMBIL further strengthened its presence in both existing and new markets by implementing various sales and marketing initiatives. New products, variants, and packaging designs were introduced in select markets to stimulate demand.

Operating income for Thailand operations rose on account of higher exports contribution, incremental profit of partner brands, and more efficient advertising and promotion spending.

The Exports business sustained its profit growth as volumes for both the San Miguel and Red Horse brands grew, particularly in Malaysia, Korea, the United Arab Emirates, and Oman. Volumes further increased as SMBIL tapped new markets in Europe and Africa. Improved margins contributed to a double-digit growth in operating income.

Volumes in Indonesia were flat owing to the government ban on the sale of alcoholic beverages in provision and convenience stores. Despite this, improved margins resulted to higher operating income compared to the previous year.

Tough market conditions continued to weigh down China's operations, as beer consumption dropped due to an economic slowdown in the country. However, operating results improved significantly with the shift of product mix to more profitable brands. Lower production costs resulted to better margins.

On the other hand, profitability of SMBIL's Hong Kong operations improved, despite lower overall volumes. Operating results were higher due largely to distribution and warehouse restructuring, price adjustments, and exports.

Vietnam sustained its volume growth in 2016. Operating results were favorable versus last year, owing to growth in domestic volumes, better margins, and increase in exports production.

Ginebra San Miguel Inc.

Ginebra San Miguel Inc. (GSMI) recorded higher volumes for the third straight year, up 9% to 25.2 million cases. GSMI also succeeded in reclaiming market leadership in critical areas in Northern and Southern Luzon, based on the Nielsen Retail Audit December 2016 report*. Core brands Ginebra San Miguel and Vino Kulafu continued to register double digit growth. Revenues reached P18.6 billion, 12% higher than last year while operating income jumped 58% to P978 million. As a result, net income amounted to P361 million, a complete turnaround from the P386 million net loss recorded in 2015.

* Client calculation based in part on data reported by Nielsen through its Retail Measurement Service for the Wines and Spirits category for the period ending December 2016, for the North and South Luzon markets. Copyright © 2017, The Nielsen Company.

FOOD

San Miguel Pure Foods Company Inc. (SMPFC) delivered another outstanding performance in 2016, registering a net income of P6.0 billion, 26% higher than the previous year, on the strength of its Agro-Industrial and Branded Value-Added businesses. Operating income reached P8.9 billion, 17% higher compared to P7.6 billion in 2015, due to improved margins brought about by better selling prices, lower costs, and improved efficiencies.

SMPFC continued to pursue its key strategies—growing its Branded Value-Added business, improving operational efficiencies, strengthening distribution, and expanding manufacturing capacity.

Agro-Industrial

Revenues from the Agro-Industrial business, consisting of B-MEG feeds, Magnolia chicken, and Monterey fresh meats, grew 5%. Robust volumes, better selling prices of poultry, and the strong performance of the Feeds business all contributed to this growth.

Flour Milling

The Flour business, meanwhile, was weighed down by the continuing decline in global wheat prices. With lower selling prices and stiffer competition from imports, revenues were down by 4%.

Flour prices are expected to remain soft throughout 2017. In response, the Flour business has focused on expanding higher-value segments such as customized and special premixes. It is also increasing the number of *Kambal Pandesal* franchised outlets.

The grains terminal business continued to bring in higher contributions, registering a 10% growth in sales, which partially offset the decline in flour revenues.

Branded Value-Added

The Branded Value-Added business continued to grow, posting a 7% increase in revenues, on the back of higher sales of processed meats, cheese, spreads, biscuits, and ice cream. This was the result of various brand building campaigns and a greater emphasis on product development.

The processed meats business registered healthy revenue growth, driven by higher consumer demand for chicken nuggets, Purefoods corned beef, and Star corned beef. These were supported by new product launches and successful advertising campaigns for Tender Juicy hotdog.

Dairy and Others

Effective marketing campaigns also boosted the performance of the dairy, spreads, and biscuit segments and allowed the company to maintain its lead in the margarine segment. New Magnolia Ice Cream flavors such as Avocado Macchiato, Mango Salted Caramel, Strawberry Crumble Pie, and Banoffee Pie, all under the Best of the Philippines line were launched, further expanding the ice cream category's market. Meanwhile, San Mig Coffee launched the Barako and Essenso variants.

For its part, the Food Service business' push towards customization resulted in stronger sales across its primary channels. In particular, sales to convenience stores grew, reflecting the growing consumer preference for ready-to-eat meals.

PACKAGING

The San Miguel Packaging Group reported sales revenues totaling P27.4 billion, up 9% from 2015, on the back of the solid sales performance of its glass and plastic businesses, and the growing contribution from its Australia operations. Operating income was up 10% to P2.6 billion.

In recent years, the Packaging Group has been expanding its presence in Australia and New Zealand. At the start of 2017, it acquired Portavin Holdings Pty. Ltd, the leading wine bottling service provider in Australia, for about AUS$27 million. This acquisition fully compliments existing packaging operations in Australia and New Zealand through Cospak and Vinocor.

Glass

The Glass business, the largest business of the Packaging Group, registered a 10% growth in revenues, reaching a new record high. This was the result of strong demand from domestic beverage customers and growth in the export market. All facilities, particularly those in China and Vietnam, reported outstanding performance and achieved the highest efficiencies.

Metals

Higher sales of metal crowns and two-piece aluminum cans to beverage companies resulted in a 6% revenue growth during the year.

Plastics

Revenues from the Plastics business rose 16% from 2015 due to the surge in sales of crates and buckets for beer and softdrinks. Revenues from its leasing operations coming from the lease-to-own purchase of pallets and trucking services also grew.

Paper

Despite adverse weather conditions which affected crop harvest in Southern Philippines in 2016, the Paper business managed to return slightly higher revenues, as demand from major customers increased and utility and raw materials costs went down.

Malaysia

Revenues from Malaysia operations rose slightly on the back of higher selling prices of plastic films and converting products. This, despite increased competition and a slowdown in demand from local customers for plastic films.

Australia

Sales revenues from Australian operations grew 18%, given the strong sales of wine bottles, corks, screw caps, hoods, and capsules from Cospak Group and Vinocor. Australian operations

2016 MILESTONES

JANUARY

- Awards contract for MRT7 project to the consortium of Hyundai Rotem and EEI Corp.
- Signs Bulacan Bulk Water Project Concession Agreement.

FEBRUARY

- Acquires, through San Miguel Holdings Corporation, additional shares in Manila North Harbour Port, Inc. With Petron's existing investment, effective ownership is currently at 67.22%.

now accounts for about 19% of Packaging Group revenues.

POWER

SMC Global Power registered a consolidated off-take volume of 17,355 Gwh for the full year, 5% higher than 2015, as both the Sual and Ilijan power plants posted higher bilateral volumes. Compared to 2015, there were also lesser outages and maintenance shutdowns in 2016. As a result, power revenues slightly increased to P78.0 billion from last year. Along with a 9% decline in generation cost, operating income reached P26.7 billion, 13% higher than last year. Net income amounted to P4.2 billion, significantly higher than 2015.

The construction and commissioning of our greenfield coal power projects in Malita, Davao and Limay, Bataan (Phase 1 and 2), with a combined capacity of 900 MW, are on schedule. Utilizing Circulating Fluidized Bed (CFB) technology, these new generation coal facilities drastically cut emission levels and reduce impact to the environment. By the end of this year, 600 MW of this capacity will come online.

Sual

Despite a decline in average bilateral and Wholesale Electricity Spot Market (WESM) prices, revenues from the Sual power plant grew 3%, driven by a 5% increase in off-take volumes.

Ilijan

Off-take volume for the Ilijan power plant grew 10% as a result of lower outages. Revenues however declined 2% due to lower bilateral and WESM prices.

San Roque

Off-take volumes for the San Roque power plant declined 10% due to low dam reservoir levels. Revenues likewise slid by 11% due to lower spot market prices.

FUEL AND OIL

Petron Corporation ended 2016 strong, with consolidated net income reaching P10.8 billion, 73% higher than the previous year's P6.3 billion. Robust volume growth, better efficiencies from both the Philippines and Malaysia operations, and effective risk management, bolstered Petron's performance.

With better margins, Petron's operating income grew 31% to P23.8 billion in 2016.

Combined volumes from Philippines and Malaysia operations reached an all-time high of 104.3 million barrels, 6% higher than the 98 million barrels sold in 2015. Both markets saw robust growth across major business segments, with nearly all sectors experiencing double-digit growth.

M A R C H

- Lists SMC Series 2 Preferred Shares in subseries 2G, 2H, and 2I worth P30 billion on the PSE.

A P R I L

- Breaks ground for the MRT7 project at the Quezon City Memorial Circle.
- Announces the company's 2,000-hectare industrial estate in Davao del Sur.

The surge in sales volumes and the recovery of crude prices in the last quarter of 2016 helped offset the overall effect of lower crude oil prices throughout the year. Benchmark Dubai crude averaged US$41.27/barrel in 2016, 19% lower than the full year 2015 average of US$50.91/barrel. Sales revenues ended lower by 5% at P343.8 billion, compared to P360.2 billion in 2015.

Philippines

Volumes for Philippine operations grew 6% in 2016. Combined sales of high-value products such as gasoline, diesel, and Jet A-1/kerosene grew 14%, strengthening Petron's market leadership.

Petron also marked the first full year of commercial operations of its US$2 billion refinery upgrade. The new facility has enabled Petron to produce more high-margin fuels and petrochemicals, which has led to a substantial growth in sales. Costs have also gone down as the Bataan refinery is now capable of processing cheaper crudes.

Towards the end of 2016, Petron acquired the 140 MW co-generation plant from sister company SMC PowerGen Inc. The solid fuel-fired plant located beside Petron's refinery is expected to lower steam and power costs at the facility. The plant utilizes the petroleum coke from the refinery's delayed coker unit. The fully-modern power plant is also equipped with CFB technology, which exceeds local and international environmental standards.

Petron also continues to expand its retail network that will enable it to channel increased production from its refinery to its service stations. There are now nearly 2,300 service stations around the country.

Malaysia

In Malaysia, total volumes grew 7% in 2016 as a result of strong sales in both the retail and commercial sectors. The launch of innovative fuels, namely, Blaze 100 Euro 4M and Turbo Diesel Euro 5, helped drive volumes.

More service stations were also built—the most by any player in Malaysia—bringing its total station count to about 580. The ongoing retail network expansion program will increase the presence of Petron, especially in underserved markets.

INFRASTRUCTURE

Our infrastructure business, under San Miguel Holdings Corp., continued to deliver higher returns to San Miguel. Revenues in 2016 reached P19.9 billion, 13% higher than the previous year as a result of continuous growth in traffic volume across all operating tollroads—South Luzon Expressway (SLEX),

2016 MILESTONES

JULY

- Takes full control of MRT7 project, through San Miguel Holdings Corporation's acquisition of Universal LRT Corporation BVI and ULCOM Company, Inc.
- Opens the Carmen exit of TPLEX.

SEPTEMBER

- Opens the Binalonan exit of TPLEX.

Skyway Stages 1 and 2, Southern Tagalog Arterial Road (STAR), and Tarlac-Pangasinan-La Union Expressway (TPLEX).

Operating income grew 6% to P9.8 billion.

Tollroads

South Luzon Expressway recorded a 13% growth in average daily traffic volume, which translated to a 12% increase in revenues to P5.5 billion. Skyway Stages 1 and 2 generated P8.9 billion in revenues, with average daily traffic volume growth of 4%. STAR Tollway, on the other hand, posted a 15% growth in revenues to P702 million, as average daily traffic volume increased 17%. TPLEX likewise posted 31% growth in average daily traffic, resulting in revenues of P978.0 million, up by 29%.

In July 2016, we opened the Carmen exit of TPLEX, and about two months later in September, we opened the Binalonan exit. Construction of the section from Binalonan to Pozzorubio is ongoing and is set for completion by the end of 2017.

Meanwhile, Sections 1 and 2 of the NAIA Expressway are now open. Section 2 was opened December 21 and we started collecting toll fees last January 31, more than one month from its opening date. This was to allow the public to experience the benefit of this vital, new infrastructure. Since then, average daily traffic at NAIAX has steadily increased.

On the other hand, the construction of Skyway Stage 3, particularly Sections 1 and 2 from Buendia, Makati to Aurora Blvd., Quezon City is ongoing and progressing well. Skyway Stage 3 involves the construction of a 14.2-km elevated expressway from Buendia all the way to Balintawak, Quezon City. Target completion is early 2019.

Construction of SLEX-TR4 is also about to start this year. SLEX-TR4 is a 57.04 km, four-lane toll road that will extend SLEX from Sto Tomas, Batangas to Lucena City in Quezon province.

Airport

We also marked major milestones in our ongoing expansion of the Boracay Airport. We completed the extension of the runway to 1.8 kms, paving the way for the first landing of an A320 aircraft on November 18, 2016. Navigational equipment for night flights have also been installed. Construction of the new terminal is ongoing and completion is set for middle of 2018.

NOVEMBER

- Completes the extension of Boracay Airport's runway and welcomes first passenger jet, an Airbus 320.

DECEMBER

- Petron Corporation acquires from SMC PowerGen, Inc. the 140 MW Solid Fuel-Fired Power Plant located beside the Petron Bataan Refinery.
- NAIA Expressway becomes operational.

Mass Rail

On July 1, 2016, SMC took full control of the MRT7 project through its wholly-owned subsidiary, San Miguel Holdings Corp. The remaining 49% equity interest in Universal LRT Corporation BVI and 100% of ULCOM Company, Inc. were acquired. ULC BVI holds the exclusive right, obligation, and privilege to finance, design, construct, supply, complete, and commission the MRT7 project. ULCOM is the designated facility operator of the MRT7 project.

SMC Mass Rail Transit 7, Inc. (SMC-MRT7), incorporated in April 15, 2016 under San Miguel Holdings, Corp., is now the corporate vehicle for the implementation of this project.

The MRT7 project involves the construction of a 22-km light rail transit from North EDSA to San Jose Del Monte, Bulacan. The project also includes a 22-km road component which will connect to the North Luzon Expressway at the Bocaue exit.

Construction, which will take about three-and-a-half years, has already started. Preparation of the detailed engineering design survey for right-of-way acquisitions is ongoing.

Bulk Water

Meanwhile, construction has started on the Bulacan Bulk Water project, which will supply potable water to up to 24 water districts in Bulacan.

Site works such as clearing and grubbing are underway. San Miguel Holdings, Corp. and partner Korea Water Resources Corp. won the public bidding for this project and the concession agreement was signed on January 15, 2016.

PROPERTIES

San Miguel Properties Inc. delivered a 53% growth in revenues to P1.7 billion, attributed to higher sales of residential projects, rental income, and hotel revenues.

Makati Diamond Residences achieved a 61.2% increase in average occupancy in 2016 compared to the previous year's 36%.

As a result, income from operations amounted to P210 million, up 83% from 2015.

FINANCIAL POSITION

San Miguel's Management team completed a number of major programs to proactively manage the financial position of the Company. Some of the US dollar-denominated debts have been converted to Philippine peso-denominated funding.

Part of this effort is the completion of our first Peso Fixed Rate Bond offering which was listed with the Philippine Dealing and Exchange Corp. (PDEX) on March 1, 2017. A total of P20 billion was raised out of the P60 billion shelf registration with a tenor of 5, 7 and 10 years and rates of 4.8243%, 5.2840% and 5.7613% respectively. Due to strong demand from the initial bond offering, the second tranche was immediately offered the following month in April. A total of P10 billion was raised with a tenor of 5 years and rate of 5.1923% and was also listed in the PDEX last April 7. This further reduced the balance of our US dollar debt.

Petron Corporation and SMC Global Power Holdings Corp. also did a Peso Fixed Rate Bond Offering in 2016. Petron raised P20 billion out of the P40 billion shelf registration with a tenor of 5 and 7 years and rates of 4.0032% and 4.5219% respectively. This was listed in the PDEX last October 27, 2016.

SMC Global Power Holdings Corp. successfully listed in PDEX on July 11, 2016 the P15 billion 5, 7 and 10 year fixed rate bonds with rates of 4.3458%, 4.7575% and 5.1792% respectively.

As of December 31, 2016, total assets of the group stood at P1.31 trillion. Total liabilities reached P870 billion while stockholders' equity ended at P436.8 billion.

Consolidated cash balance was at P203.2 billion while Interest-bearing debt amounted to P517.9 billion. Net debt amounted to P314.7 billion.

Current ratio was 1.26x, against 1.32x as of December 31, 2015. Total liabilities-to-equity was at 1.99x while interest-bearing debt-to-equity was 1.19x against 1.34x. Net-debt-to EBITDA was 1.91x against 2.57x as of December 2015.

CORPORATE GOVERNANCE

San Miguel Corporation is committed to the highest standards of corporate governance. Good governance is key to effective decision-making and in delivering on corporate strategies that generate shareholder value and safeguard the long-term interests of shareholders.

As a responsible corporate citizen, the Company has in place efficient policies and programs to ensure that we always do what is right when it comes to conducting the everyday business of the Company.

Our Board of Directors, led by our Chairman, Mr. Eduardo M. Cojuangco, Jr., believes in conducting our business affairs in a fair and transparent manner and in maintaining the highest ethical standards in all the business dealings of the Company.

SHAREHOLDERS' RIGHTS

The Company recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors.

Voting rights
Each common share in the name of the shareholder entitles such shareholder to one vote, which may be exercised in person or by proxy at shareholders' meetings, including the Annual General Stockholders' Meeting (AGSM). Common shareholders have the right to elect, remove, and replace directors, as well as vote on certain corporate acts specified in the Corporation Code.

Preferred Shareholders have the right to vote on matters involving certain corporate acts specified in the Corporation Code. They enjoy certain preferences over holders of common shares in terms of dividends and in the event of liquidation of the Company.

Pre-emptive rights
Under the Company's amended articles of incorporation, as approved by the shareholders in a meeting held on May 17, 2009, and as approved by the Securities and Exchange Commission (SEC), shareholders do not have pre-emptive rights to the issuance of shares relating to equity-linked debt or other securities, any class of preferred shares, shares in payment of a previously contracted debt, or shares in exchange for property needed for corporate purposes. This is to give the Company greater flexibility in raising additional capital, managing its financial alternatives and issuing financing instruments.

On May 31, 2010, the shareholders of the Company approved to amend the articles of incorporation to deny pre-emptive rights to any issuance of common shares. Such amendment of the articles of incorporation was approved by the SEC on August 10, 2010.

Subject to certain conditions, shareholders also do not have pre-emptive rights to shares issued, sold or disposed of by the Company to its officers and/or employees, pursuant to a duly approved stock option, stock purchase, stock subscription or similar plans.

Right to Information
Shareholders are provided, through the Investor Relations Group headed by Ms. Reyna-Beth De Guzman, disclosures, announcements, and, upon request, periodic reports filed with the SEC. All disclosures of the Company are likewise immediately available. Copies are downloadable at the Company's website upon disclosure to the Philippine Stock Exchange (PSE).

Dividends
Shareholders are entitled to receive dividends as the Board, in its discretion, may declare from time to time. However, the Company is required, subject to certain exceptions under the law, to declare dividends when the retained earnings equal to, or exceed, its paid-up capital stock.

Cash dividends declared by the Board of Directors of the Parent Company amounted to P1.40 per share both in 2016 and 2017.

Cash dividends declared by the Board of Directors of the Parent Company to the preferred shareholders in 2016 and 2015 are as follows:

	2015	2016
Series "1"	3.167725	4.22625
Series "2-A"	2.8125	N/A
Series "2-B"	4.2890625	5.71875
Series C"	4.50	6.00
Series "2-D"	1.11433125	4.457325
Series "2-E"	1.18603125	4.744125
Series "2-F"	1.27635	5.1054
Series "2-G"	N/A	3.70085625
Series "2-H"	N/A	3.5562375
Series "2-I"	N/A	3.56371875

STAKEHOLDER RELATIONS

San Miguel Corporation exercises transparency when dealing with shareholders, customers, employees, trade partners, creditors, and all other stakeholders. The Company ensures that these transactions adhere to fair business practices in order to establish long-term and mutually-beneficial relationships.

Shareholder Meeting and Voting Procedures
Stockholders are informed at least 15 business days before the scheduled meeting of the date, time, and place of the validation of proxies. In 2016, Notices of the 2016 AGSM were sent to the stockholders on May 13, 2016, one month prior to the AGSM. Voting procedures on matters presented for approval of the stockholders in the AGSM are set out in the Definitive Information Statement distributed to all shareholders of the Company.

Shareholder and Investor Relations
San Miguel Corporation responds to information requests from the investing community and keeps shareholders informed through timely disclosures to the PSE and the SEC; through regular quarterly briefings, AGSMs, investor briefings and conferences, and the Company's website. The Company also responds to email and telephone queries. Disclosures and other filings with the SEC and PSE are available for viewing and download from the Company's website.

The Company, through the Investor Relations group under Corporate Finance, regularly holds briefings and meetings with investment and financial analysts.

DISCLOSURE AND TRANSPARENCY

San Miguel Corporation adheres to a high level of standard in its corporate disclosure and adopts transparency with respect to the Company's financial condition and state of corporate governance.

Ownership Structure
The top 20 shareholders of the Company, including the shareholdings of certain record and beneficial owners who own more than 5% of its capital stock, its directors and key officers, are disclosed annually in the Definitive Information Statement distributed to shareholders prior to the AGSM.

Financial Reporting
San Miguel Corporation provides the investing community with regular updates on operating and financial information through adequate and timely disclosures filed with the SEC and the PSE.

Consolidated audited financial statements are submitted to the SEC and the PSE on or before the prescribed period and are distributed to the shareholders prior to the AGSM.

San Miguel Corporation's financial statements conform to Philippine Accounting Standards and Philippine Financial Reporting standards, which are all in compliance with International Accounting Standards.

Quarterly financial results, on the other hand, are released and are duly disclosed to the SEC and PSE in accordance with the prescribed rules. The results are also presented to financial and investment analysts through a quarterly analysts' briefing. These disclosures are likewise posted on the Company's corporate website.

In addition to compliance with structural reportorial requirements, the Company discloses in a timely manner market-sensitive information such as dividend declarations, joint ventures and acquisitions, and the sale and divestment of significant assets that materially affect the share price performance of the Company.

Securities Dealing
The Company has adopted a policy that regulates the acquisition and disposal of Company shares by its directors, officers, and employees, and the use and disclosure of price-sensitive information by such persons. Under the policy, directors, officers, and employees who have knowledge or are in possession of material, non-public information, are prohibited from dealing in the Company's securities prior to disclosure of such information to the public.

The policy likewise prescribes the periods before and after public disclosure of structured and non-structured reports—during which trading in the Company's securities by persons who, by virtue of their functions and responsibilities, are considered to have knowledge or possession of material non-public information—is not allowed.

ACCOUNTABILITY AND AUDIT

The Audit Committee has oversight functions with respect to the external and internal auditors. The role and responsibilities of the Audit Committee are clearly defined in the Company's Manual on Corporate Governance.

External Auditor
The accounting firm of R.G. Manabat & Company CPAs, accredited by the SEC, served as the Company's external auditors for the fiscal years 2014 and 2015.

The external auditor is selected and appointed by the shareholders upon the recommendation of the Board and subject to rotation every five years or earlier, in accordance with SEC regulations. The external auditor's main function is to facilitate the environment of good corporate governance, as reflected in the Company's financial records and reports, through the conduct of an independent annual audit on the Company's business, and rendition of an objective opinion on the reasonableness of such records and reports.

The external auditors are expected to attend the AGSM of the Company and respond to appropriate questions during the meeting. They also have the opportunity to make a statement if they so desire. In instances when the external auditor suspects fraud or error during its conduct of audit, they are required to disclose and express their findings on the matter.

The Company paid the external auditor Audit Fees amounting to P12 million both in 2015 and in 2016.

Internal Audit
Internal audit is carried out by the San Miguel Group Audit (SMGA) which helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. SMGA directly reports to the Audit Committee.

SMGA is responsible for identifying and evaluating significant risk exposures and contributes to the improvement of risk management and control systems by assessing adequacy and effectiveness of controls covering the organization's governance, operations, and information systems. By evaluating

their effectiveness and efficiency, and by promoting continuous improvement, the group maintains effective controls of their responsibilities and functions.

The Board approved and adopted an Internal Audit Charter of the Company on March 16, 2017, in compliance with the requirements of the Securities and Exchange Commission.

BOARD OF DIRECTORS

Compliance with the principles of good corporate governance starts with the Company's Board of Directors. The Board is responsible for oversight of the business affairs and integrity of the Company; the determination of its mission, long-term strategy and objectives, the management of risks through evaluation, and ensuring the adequacy of the Company's internal controls and procedures.

It is the responsibility of the Board to foster and engender the long-term success of the Company and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, exercised in the best interest of the Company, its shareholders, and other stakeholders.

Composition
The Board consists of 15 members, each elected by the common stockholders during the AGSM. The Board members hold office for one year until their successors are duly elected and qualified in accordance with the amended by-laws of the Company.

The broad range of skills, expertise, and experience of the directors in the fields of management, economics, business, finance, accounting, and law, ensure comprehensive evaluation of, and sound judgment on, matters relevant to the Company's businesses and related interests. The names, profiles, and shareholdings of each director are found in Definitive Information Statement, distributed prior to the AGSM.

The Board of Directors and the senior management of the Company have all undergone the requisite training on corporate governance.

Independent and Non-Executive Directors
San Miguel Corporation has three (3) independent directors, which is more than the legal requirement of having at least two (2) independent directors or 20% of its board size, whichever is less but in no case less than two. Currently, of the 15 directors, Messrs. Reynaldo G. David, Chief Justice Reynato S. Puno and Margarito B. Teves sit as independent and non-executive directors of the Company.

The Company defines an independent director as a person who, apart from his fees and shareholdings, has no business or relationship with the Corporation, which could, or could reasonably be perceived to, materially interfere with the exercise of his independent judgment in carrying out his responsibilities as a director. An Independent Director shall submit to the Corporate Secretary a certification confirming that he possesses all the qualifications and none of the disqualifications of an Independent Director at the time of his election and/or re-election as an Independent Director.

The Company strictly complies with SEC Memorandum Circular No. 4, Series of 2017 on the term limits of independent directors.

A majority of the members of the Board of Directors of the Company are non-executive directors.

Chairman/CEO and President/COO
The Chairman of the Board and Chief Executive Officer is Mr. Eduardo M. Cojuangco, Jr. while Mr. Ramon S. Ang holds the position of Vice Chairman, President, and Chief Operating Officer. These positions are held by separate individuals with their respective roles clearly defined to ensure independence, accountability, and responsibility in the discharge of their duties. The Chairman/CEO and the President/COO attended the AGSM for 2016.

Board Performance
The Board holds regular meetings. To assist the directors in the discharge of their duties, each director is given access to the Corporate Secretary and Assistant Corporate Secretary, who serve as counsel to the board of directors and at the same time communicate with the Board, management, the Company's shareholders, and the investing public.

In 2016, the Board held eight (8) meetings. Set out below is the record of attendance of the directors at these meetings and at the AGSM.

Name of Directors	15 Jan	17 Mar	12 May	14 June*	10 Aug	15 Sept	10 Nov	8 Dec
Eduardo M. Cojuangco, Jr.	●	●	●	●	●	●	◙	●
Ramon S. Ang	●	●	●	●	●	●	●	●
Leo S. Alvez	●	●	●	●	●	●	●	●
Aurora T. Calderon	●	●	●	●	●	●	●	●
Joselito D. Campos, Jr.	●	●	●	●	●	●	●	●
Ferdinand K. Constantino	●	●	●	●	●	●	●	●
Menardo R. Jimenez	●	●	●	●	●	●	●	●
Estelito P. Mendoza	●	●	●	-	●	●	●	●
Alexander J. Poblador	●	●	●	●	-	●	●	●
Reynato S. Puno	●	●	●	●	●	●	●	●
Horacio C. Ramos	●	●	●	●	●	●	●	●
Thomas A. Tan	●	●	●	●	●	●	●	●
Margarito B. Teves	●	●	●	●	●	●	●	●
Iñigo Zobel	◙	●	●	●	◙	●	●	●
Reynaldo G. David	N/A	N/A	N/A	●	●	-	-	●
Winston F. Garcia	-	-	-	-	N/A	N/A	N/A	N/A

* Annual General Stockholders Meeting and Organizational Board Meeting
● Present
◙ via teleconference

Board Remuneration
The amended by-laws of the Company provides that the Board of Directors shall receive as compensation no more than 2% of the profits obtained during the year, after deducting general expenses, remuneration to officers and employees, depreciation on buildings, machineries, transportation units, furniture and other properties. Such compensation shall be apportioned among the directors in such manner as the Board deems proper. In 2010, the Board of Directors approved the increase in the per diems for each Board meeting attended by the members of the Board from P10,000 to P50,000 and from P10,000 to P20,000 for each committee meeting attended.

Directors who are executive officers of the Company are likewise granted stock options under the Company's Long-Term Incentive Plan for Stock Options, which plan is administered by the Executive Compensation Committee.

Board Committees
To assist the Board in complying with the principles of good corporate governance, the Board created four committees.

Executive Committee. The Executive Committee is currently composed of six directors, which includes the Chairman of the Board and CEO, Vice-Chairman of the Board, President and COO. Mr. Eduardo M. Cojuangco, Jr. sits as Chairman of the Committee. The Committee acts within the power and authority granted upon it by the Board and is called upon when the Board is not in session to exercise the powers of the latter in the management of the Company—with the exception of the power to appoint any entity as general managers or management or technical consultants; to guarantee obligations of other corporations in which the Company has lawful interest; to appoint trustees who, for the benefit of the Company, may receive and retain such properties of the Company or entities in which it has interests; to perform such acts as may be necessary to transfer ownership of such properties to trustees of the Company, and such other powers as may be specifically limited by the Board or by law.

The Executive Committee held one meeting in 2016.

Nomination and Hearing Committee. The Nomination and Hearing Committee is currently composed of six voting directors – one of whom is independent, Mr. Reynato S. Puno – and one non-voting member in the person of the Company's Corporate Human Resources' Head. Atty. Estelito P. Mendoza is the Chairman of the Committee.

Among others, the Nomination and Hearing Committee screens and shortlists candidates for Board directorship in accordance with the qualifications and disqualifications for directors set out in the company's Manual on Corporate Governance the amended articles of incorporation and amended by-laws of the company, and applicable laws, rules, and regulations.

In 2016, the Nomination and Hearing Committee held one meeting.

Executive Compensation Committee. Six directors currently comprise the Executive Compensation Committee, two of whom are independent in the persons of Mr. Reynaldo G. David and Mr. Reynato S. Puno. Mr. Menardo R. Jimenez is Chairman of the Committee. The Executive Compensation Committee advises the Board in the establishment of formal and transparent policies and practices on directors and executive remuneration and provides oversight over remuneration of senior management and other key personnel—ensuring consistency with the company's culture, strategy, and control environment. In two meetings in 2016, the Committee, among others, designated the amount of remuneration for directors and reviewed promotions of certain executive officers.

The Executive Compensation Committee has adopted its own charter, which shall provide guidance as to its specific roles and objectives and their corresponding implementation.

On May 10, 2017, the Board of Directors of the Company approved the reorganization of the Board Committees of the Company. The functions of the Nomination and Hearing Committee and the Executive Compensation Committee will be performed by the Corporate Governance Committee, which will be tasked to assist the Board in the performance of its corporate governance responsibilities. It may have at least three (3) Independent Directors as members. The Chairman of the Committee shall be an Independent Director.

Audit Committee. The Audit Committee is currently composed of five members with two independent directors as members, namely, Mr. Margarito B. Teves, who also sits as Committee Chairman, and Mr. Reynaldo G. David.

The Audit Committee reviews and monitors, among others, the integrity of all financial reports and ensures their compliance with both the internal financial management manual and pertinent accounting standards, including regulatory requirements. It also performs oversight financial management functions and risk management, approves audit plans, directly interfaces with internal and external auditors, and elevates to international standards the accounting and auditing processes, practices, and methodologies of the company.

The Audit Committee held four meetings in 2016 wherein the Committee reviewed and approved, among others, the Company's 2015 Consolidated Audited Financial Statements as reviewed by the external auditors, and the company's unaudited financial statements for the first to the third quarters of the year.

The Audit Committee has adopted an Audit Committee Charter in accordance with the prescribed audit committee charter of the Securities and Exchange Commission.

Pursuant to the approval by the Board of Directors on May 10, 2017 to reorganize the committees of the Company, the Audit Committee shall become the Audit and Risk Oversight Committee, and a new committee, the Related Party Transactions Committee, will be created.

The Audit and Risk Oversight Committee will have oversight functions over the Corporation's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations, as well as oversight over the Corporation's enterprise risk management system, to ensure its functionality and effectiveness.

The Committee may be composed of at least three (3) appropriately qualified non-executive directors, the majority of whom should be Independent Directors. The Chairman shall be an Independent Director and should not be the Chairman of the Board or of any other Committee. The members of the Committee shall have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing, and finance. At least one member of the Committee must have relevant thorough knowledge and experience on risk and risk management.

The Related Party Transaction Committee will be tasked with reviewing all material RPTs of the Corporation and may be composed of at least three (3) non-executive directors, two (2) of whom should be Independent Directors. The Chairman shall be an Independent Director.

Board Committee Members
The members of each Board Committee and their attendance at the Board Committee meetings in 2016 are set out in the table below. The Chairmen of each of the Board Committees attended the 2016 AGSM.

Executive Committee	Date of Meeting
	May 26
Eduardo M. Cojuangco, Jr. (C)	●
Ramon S. Ang	●
Estelito P. Mendoza	●
Menardo R. Jimenez	●
Ferdinand K. Constantino	●
Iñigo Zobel	●

Nomination and Hearing Committee	Date of Meeting
	Jan 15
Estelito P. Mendoza (C)	●
Ramon S. Ang	●
Leo S. Alvez	●
Ferdinand K. Constantino	●
Alexander J. Poblador	●
Reynato S. Puno	●

Audit Committee	Date of Meeting			
	Mar 17	May 12	Aug 10	Nov 10
Margarito B. Teves (C)	●	●	●	●
Estelito P. Mendoza	●	●	●	●
Winston F. Garcia[1]	-	-	●	●
Ferdinand K. Constantino	●	●	●	●
Leo S. Alvez	●	●	●	●
Reynaldo G. David	N/A	N/A	●	-

Executive Compensation Committee	Date of Meeting	
	Jan 16	Jun 14
Menardo R. Jimenez (C)	●	●
Winston F. Garcia	-	-
Reynato S. Puno	●	●
Joselito D. Campos, Jr.	●	●
Ferdinand K. Constantino	●	●
Aurora T. Calderon	●	●
Reynaldo G. David[2]	N/A	N/A

[1] Mr. Winston F. Garcia was not elected in the June 14, 2016 AGSM of the Company.
[2] Mr. Reynaldo G. David was elected in the June 14, 2016 AGSM of the Company.

MANAGEMENT

Management is primarily responsible for the day-to-day operations and business of the Company. The annual compensation of the Chairman/CEO and the top senior executives of the company are set out in the Definitive Information Statement distributed to shareholders.

EMPLOYEE RELATIONS

Employees are provided an Employee Handbook and Code of Ethics which contains the policies and guidelines for the duties and responsibilities of an employee of San Miguel Corporation.

Through internal newsletters and company e-mails all facilitated by the Human Resources Department and the Corporate Affairs Office, employees are updated on material developments within the organization.

Career advancement and development are also provided by the company through numerous training programs and seminars. The company has also initiated activities centered on the safety, health, and welfare of its employees. Benefits and privileges accruing to all regular employees are similarly discussed in the Employee Handbook.

CODE OF ETHICS

The Company's Code of Ethics sets out the fundamental standards of conduct and values consistent with the principles of good governance and business practices that shall guide and define the actions and decisions of the directors, officers, and employees of the company. The principles and standards prescribed in the Code of Ethics apply to all directors, senior managers, and employees of the Company.

Procedures are well established for the communication and investigation of concerns regarding the company's accounting, internal accounting controls, auditing, and financial reporting matters to the Audit Committee to uphold the Code of Ethics.

Whistle-blowing policy
The Company has an established whistle blowing policy aimed at encouraging employees to speak out and call the attention of Management to any suspected wrongdoing which is contrary to the principles of the Code of Ethics and is in violation of the Company's rules and regulations. The policy aims to protect the whistle-blower from retribution or retaliation, and provides a disincentive to passively allowing the commission of wrongful conduct.

These policies are available on the Company's website.

COMPLIANCE MONITORING

The Compliance Officer, Atty. Virgilio S. Jacinto, is responsible for monitoring compliance by the Company, with the provisions and requirements of good corporate governance.

On April 14, 2010, the Board Directors amended its Manual of Corporate Governance in compliance with the Revised Code of Corporate Governance issued by the Securities and Exchange Commission, under its Memorandum Circular No. 6, Series of 2009. On March 27, 2014, the Board of Directors approved further amendments to the Manual to reflect the requirements of the SEC on the annual training requirement of directors and key officers of the Company, and the requirements on the reporting of compliance with the Manual.

On May 10, 2017, the Board of Directors of the Company approved the adoption of a new Manual on Corporate Governance in compliance with SEC Memorandum Circular No. 19, Series of 2016.

WEBSITE

Up-to-date information on the Company's corporate structure, products and services, results of business operations, financial statements, career opportunities and other relevant information on the Company may be found at its website www.sanmiguel.com.ph.

The Board of Directors
San Miguel Corporation

REPORT OF THE AUDIT COMMITTEE

For the year ended December 31, 2016

The Audit Committee assists the Board of Directors in its corporate governance and oversight responsibilities in relation to financial reporting, risk management, internal controls and internal and external audit processes and methodologies. In fulfillment of these responsibilities, the Audit Committee performed the following in 2016:

- endorsed for approval by the stockholders, and the stockholders approved the appointment of R.G. Manabat & Co. CPAs (formerly Manabat Sanagustin & Co. CPAs) as the Company's independent external auditors for 2016.

- reviewed and approved the terms of engagement of the external auditors, including the audit, audit-related and any non-audit services provided by the external auditors to the Company and the fees for such services, and ensured that the same did not impair the external auditors' independence and objectivity;

- reviewed and approved the scope of the audit and audit programs of the external auditor as well as the internal audit group of the Company, and have discussed the results of their audit processes and their findings and assessment of the Company's internal controls and financial reporting systems;

- reviewed, discussed and recommended for approval of the Board of Directors the Company's annual and quarterly consolidated financial statements, and the reports required to be submitted to regulatory agencies in connection with such consolidated financial statements, to ensure that the information contained in such statements and reports presents a true and balanced assessment of the Company's position and condition and comply with the regulatory requirements of the Securities and Exchange Commission; and

- reviewed the effectiveness and sufficiency of the Company's financial and internal controls, risk management systems, and control and governance processes, and ensured that, where applicable, necessary measures are taken to address any concern or issue arising therefrom.

- reported compliance to the Securities and Exchange Commission on the results of the accomplishment by the members of the Audit Committee of the Audit Committee Self-Rating Form in accordance with the Audit Committee Charter and in compliance with the requirements of the SEC Memorandum Circular No. 4, Series of 2012.

All the five members of the Audit Committee, two of whom are independent directors, are satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2016.

Margarito B. Teves
Chairman - Independent Director

Estelito P. Mendoza
Member

Reynaldo G. David
Member – Independent Director

Leo S. Alvez
Member

Ferdinand K. Constantino
Member

CORPORATE SOCIAL RESPONSIBILITY

PROGRESS WITH PURPOSE

As a company, we're committed to spark positive change and support the country's social development. We generate employment, support businesses upstream and downstream, pay correct taxes, and invest in the future. We understand that long-term profitability is no longer possible without meeting our social and environmental responsibilities. Part of our growth plan is to ramp up our corporate social responsibility (CSR) efforts on the same scale as our businesses.

For us, our social agenda goes hand in hand with our business strategies.

Through the San Miguel Foundation (SMF) and our different subsidiaries, we've implemented new and ongoing projects focused on the pillars of our company's social agenda—education, housing, health and nutrition, environmental stewardship, disaster management, community development, capacity-building and volunteerism.

Education

Education can transform a person's life; it creates more opportunities and gives one a stronger voice in society. This is why it's an important aspect of our corporate social responsibility.

By pursuing programs that help more people gain access to quality education, we hope to inspire a new generation of Filipinos to chart better futures for themselves.

In 2016, SMF with San Miguel Brewery Inc. (SMB), SMC Global Power Holdings Corp., San Miguel Pure Foods Company Inc. (SMPFC), San Miguel Yamamura Packaging Corporation (SMPYC), and Ginebra San Miguel Inc. (GSMI) awarded scholarships to 90 underprivileged college students in 23 partner schools across the country.

The scholarship covers tuition, books, school supplies, and a monthly allowance. Among these scholars, 31 are pursuing professional degrees that require licensure. Our support to them also extends to providing for all their needs throughout their board exam reviews.

We're especially proud of two of these scholars. Kevin Cabante, from the University of South Eastern Philippines (USEP) in Davao, ranked fourth in the Electrical Engineering licensure examination, and Ivan Jay Jumahali, also from USEP, ranked third in this year's Geologist licensure examination.

The SMF and the Petron Foundation provided scholarships for over 3,500 students in various levels across the country. And of those who have graduated from college, particularly those who took up engineering courses, a number have been employed in our facilities.

As of the end of 2016, SMF and the Petron Foundation have built a total of 516 classrooms which benefited some 25,500 school children.

Petron also continued to implement other education-related initiatives that have benefited over 1,200 students. Meanwhile, another one million elementary students continue to benefit from its investment in *Basa Pilipinas*, a reading advocacy.

Some 12,884 grade school students nationwide also received books and school supply kits to help with their studies.



Nutrition

We understand the importance of nutrition in making sure that a child stays in school.

To this end, SMPFC continued its *Handog Lusog Nutrisyon Para Sa Nasyon*, a feeding program that runs for six months every year which provides nutritious meals for students. Parents are also taught about basic food safety and how to prepare healthy, affordable meals.

SMB, SMYPC, and SMC Global Power also sponsored feeding programs throughout the year. Close to 3,000 malnourished children across the country benefited from this program.

Health

Many of our countrymen still don't have access to medical care—an essential part of one's well-being.

Throughout 2016, we provided basic medical and dental assistance to some 11,617 Filipinos.

Our community clinics—in Polo, Valenzuela; San Fernando Pampanga; Mandaue, Cebu; Bacolod, Negros Occidental; Darong, Davao del Sur, and Sumilao, Bukidnon—were also able to bring health care services to over 3,000 people.

At the start of 2017, SMC Global Power opened SMC's seventh community clinic, Tarelco II – SMC Global Power Clinic in Tarlac.

Likewise, five barangay health centers were opened in Sual, Pangasinan.

SMF also donated P39 million to provide modern operating, laboratory, medical, dental, and office equipment to the Armed Forces of the Philippines' (AFP) Camp Teodulfo Bautista Hospital in Sulu.

SMYPC built a water system that gives the students of Buntog Elementary School in Canlubang, Laguna access to running water. They also built a hand-washing area in the school to promote personal hygiene and prevent illness.

SMB, in Darong, Davao del Sur provided a water line connecting the Darong Elementary School and the local barangay hall to the brewery facilities. Likewise, SMB's Bacolod brewery provided water to Patricia Homes Elementary School and Generoso Villanueva National High School. The brewery's engineering department makes sure that both schools have safe running water during school hours.

San Miguel Foods, Inc. provided water to Sirawan Elementary School in Davao City. The school is located near the local Magnolia Poultry Dressing plant. The Food Group is also working on a level-2 water system for Sitio Rambutan and Purok Manggahan in Darong. This project will benefit about 150 households in the area.

An estimated 500 families will also be provided potable water supply, as SMC Global Power constructs new water systems in Barangay Culaman, Malita, Davao.

Drug rehabilitation

Although these key pillars make up our corporate social responsibility agenda, we believe it's also necessary to make sure our CSR initiatives are aligned with that of government. When President Rodrigo Duterte announced his campaign against illegal drugs, we saw an opportunity to help by building rehabilitation facilities.

We committed P1 billion to construct a network of rehabilitation centers around the country. Investing in rehabilitation is crucial in ensuring that former drug dependents are able to get their lives back on track.

Apart from the facilities themselves, we're also putting emphasis on rehabilitation programs. We're focusing on sustainable livelihood and capacity-building activities. We're developing modules on entrepreneurship, basic computer and information technology skills, handicrafts, horticulture, and livestock raising.



EDUCATION

12,884
STUDENTS RECEIVED SCHOOL SUPPLY KITS

3,555
SCHOLARS

HEALTH & NUTRITION

2,716
CHILDREN FROM 44 SCHOOLS RECEIVED NUTRITIOUS MEALS

3,335
BENEFICIARIES IN SIX COMMUNITY CLINICS

11,617
PATIENTS ATTENDED TO DURING MEDICAL MISSIONS

500
FAMILIES IN MALITA, DAVAO BENEFITED FROM IMPROVEMENT OF WATER SYSTEM

ENVIRONMENT

342,150
TREES PLANTED THROUGHOUT THE PHILIPPINES

We've also partnered with the Quezon City government to employ rehabilitated drug users as workers and flagmen for the MRT7 project—a guarantee of at least three years' work.

The first of these rehabilitation facilities will be built in Bataan, and we are working with the Department of Health (DoH), the Department of Interior and Local Government (DILG) and the Office of the President to fast-track this project.

SMF is studying possible locations for other facilities.

Housing

Virtually all the houses we promised to victims of typhoons Sendong and Yolanda under a grant worth more than P1 billion, are complete, and most have already been turned over to their new owners.

But seeing the great need for more housing in other parts of the country, we committed another P1 billion to relocate families living in danger zones in Los Amigos, Davao. Plans for construction are set to be finalized within this year.

Disaster response

Typhoon Nina was one of the strongest storms to hit the Bicol region in recent memory. LGUs estimate that at least half of the existing homes in Tiwi, Albay were destroyed by the storm. Also hard hit were the towns of Camarines Sur, Legaspi, and Catanduanes. To aid relief efforts, SMF and employee volunteers packed canned goods and supplied water to 11,000 families.

We extended the same kind of help when super typhoon Lawin hit the Ilocos region, Cagayan Valley, Central Luzon, and the Cordillera Administrative Region. A total of 5,000 families benefitted from this effort.

The Petron Foundation also donated P4.5 million worth of shelter repair kits through the Philippine Business for Social Progress (PBSP). Petron Foundation distributed the kits—containing about P15,000 worth of construction materials—to 300 families to help them rebuild their homes.

SMF also assisted 14,000 families who were victims of a large fire in Mandaluyong City. Some 350 families in Mandaue City, who were also victims of fire, received similar support.

All in all, our disaster relief assistance in 2016 benefited around 30,000 families.

DRUG REHABILITATION

P1 billion

DONATION FOR CONSTRUCTION OF DRUG REHABILITATION CENTERS

HOUSING

P1 billion

DONATION FOR RELOCATION OF FAMILIES LIVING IN HAZARD-PRONE AREAS IN DAVAO

DISASTER RESPONSE

30,350

FAMILIES AIDED

LIVELIHOOD PROGRAM

215

INDIVIDUALS RECEIVED LIVELIHOOD SUPPORT

TEAM MALASAKIT

19

VOLUNTEER ACTIVITIES

1,567

BENEFICIARIES

3,195

EMPLOYEE VOLUNTEERS

Livelihood and capacity-building

An estimated 100 students have graduated from the Technopreneurship Program of GSMI and the Technical Education and Skills Development Authority (TESDA). Armed with the skills necessary to run a successful business, many of these students have gone on to operate their own bars.

GSMI also started a project dubbed, "Boteful Aparri" in Barangay Maura, Aparri, Cagayan. Under the program, residents were given bicycles with sidecars that they use to retrieve used bottles. After reaching their collection target, GSMI will provide the barangay with security equipment such as CCTV cameras and computers, to help maintain peace and order.

In Angat, Bulacan, SMF opened the Dumagat Livelihood Center. The foundation also conducted seminars on natural farming systems in West Misamis.

Team Malasakit

For two years now, our employee volunteerism program, Team Malasakit, has been empowering employees to do their part in helping underprivileged sectors of our society. Team Malasakit has initiated some 19 activities with the support of over 3,000 employee-volunteers.

Environmental stewardship

Over the past eight years, volunteers of SMB's Trees Brew Life program have planted almost 500,000 seedlings across the country. In 2016, 70,000 seedlings of hardwood, mangrove, and fruit-bearing species were planted.

For their part, Petron continues work to reforest a 300-hectare land area to protect the watershed of Limay, Bataan. It has also partnered with the City of Tacloban to adopt five hectares of its coastline for mangrove reforestation.

The integrated water management project

Water sustainability is also a cause that SMC wants to focus on in the coming years. In early 2017, we committed to cut, by 50%, utility and domestic water use across the San Miguel Group. It's a major undertaking that we are projecting to complete by 2025. To reach this ambitious goal, we are taking a closer look at each of our facilities to determine where we can improve water measurement and use, and we will be implementing programs that will enable us to recycle and reuse more water.

This initiative will extend to a number of our communities, making them more water sustainable and providing better access to water sanitation.

BOARD OF DIRECTORS

Eduardo M. Cojuangco, Jr.
Chairman and CEO
Chairman, Executive Committee

Ramon S. Ang
Vice Chairman, President and COO
Member, Executive Committee
Member, Nomination and Hearing Committee

Leo S. Alvez
Member, Audit Committee
Member, Nomination and Hearing Committee

Aurora T. Calderon
Member, Executive Compensation Committee

Joselito D. Campos, Jr.
Member, Executive Compensation Committee

Ferdinand K. Constantino
Member, Executive Committee
Member, Audit Committee
Member, Executive Compensation Committee
Member, Nomination and Hearing Committee

Menardo R. Jimenez
Chairman, Executive Compensation Committee
Member, Executive Committee

Estelito P. Mendoza
Chairman, Nomination and Hearing Committee
Member, Executive Committee
Member, Audit Committee

Alexander J. Poblador
Member, Nomination and Hearing Committee

Horacio C. Ramos

Thomas A. Tan

Iñigo Zobel
Member, Executive Committee

Reynaldo G. David
Independent Director
Member, Audit Committee
Member, Executive Compensation Committee

Reynato S. Puno
Independent Director
Member, Executive Compensation Committee
Member, Nomination and Hearing Committee

Margarito B. Teves
Independent Director
Chairman, Audit Committee

KEY EXECUTIVES

Eduardo M. Cojuangco, Jr.
Chairman and Chief Executive Officer

Ramon S. Ang
Vice Chairman, President and Chief Operating Officer

Ferdinand K. Constantino
Chief Finance Officer and Treasurer

Virgilio S. Jacinto
Corporate Secretary and General Counsel

SAN MIGUEL BREWERY INC.
Roberto N. Huang
President

SAN MIGUEL BREWING INTERNATIONAL LTD.
Carlos Antonio M. Berba
Managing Director

GINEBRA SAN MIGUEL INC.
Bernard D. Marquez
President

SAN MIGUEL PURE FOODS COMPANY INC.
Francisco S. Alejo III
President

SAN MIGUEL YAMAMURA PACKAGING CORP.
Ferdinand A. Tumpalan
President

PETRON CORPORATION
Lubin B. Nepomuceno
General Manager

SMC GLOBAL POWER HOLDINGS CORPORATION
Elenita D. Go
Senior Vice President and General Manager

SAN MIGUEL HOLDINGS CORP.
INFRASTRUCTURE BUSINESS
Lorenzo G. Formoso III
Senior Vice President and Head

SAN MIGUEL PROPERTIES, INC.
Karen V. Ramos
Vice President and General Manager

SAN MIGUEL CORPORATION AND SUBSIDIARIES

SELECTED FINANCIAL DATA
DECEMBER 31, 2016, 2015 AND 2014

(In Millions, Except Per Share and Statistical Data)

	2016	2015	2014
For the Year			
Sales	**P685,314**	P672,243	P772,243
Net Income	**P52,240**	P28,993	P28,578
Net Income Excluding Losses on Foreign Exchange	**P61,168**	P38,237	P30,264
Net Income Attributable to Equity Holders of of the Parent Company	**P29,289**	P12,448	P15,137
Basic Earnings Per Common Share from Continuing Operations Attributable to Equity Holders of the Parent Company [A]	**P4.49**	P2.50	P4.19
Taxes	**P137,929**	P125,771	P115,923
Cash Dividends	**P10,171**	P8,325	P9,435
Cash Dividends Per Common Share [B]	**P1.40**	P1.40	P1.40
Cash Dividends Per Preferred Share [B]			
SMCP1	**P4.22625**	P3.167725	P -
SMC2A	**P -**	P2.8125	P5.625
SMC2B	**P5.71875**	P4.2890625	P5.71875
SMC2C	**P6.00**	P4.50	P6.00
SMC2D	**P4.457325**	P1.11433125	P -
SMC2E	**P4.744125**	P1.18603125	P -
SMC2F	**P5.1054**	P1.27635	P -
SMC2G	**P3.70085625**	P -	P -
SMC2H	**P3.5562375**	P -	P -
SMC2I	**P3.56371875**	P -	P -
At Year-End			
Working Capital	**P99,819**	P102,892	P176,039
Total Assets	**P1,306,824**	P1,246,022	P1,217,489
Property, Plant and Equipment-net	**P504,711**	P497,352	P455,323
Equity Attributable to Equity Holders of the Parent Company	**P279,942**	P238,137	P240,900
Equity Per Share Attributable to Equity Holders of the Parent Company			
Common	**P71.23**	P66.32	P67.65
Preferred	**P75.00**	P75.00	P75.00
Number of Common Shares Outstanding - Net of Treasury Shares	**2,380,208,250**	2,378,524,978	2,378,145,134
Number of Preferred Shares Outstanding	**1,472,061,267**	1,072,061,267	1,067,000,000
Number of Common Stockholders	**36,426**	36,718	37,194
Number of Preferred Stockholders	**1,337**	705	935
Number of Employees	**22,396**	18,586	18,538
Financial Statistics			
% Return on Average Equity Attributable to Equity Holders of the Parent Company	**11.31%**	5.20%	6.33%
Current Ratio	**1.26**	1.32	1.50
Debt to Equity Ratio [C]	**1.99**	2.24	2.12
Market Price			
Common Shares			
High	**P101.60**	P81.00	P87.00
Low	**P47.50**	P43.50	P54.50
Series "2" Preferred Shares			
Subseries 2-A			
High	**P -**	P76.85	P77.00
Low	**P -**	P74.00	P74.20
Subseries 2-B			
High	**P81.00**	P89.50	P79.00
Low	**P75.00**	P76.00	P74.50
Subseries 2-C			
High	**P83.00**	P90.00	P82.50
Low	**P75.00**	P78.00	P75.00
Subseries 2-D			
High	**P80.00**	P85.00	P -
Low	**P75.10**	P76.00	P -
Subseries 2-E			
High	**P80.50**	P80.10	P -
Low	**P75.00**	P76.00	P -
Subseries 2-F			
High	**P81.00**	P80.90	P -
Low	**P75.80**	P77.10	P -
Subseries 2-G			
High	**P80.05**	P -	P -
Low	**P75.00**	P -	P -
Subseries 2-H			
High	**P79.00**	P -	P -
Low	**P74.95**	P -	P -
Subseries 2-I			
High	**P79.15**	P -	P -
Low	**P71.50**	P -	P -

[A] *Based on the weighted average number of shares outstanding during the year*

[B] *Based on the number of shares outstanding at the date of each declaration*

[C] *Total debt to equity, where total debt represents total liabilities*

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, 2016, 2015 and 2014, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of 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 or members.

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 or members, 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 16th day of March 2017.

R.G. Manabat & Co.
The KPMG Center, 9/F
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Philippines 1226
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Website: www.kpmg.com.ph
E-Mail: ph-inquiry@kpmg.com

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, 2016 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated financial statements, comprising a summary of 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, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016, in accordance with Philippine Financial Reporting Standards (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 (P685,314 million).
Refer to Notes 8, 26 and 34 of the consolidated financial statements.

The risk
The Group's revenue are generated from various sources and an important measure used to evaluate the performance of the Group. The nature of the Group's operations may provide opportunities to engage in fraudulent financial reporting since there is timing difference between recording and transfer of significant risks and rewards of ownership to the customers which may not be consistent with the requirements of Philippine Accounting Standard (PAS) 18, *Revenue*. Revenue may be inappropriately recognized in order to improve business results and achieve capital and 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, around revenue recognition:

- We evaluated and assessed the revenue recognition policies of the Group in accordance with PAS 18.
- We identified and assessed the operating effectiveness of the key controls over revenue process.
- We involved our information technology specialists, as applicable, to assist in the audit of automated controls, including interface controls between different information technology applications for the evaluation of relevant information technology systems and the design and operating effectiveness of controls over the recording of revenue transactions.
- We tested revenue throughout the period by selecting sample of transactions to ascertain that it met the revenue recognition criteria and traced it to source documentation to ensure propriety of recording. Detailed revenue cut-off procedures were also performed to assess whether revenue was complete, existing and was recorded in the appropriate accounting period.

- We tested journal entries posted to revenue accounts to identify unusual or irregular items.

- We tested credit notes recorded after the financial year to assess whether revenue has been recognized in the appropriate financial year.

Valuation of Goodwill (P58,113 million).
Refer to Notes 4, 5, 6, 18 and 39 of the consolidated financial statements.

The risk
The Group has embarked on a diversification strategy and has expanded into a number of new businesses through a series of acquisitions and investments. As a result, the Group holds a significant amount of goodwill that has arisen as a result of these acquisitions. 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 annual impairment test was significant to our audit as the assessment process is complex and judgmental by nature as it is based on assumptions on future market and/or economic conditions. These assumptions include future cash flow projections, growth rates, discount rates and sensitivity analyses.

Our response
We performed the following audit procedures, among others, around valuation of goodwill:

- We assessed management's determination of the recoverable amounts of goodwill 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. Fair value is determined using quoted price of the shares of the listed entities less costs to sell.

- We tested the integrity of the discounted cash flow model by comparing the Group's assumption to externally derived data such as projected economic growth, competition, cost of inflation and discount rates. Our own valuation specialist assisted us in evaluating the models used and assumptions applied.

- We performed sensitivity analyses around the key assumptions used in the models.

Valuation of Other Intangible Assets (P125,165 million).
Refer to Notes 4, 5, 18 and 39 of the consolidated financial statements.

The risk
The recoverability of the Group's other intangible assets is dependent on achieving sufficient level of profitability.

The annual impairment test for other intangible assets with indefinite useful lives and test of impairment indicator for other intangible assets with finite useful lives are significant to our audit as the assessment process is complex and judgmental by nature as it is based on assumptions on future market and/or economic conditions. These assumptions include future cash flow projections, growth rates, discount rates and sensitivity analyses.

Our response
We performed the following audit procedures, among others, around valuation of other intangible assets:

- We examined evidences for any potential indicators of impairment for other intangible assets with finite useful lives.

- We assessed management's determination of the recoverable amounts of other intangible assets based on 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 integrity of the discounted cash flow model by comparing the Group's assumption to externally derived data such as projected economic growth, competition, cost of inflation and discount rates. Our own valuation specialist assisted us in evaluating the models used and assumptions applied.

- We performed sensitivity analyses around 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, 2016, 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, 2016 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 comes 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 Wilfredo Z. Palad.

R.G. MANABAT & CO.

WILFREDO Z. PALAD
Partner
CPA License No. 0045177
SEC Accreditation No. 0027-AR-4, Group A, valid until August 24, 2018
Tax Identification No. 106-197-186
BIR Accreditation No. 08-001987-6-2016
Issued April 12, 2016; valid until April 11, 2019
PTR No. 5904939MD
Issued January 3, 2017 at Makati City

March 16, 2017
Makati City, Metro Manila

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

(In Millions)

	Note	2016	2015
ASSETS			
Current Assets			
Cash and cash equivalents	*5, 9, 41, 42*	**P203,153**	P180,758
Trade and other receivables - net	*4, 5, 7, 10, 34, 36, 41, 42*	**114,525**	100,727
Inventories	*4, 5, 11*	**83,241**	64,148
Current portion of biological assets - net	*4, 17*	**3,122**	3,319
Prepaid expenses and other current assets	*4, 5, 12, 14, 35, 41, 42*	**75,202**	73,659
		479,243	422,611
Assets held for sale	*7*	**184**	-
Total Current Assets		**479,427**	422,611
Noncurrent Assets			
Investments and advances - net	*4, 5, 13*	**32,512**	26,929
Available-for-sale financial assets	*4, 14, 41, 42*	**42,068**	41,546
Property, plant and equipment - net	*4, 5, 15, 35*	**504,711**	497,352
Investment property - net	*4, 16*	**7,295**	4,746
Biological assets - net of current portion	*4, 17*	**2,263**	2,177
Goodwill - net	*4, 5, 6, 18, 39*	**58,113**	58,603
Other intangible assets - net	*4, 5, 18, 39*	**125,165**	139,969
Deferred tax assets	*4, 5, 24*	**20,267**	16,441
Other noncurrent assets - net	*4, 5, 19, 34, 35, 36, 41, 42*	**35,003**	35,648
Total Noncurrent Assets		**827,397**	823,411
		P1,306,824	P1,246,022
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	*5, 20, 31, 34, 41, 42*	**P189,277**	P146,859
Accounts payable and accrued expenses	*4, 5, 21, 34, 35, 36, 41, 42*	**121,602**	102,836
Finance lease liabilities - current portion	*4, 5, 31, 35, 41, 42*	**16,392**	16,567
Income and other taxes payable	*5*	**16,967**	13,907
Dividends payable	*5, 34, 37*	**3,992**	1,996
Current maturities of long-term debt - net of debt issue costs	*5, 22, 31, 34, 41, 42*	**31,378**	37,554
Total Current Liabilities		**379,608**	319,719
Long-term debt - net of current maturities and debt issue costs	*5, 22, 31, 34, 41, 42*	**297,222**	330,823
Deferred tax liabilities	*5, 24*	**17,229**	15,329
Finance lease liabilities - net of current portion	*4, 5, 31, 35, 41, 42*	**153,848**	162,713
Other noncurrent liabilities	*4, 5, 23, 34, 35, 36, 41, 42*	**22,136**	32,561
Total Noncurrent Liabilities		**490,435**	541,426
Equity	*25, 37, 38, 40*		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - common		**16,425**	16,417
Capital stock - preferred		**10,187**	10,187
Additional paid-in capital		**177,641**	177,871
Equity reserves	*6*	**(7,700)**	(3,619)
Retained earnings:			
Appropriated		**56,906**	48,927
Unappropriated		**135,984**	127,855
Treasury stock		**(109,501)**	(139,501)
		279,942	238,137
Non-controlling Interests	*2, 5, 6*	**156,839**	146,740
Total Equity		**436,781**	384,877
		P1,306,824	P1,246,022

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(In Millions, Except Per Share Data)

	Note	2016	2015 As restated	2014 As restated
SALES	*8, 26, 34*	**P685,314**	P672,243	P772,243
COST OF SALES	*27*	**514,021**	532,067	660,061
GROSS PROFIT		**171,293**	140,176	112,182
SELLING AND ADMINISTRATIVE EXPENSES	*28*	**(71,639)**	(59,627)	(55,908)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*12, 20, 22, 31, 34, 35*	**(34,803)**	(32,518)	(29,708)
INTEREST INCOME	*32, 34, 36*	**3,693**	4,286	3,977
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	*13*	**203**	(120)	2,091
GAIN (LOSS) ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	*6, 13, 14, 15, 16*	**154**	(79)	777
OTHER INCOME (CHARGES) - Net	*5, 22, 33, 41, 42*	**(11,426)**	(6,506)	6,185
INCOME BEFORE INCOME TAX		**57,475**	45,612	39,596
INCOME TAX EXPENSE	*24, 43*	**17,053**	16,781	10,149
INCOME FROM CONTINUING OPERATIONS		**40,422**	28,831	29,447
INCOME (LOSS) AFTER INCOME TAX FROM DISCONTINUED OPERATIONS	*7*	**11,818**	162	(869)
NET INCOME		**P52,240**	P28,993	P28,578
Attributable to:				
Equity holders of the Parent Company		**P29,289**	P12,448	P15,137
Non-controlling interests	*6*	**22,951**	16,545	13,441
		P52,240	P28,993	P28,578
Earnings Per Common Share from Continuing Operations Attributable to Equity Holders of the Parent Company	*38*			
Basic		**P4.49**	P2.50	P4.19
Diluted		**4.49**	2.49	4.17

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(In Millions)

	Note	**2016**	2015	2014
NET INCOME		**P52,240**	P28,993	P28,578
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Equity reserve for retirement plan	*36*	**3,642**	(4,529)	(4,109)
Income tax benefit (expense)		**(1,066)**	1,320	1,233
Share in other comprehensive income (loss) of associates and joint ventures - net	*13*	**(18)**	(121)	552
		2,558	(3,330)	(2,324)
Items that may be reclassified to profit or loss				
Loss on exchange differences on translation of foreign operations		**(105)**	(4,884)	(522)
Net gain (loss) on available-for-sale financial assets	*14*	**502**	75	(810)
Income tax benefit (expense)		**(5)**	(13)	17
		392	(4,822)	(1,315)
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		**2,950**	(8,152)	(3,639)
TOTAL COMPREHENSIVE INCOME - Net of tax		**P55,190**	P20,841	P24,939
Attributable to:				
Equity holders of the Parent Company		**P30,388**	P6,969	P12,924
Non-controlling interests	*6*	**24,802**	13,872	12,015
		P55,190	P20,841	P24,939

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(In Millions)

		Equity Attributable to Equity Holders of the Parent Company													
					Equity Reserves				Retained Earnings						
		Capital Stock		Additional Paid-in	Reserve for Retirement	Fair Value	Translation	Other Equity	Appro-	Unappro-	Treasury Stock			Non-controlling	Total
	Note	Common	Preferred	Capital	Plan	Reserve	Reserve	Reserve	priated	priated	Common	Preferred	Total	Interests	Equity
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	13	-	-	-	22	(74)	30	-	-	-	-	-	(22)	4	(18)
Net gain (loss) on available-for-sale financial assets	14	-	-	-	-	510	-	-	-	-	-	-	510	(13)	497
Equity reserve for retirement plan	36	-	-	-	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	25	8	-	63	-	-	-	-	-	-	-	-	71	-	71
Reissuance of treasury shares		-	-	(293)	-	-	-	-	-	-	-	30,000	29,707	-	29,707
Net reduction to non-controlling interests and others	5, 6, 13	-	-	-	-	-	-	(5,180)	-	(3,010)	-	-	(8,190)	1,460	(6,730)
Appropriations - net	25	-	-	-	-	-	-	-	7,979	(7,979)	-	-	-	-	-
Cash dividends and distributions:	37														
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	25	**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

		Equity Attributable to Equity Holders of the Parent Company													
					Equity Reserves				Retained Earnings						
		Capital Stock		Additional Paid-in	Reserve for Retirement	Fair Value	Translation	Other Equity	Appro-	Unappro-	Treasury Stock			Non-controlling	Total
	Note	Common	Preferred	Capital	Plan	Reserve	Reserve	Reserve	priated	priated	Common	Preferred	Total	Interests	Equity
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	*13*	-	-	-	(40)	(66)	-	-	-	-	-	-	(106)	(15)	(121)
Net gain on available-for-sale financial assets	*14*	-	-	-	-	28	-	-	-	-	-	-	28	34	62
Equity reserve for retirement plan	*36*	-	-	-	(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	*25*	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, 6, 13*	-	-	-	-	-	-	(1,559)	-	-	-	-	(1,559)	(1,968)	(3,527)
Reversal of appropriations - net	*25*	-	-	-	-	-	-	-	(3,161)	3,161	-	-	-	-	-
Cash dividends and distributions:	*37*														
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	*25*	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

Forward

	Note	Equity Attributable to Equity Holders of the Parent Company													
		Capital Stock		Additional Paid-in Capital	Equity Reserves				Retained Earnings		Treasury Stock		Total	Non-controlling Interests	Total Equity
		Common	Preferred		Reserve for Retirement Plan	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appro-priated	Unappro-priated	Common	Preferred			
As of January 1, 2014		P16,414	P10,187	P178,085	P790	P12	P4,069	P764	P28,230	P138,727	(P67,166)	(P72,788)	P237,324	P128,069	P365,393
Loss on exchange differences on translation of foreign operations		-	-	-	-	-	(8)	-	-	-	-	-	(8)	(514)	(522)
Share in other comprehensive income (loss) of associates and joint ventures - net	13	-	-	-	(29)	590	(3)	-	-	-	-	-	558	(6)	552
Net loss on available-for-sale financial assets	14	-	-	-	-	(786)	-	-	-	-	-	-	(786)	(7)	(793)
Equity reserve for retirement plan	36	-	-	-	(1,977)	-	-	-	-	-	-	-	(1,977)	(899)	(2,876)
Other comprehensive loss		-	-	-	(2,006)	(196)	(11)	-	-	-	-	-	(2,213)	(1,426)	(3,639)
Net income		-	-	-	-	-	-	-	-	15,137	-	-	15,137	13,441	28,578
Total comprehensive income (loss)		-	-	-	(2,006)	(196)	(11)	-	-	15,137	-	-	12,924	12,015	24,939
Issuance of common shares	25	1	-	6	-	-	-	-	-	-	-	-	7	-	7
Conversion of exchangeable bonds from treasury shares	25	-	-	10	-	-	-	-	-	-	73	-	83	-	83
Net addition to non-controlling interests and others	5, 6, 13	-	-	-	-	-	-	(3)	-	-	-	-	(3)	23,363	23,360
Appropriations - net	25	-	-	-	-	-	-	-	23,858	(23,858)	-	-	-	-	-
Cash dividends and distributions:	37														
Common		-	-	-	-	-	-	-	-	(3,329)	-	-	(3,329)	(7,810)	(11,139)
Preferred		-	-	-	-	-	-	-	-	(6,106)	-	-	(6,106)	(2,314)	(8,420)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	(4,303)	(4,303)
As of December 31, 2014	25	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

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(In Millions)

	Note	2016	2015 As restated	2014 As restated
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax from continuing operations		**P57,475**	P45,612	P39,596
Income (loss) before income tax from discontinued operations	*7*	**12,765**	325	(734)
Income before income tax		**70,240**	45,937	38,862
Adjustments for:				
Depreciation, amortization and others - net	*7, 29*	**50,549**	35,912	25,135
Interest expense and other financing charges	*7, 31*	**34,809**	32,521	29,710
Interest income	*7, 32*	**(3,707)**	(4,315)	(4,012)
Equity in net losses (earnings) of associates and joint ventures	*7, 13*	**(203)**	386	(1,701)
Gain from disposal of discontinued operations	*7*	**(13,572)**	-	-
Loss (gain) on sale of investments and property and equipment	*6, 7, 13, 14, 15*	**(154)**	81	(777)
Operating income before working capital changes		**137,962**	110,522	87,217
Changes in noncash current assets, certain current liabilities and others	*39*	**(14,661)**	(6,147)	(14,852)
Cash generated from operations		**123,301**	104,375	72,365
Interest and other financing charges paid		**(24,647)**	(24,409)	(21,735)
Income taxes paid		**(19,461)**	(14,525)	(11,287)
Net cash flows provided by operating activities		**79,193**	65,441	39,343
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	*39*	**(1,905)**	(7,633)	(302)
Cash and cash equivalents acquired from business combination, net of cash paid	*39*	**-**	14,415	-
Additions to investments and advances and available-for-sale financial assets	*13, 14*	**(8,038)**	(3,544)	(6,314)
Additions to property, plant and equipment	*15*	**(40,649)**	(59,973)	(38,951)
Increase in other noncurrent assets and others		**(15,515)**	(8,833)	(7,359)
Proceeds from sale of investments and property and equipment	*6, 13, 14, 15, 16, 19*	**1,114**	2,607	66,945
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	*7*	**37,175**	-	-
Interest received		**3,480**	4,136	3,481
Dividends received from associates and available-for-sale financial assets	*13, 14*	**1,081**	96	634
Net cash flows provided by (used in) investing activities		**(23,257)**	(58,729)	18,134
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		**667,802**	760,238	827,018
Long-term borrowings		**98,130**	77,070	47,591
Payments of:				
Short-term borrowings		**(625,642)**	(794,373)	(789,191)
Long-term borrowings		**(150,455)**	(73,092)	(54,309)
Proceeds from reissuance of treasury shares	*25*	**29,707**	54,201	-
Net proceeds from issuance of preferred shares and undated subordinated capital securities of subsidiaries	*6*	**-**	28,708	23,008
Proceeds from issuance of capital stock	*25*	**71**	27	7
Redemption of Series "2A" preferred shares	*25*	**-**	(54,076)	-
Redemption of preferred shares of subsidiaries	*6*	**-**	(40,642)	-
Payments of finance lease liabilities		**(23,907)**	(22,296)	(20,152)
Cash dividends paid	*37*	**(8,278)**	(9,802)	(9,702)
Cash dividends and distributions paid to non-controlling shareholders		**(16,060)**	(13,847)	(14,571)
Increase (decrease) in non-controlling interests		**(5,515)**	(369)	205
Net cash flows provided by (used in) financing activities		**(34,147)**	(88,253)	9,904
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**606**	3,693	(388)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**22,395**	(77,848)	66,993
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**180,758**	258,606	191,613
CASH AND CASH EQUIVALENTS AT END OF YEAR	*9*	**P203,153**	P180,758	P258,606

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 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 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 Group is engaged in various businesses, including beverage, food and packaging, energy, mining, 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 16, 2017.

Basis of Measurement
The consolidated financial statements of the Group have been prepared on a historical cost basis of accounting except for the following items which are measured on an alternative basis at 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 Parent Company's functional currency. 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 accounts of the Parent Company and its subsidiaries. The major subsidiaries include the following:

	Percentage of Ownership		Country of Incorporation
	2016	2015	
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 Djakarta 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

Forward

	Percentage of Ownership		Country of Incorporation
	2016	2015	
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 Ltd. (GSMIHL), Global Beverage Holdings Ltd. and Siam Holdings Ltd. (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. and subsidiaries {including Golden Bay Grain Terminal Corporation (GBGTC)}, The Purefoods-Hormel Company, Inc., 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 (SMPFIL) and subsidiary, San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited) and subsidiary, San Miguel Pure Foods (VN) Co., Ltd., formerly San Miguel Hormel (VN) Co. Ltd., (SMHVN)] [(a)]	**85.37**	85.37	Philippines
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 Co. Ltd., Foshan San Miguel Yamamura Packaging Company Limited, San Miguel Yamamura Packaging & 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) [(a)] and subsidiaries 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)]	**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 subsdiaries including Petron Fuel International Sdn. Bhd., Petron Oil (M) Sdn. Bhd. and Petron Malaysia Refining & Marketing Berhad (PMRMB) (collectively Petron Malaysia) [(a)], Petron Finance (Labuan) Limited, and Petrochemical Asia (HK) Limited (PAHL) and subsidiaries]	**100.00**	100.00	Philippines
Infrastructure Business:			
San Miguel Holdings Corp. (SMHC) [(a)] and subsidiaries [including Rapid Thoroughfares Inc. (Rapid) [(a)] and subsidiary, Private Infra Dev Corporation (PIDC) [(a)] , Trans Aire Development Holdings Corp. (TADHC) [(a)], Optimal Infrastructure Development, Inc. (Optimal) [(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) [(b)], Terramino Holdings, Inc. (THI) [(a)] and subsidiary [(a)], Manila North Harbour Port, Inc. (MNHPI) [(c)], Luzon Clean Water Development Corporation (LCWDC) [(a)] and Sleep International (Netherlands) Cooperatief U.A. (Sleep) [(a)] and Wiselink Investment Holdings, Inc. (Wiselink) [(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 Corp., 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, d)]]	**100.00**	100.00	Philippines

Forward

	Percentage of Ownership		Country of Incorporation
	2016	2015	
Telecommunications Business:			
Vega Telecom, Inc. (Vega) and subsidiaries [including Two Cassandra-CCI Conglomerates, Inc., Perchpoint Holdings Corp., Power Smart Capital Ltd [(a)] {collectively own Bell Telecommunication Philippines, Inc. (BellTel) and subsidiaries}, Trans Digital Excel Inc. (TDEI) and subsidiary, CobaltPoint Telecom, Inc. (CTI), formerly, Express Telecommunications Company, Inc., A.G.N. Philippines, Inc. and San Miguel Equity Securities Inc. {collectively own Eastern Telecommunications Philippines, Inc. (ETPI) and subsidiary, Telecommunications Technologies Phils., Inc.}, Liberty Telecoms Holdings, Inc. (LTHI) and subsidiaries, wi-tribe Telecoms, Inc. (wi-tribe) and Skyphone Logistics, Inc.] [(e)]	-	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. (SMPI Flagship), Bright Ventures Realty, Inc. and Carnell Realty, Inc.] [(a)]	**99.94**	99.70	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 Harbour Bulk Terminal Corporation, MG8 Terminal Inc., SMC Cebu Shipyard Land, Inc. and Mactan Shipyard Corporation]	**70.00**	70.00	Philippines
Anchor Insurance Brokerage Corporation (AIBC)	**58.33**	58.33	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
San Miguel Equity Investments Inc. (SMEII) and subsidiaries [including South Western Cement Corporation (SWCC)] [(f)]	**100.00**	100.00	Philippines

(a) The financial statements of these subsidiaries were audited by other auditors.
(b) Consolidated to SMHC effective July 1, 2016 (Note 5).
(c) Consolidated to SMHC effective December 9, 2015 (Note 5).
(d) Consolidated to SMHC effective March 5, 2015 (Note 5).
(e) Discontinued operations (Note 7).
(f) Disposed effective December 23, 2016.

A subsidiary is an entity controlled by the Group. The Group controls an entity if, and only if, the Group 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 2016 and 2015; and ULC BVI, CTI, ETPI and LTHI in 2015 (Notes 5 and 6).

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 2016

The Group has adopted the following PFRS starting January 1, 2016 and accordingly, changed its accounting policies in the following areas:

- Disclosure Initiative *(Amendments to PAS 1, Presentation of Financial Statements)*. The amendments clarify the following: (i) the materiality requirements apply to the whole consolidated financial statements and an entity shall not reduce the understandability of the consolidated financial statements by obscuring material information with immaterial information or by aggregating material items that have different nature or function; (ii) that specific line items to be presented in the consolidated statements of financial position, consolidated statements of income and consolidated statements of comprehensive income can be disaggregated and additional guidance on subtotals to be presented in these statements; (iii) that entities have flexibility as to the order in which they present the notes to the consolidated financial statements; and (iv) that share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

- Accounting for Acquisitions of Interests in Joint Operations *(Amendments to PFRS 11, Joint Arrangements)*. The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured. The amendments place the focus firmly on the definition of a business, because this is key in determining whether the acquisition is accounted for as a business combination or an acquisition of a collection of assets. As a result, this places pressure on the judgment applied in making this determination.

- Clarification of Acceptable Methods of Depreciation and Amortization *(Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets)*. The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue. The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g., changes in sales volumes and prices.

- *Annual Improvements to PFRS Cycles 2012-2014* contain changes to four standards, of which the following are applicable to the Group:

    - Changes in Method for Disposal *(Amendments to PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations)*. PFRS 5 is amended to clarify that: (a) if an entity changes the method of disposal of an asset or disposal group - i.e., reclassifies an asset or disposal group from held-for-distribution to owners to held-for-sale, or vice versa, without any time lag - the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset or disposal group and recognizes any write-down (impairment loss) or subsequent increase in the fair value of the asset or disposal group, less costs to sell or distribute; and (b) if an entity determines that an asset or disposal group no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting. Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed.

    - Disclosure information "elsewhere in the interim financial report" *(Amendment to PAS 34)*. PAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements, may be disclosed "elsewhere in the interim financial report" - i.e. incorporated by cross-reference from the interim financial statements to another part of the interim financial report (e.g. management commentary or risk report). The interim financial report is incomplete if the interim financial statements and any disclosure incorporated by cross-reference are not made available to users of the interim financial statements on the same terms and at the same time.

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 Interpretation Not Yet Adopted

A number of new and amended standards and interpretations are effective for annual periods beginning after January 1, 2016 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:

- Disclosure Initiative *(Amendments to PAS 7, Statement of Cash Flows)*. The amendments improve disclosures about an entity's net debt relevant to understanding an entity's 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.

  The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. When the Group first applies the amendments, it is not required to provide comparative information for preceding periods.

- 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.

  The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted. On initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Group applies this relief, it shall disclose that fact.

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the following may be applicable to the Group:

  - Clarification of the Scope of the Standard *(Amendments to PFRS 12, Disclosure of Interests in Other Entities)*. 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.

    The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted.

  - Measuring an associate or joint venture at fair value *(Amendments to PAS 28, Investments in Associates)*. 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 of all financial assets that are not measured at FVPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013.

  The new model on hedge accounting requirements provides significant improvements by aligning hedge 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. Potential impact is being assessed.

- Applying PFRS 9, *Financial Instruments,* with PFRS 4, *Insurance Contracts (Amendments to PFRS 4)*. The amendments provide a temporary exemption from PFRS 9, where an entity is permitted to defer application of PFRS 9 in 2018 and continue to apply PAS 39, *Financial Instruments: Recognition and Measurement,* 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 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, for designated financial assets. A financial asset is eligible for designation if it is not held for an activity that is unconnected 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 is generally permitted to start applying the overlay approach only when it first applies PFRS 9, including after previously applying the temporary exemption.

  The amendments permitting the temporary exemption is for annual periods beginning on or after January 1, 2018 and the amendments allowing the overlay approach are applicable when an entity first applies PFRS 9.

- Classification and Measurement of Share-based Payment Transactions *(Amendments to PFRS 2, Share-based Payment)*. 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. The amendments also introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if: (a) the terms of the arrangement

permit or require a company to settle the transaction net by withholding a specified portion of the equity instruments to meet the statutory tax withholding requirement (the net settlement feature); and (b) 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. The amendments also clarify that the entity is to apply the following approach when a share-based payment is modified from cash-settled to equity-settled: (a) at the 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; and (b) the difference between the carrying amount of the liability derecognized as at the modification date and the amount recognized in equity as at that date is recognized in profit or loss immediately.

The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2018, with early application permitted. The amendments were approved by the FRSC on September 14, 2016 but are still subject to the approval by the Board of Accountancy.

- 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.

- 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. Potential impact is being assessed.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (*Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28, Investments in Associates*). 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.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. It provides guidance on the recognition of revenue among real estate developers for sale of units, such as apartments or houses, 'off plan'; i.e., before construction is completed. It also provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11 or PAS 18 and the timing of revenue recognition.

The SEC issued a Notice dated August 5, 2011 to further defer the implementation of Philippine Interpretation IFRIC 15 until the final Revenue standard is issued by the IASB and after an evaluation on the requirements and guidance in the said standard vis-à-vis the practices and regulations in the Philippine real estate industry is completed.

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 the 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, 2016 and 2015.

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 12, 41 and 42).

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 9, 10, 12, 19, 41 and 42).

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 12, 14, 41 and 42).

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 21, 41 and 42).

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 20, 21, 22, 23, 35, 41 and 42).

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, 2016 and 2015.

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, 2016 and 2015.

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, 2016 and 2015.

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, 2016 and 2015.

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.

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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

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 and solvents), 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 as at the acquisition date. 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

- 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 shares of stock of 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	5 - 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
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
Airport concession right	25
Power concession right	25
Port concession right	25
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: (a) infrastructure that the entities in the Group construct or acquire from a third party for the purpose of the service arrangement; and (b) 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: (a) to maintain the infrastructure to a specified level of serviceability; or (b) 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: (a) to operate the Caticlan Airport (the Airport Project or the Boracay Airport); (b) to design and finance the Airport Project; and (c) 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 accumulated impairment losses. 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 further 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:

  - South Luzon Expressway (SLEX);
  - Ninoy Aquino International Airport (NAIA) Expressway;
  - Metro Manila Skyway (Skyway);
  - Tarlac-Pangasinan-La Union Toll Expressway (TPLEX);
  - Southern Tagalog Arterial Road (STAR); and
  - 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 part of it are normally charged to profit or loss 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 was 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 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 to operate the Albay Electric Cooperative, Inc. (ALECO). 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.

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 if 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 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 80% 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 Parent Company's option, 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.

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.

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.

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.

Revenue from Toll Operations
Revenue from toll operations is recognized upon the use by the toll road users of the toll road and is paid by way of cash or charge against an E-Pass or 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) - net" account in the consolidated statements of income.

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 deferred, and is recognized as revenue when 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 Group's Long-term Incentive Plan for Stock Options (LTIP) and Employee Stock Purchase Plan (ESPP), executives and employees of the Group receive remuneration in the form of share-based payment transactions, whereby the executives and employees render services as consideration for equity instruments of the Parent Company. 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 Group's employees 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.

Deferred Tax. Deferred tax is recognized 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.

In determining the amount of current and deferred tax, 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.

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.

Value-added Tax (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, Assets Held for Sale and Discontinued Operations
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 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 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" account 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.

For the purpose of computing diluted EPS, the net income for the period attributable to equity holders of the Parent Company and the weighted-average number of issued and outstanding common shares during the period are 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 8 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 Group's accounting policies, management 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 15 and 35).

Finance lease liabilities recognized in the consolidated statements of financial position amounted to P170,240 and P179,280 as of December 31, 2016 and 2015, respectively (Note 35).

The combined carrying amounts of power plants and equipment under finance lease amounted to P177,930 and P183,042 as of December 31, 2016 and 2015, respectively (Notes 15 and 35).

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 P1,378, P1,173 and P1,637 in 2016, 2015 and 2014, respectively (Note 35).

Rent expense recognized in the consolidated statements of income amounted to P2,895, P3,593 and P3,486 in 2016, 2015 and 2014, respectively (Notes 27, 28 and 35).

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 and at what prices those 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 35).

Management determined that the consideration receivable from the ROP, in exchange for the fulfillment of the Group's obligations under the Concession Agreement, is an intangible asset in the form of a right (license) to charge fees to users. 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 35) was made to determine such costs.

a. *Airport Concession Right.* The Group's airport concession right consists of: (i) total 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 the percentage-of-completion approach.

   (ii) The present value of the IRO will be recognized as part of intangible assets upon completion of the Airport Project because only at that time will significant maintenance of the Boracay Airport also commence. It will be amortized simultaneously with the cost related to the Airport Project. However, since the Group had already started the maintenance of the rehabilitated Boracay Airport, the entire present value of the annual estimated costs had already been recognized in construction in progress (CIP) - airport concession arrangements, portion of which representing the actual amount incurred in the current year for the maintenance of the Boracay Airport, had been recognized as part of the cost of intangible assets, subjected to amortization.

(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.

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. 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 23).

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 PAHL, before Petron acquired the remaining equity interest in PAHL in 2016, 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 it has control over PAHL, even prior to Petron's acquisition of the remaining interest in 2016, by virtue of the extent of the Group's participation in the BOD and management of PAHL, of which the Group established it has: (i) power over PAHL; (ii) it is exposed and has rights to variable returns from its involvement with PAHL; and (iii) it has ability to use its power over PAHL to affect the amount of PAHL's returns. Accordingly, the Group considered PAHL a subsidiary beginning January 1, 2013. As of December 31, 2016, Petron owns 100% equity interest in PAHL.

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 13).

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 45).

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

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 11, 13, 16, 18, 36 and 42.

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 P14,116 and P10,297 as of December 31, 2016 and 2015, respectively (Notes 10 and 19).

The carrying amount of trade and other receivables, and noncurrent receivables and deposits amounted to P124,593 and P110,116 as of December 31, 2016 and 2015, respectively (Notes 10, 19, 41 and 42).

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 P1,726 and P2,190 as of December 31, 2016 and 2015, respectively (Note 11).

The carrying amount of inventories amounted to P83,241 and P64,148 as of December 31, 2016 and 2015, respectively (Note 11).

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 2016 and 2015.

The carrying amount of AFS financial assets amounted to P42,139 and P41,616 as of December 31, 2016 and 2015, respectively (Notes 12, 14, 41 and 42).

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 P516,079 and P509,966 as of December 31, 2016 and 2015, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P190,920 and P190,032 as of December 31, 2016 and 2015, respectively (Note 15).

Investment property, net of accumulated depreciation and amortization amounted to P7,303 and P4,754 as of December 31, 2016 and 2015, respectively. Accumulated depreciation and amortization of investment property amounted to P1,278 and P1,122 as of December 31, 2016 and 2015, respectively (Note 16).

Deferred containers, net of accumulated amortization, included as part of "Other noncurrent assets" account in the consolidated statements of financial position amounted to P7,141 and P7,014 as of December 31, 2016 and 2015, respectively (Note 19). Accumulated amortization of deferred containers amounted to P13,315 and P11,260 as of December 31, 2016 and 2015, 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 P122,658 and P113,888 as of December 31, 2016 and 2015, respectively (Note 18).

Estimated Useful Lives of Intangible Assets - Airport, Toll Road and Power Concession Rights. The Group estimates the useful lives of airport, toll road 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 airport, toll road, power, port and water concession rights amounted to P119,051 and P110,128 as of December 31, 2016 and 2015, respectively (Note 18).

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 P58,113 and P58,603 as of December 31, 2016 and 2015, respectively (Note 18).

The combined carrying amounts of licenses and trademarks and brand names amounted to P2,507 and P26,081 as of December 31, 2016 and 2015, respectively (Note 18).

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 P4 and P18,918 in 2016 and 2015, respectively (Notes 5, 6, 18 and 39).

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 coal operating contract, 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, 2016 and 2015. 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, 2016 and 2015.

Deferred exploration and development costs included as part of "Other noncurrent assets" account in the consolidated statements of financial position amounted to P694 and P690 as of December 31, 2016 and 2015, respectively (Notes 19 and 35).

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 P20,267 and P16,441 as of December 31, 2016 and 2015, respectively (Note 24).

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 P11,376 and P12,622 as of December 31, 2016 and 2015, respectively (Notes 15 and 16).

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 P678,124 and P653,990 as of December 31, 2016 and 2015, respectively (Notes 13, 15, 16, 17, 18 and 19).

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 36 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 Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's defined benefit retirement obligation.

The present value of defined benefit retirement obligation amounted to P28,595 and P28,056 as of December 31, 2016 and 2015, respectively (Note 36).

Asset Retirement Obligation. The Group has ARO arising from refinery, leased service stations, terminals and blending plant. Determining ARO requires estimation of the costs of dismantling, installations 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 6.02% to 8.45% 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 P2,324 and P1,839 as of December 31, 2016 and 2015, respectively (Note 23).

Present Value of Annual Franchise Fee and IRO - Airport Concession Arrangement. Portion of the amount recognized as airport concession right as of December 31, 2016 and 2015 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 P126 and P120 as of December 31, 2016 and 2015, respectively (Note 18).

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 P31 and P41 in 2016 and P26 and P42 in 2015, respectively (Notes 21 and 23).

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 12, 18 and 33).

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 P748 and P641 as of December 31, 2016 and 2015, respectively (Note 23).

The current portion included as part of "Accounts payable and accrued expenses" account amounted to P199 and P344 as of December 31, 2016 and 2015, respectively (Note 21).

5. Business Combinations

The significant acquisitions made by the Group are as follows:

Infrastructure

- AAIBV

On March 5, 2015, a Notarial Deed of Transfer of Shares was executed in accordance with the requirements of the laws of the Netherlands whereby Padma Fund L.P. (Padma) transferred to SMHC the following: (i) 44% additional equity interest in AAIBV; and (ii) 4.47% equity interest in AAIBV following the exercise by SMHC of its option in compliance with the terms and conditions of the Option Agreement. The total consideration for the additional 48.47% equity interest amounted to US$224 or P9,893.

With the transfer of the additional 48.47% equity interest, SMHC has 95% ownership interest in AAIBV as of March 5, 2015. As such, AAIBV became a subsidiary and was consolidated by SMHC effective March 5, 2015.

AAIBV has shareholdings in the companies that hold the concession rights to operate and maintain the SLEX and the Skyway Stages 1, 2 and 3.

SMHC has elected to measure non-controlling interest at proportionate interest in identifiable net assets.

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

	Note	2015
Assets		
Cash and cash equivalents		**P21,595**
Trade and other receivables - net		**5,956**
Inventories		**22**
Prepaid expenses and other current assets		**2,713**
Property, plant and equipment - net	*15*	**189**
Other intangible assets - net	*18*	**55,166**
Deferred tax assets		**120**
Other noncurrent assets - net		**163**
Liabilities		
Accounts payable and accrued expenses		**(15,689)**
Income and other taxes payable		**(717)**
Dividends payable		**(373)**
Current maturities of long-term debt - net of debt issue costs		**(3,684)**
Long-term debt - net of debt issue costs		**(43,951)**
Deferred tax liabilities		**(4,642)**
Other noncurrent liabilities		**(6,608)**
Total Identifiable Net Assets at Fair Value	*39*	**P10,260**

The fair value of trade and other receivables amounted to P5,956. The gross amount of the receivables is P6,622 of which P666 is expected to be uncollectible as at the acquisition date (Note 10).

Goodwill was recognized as a result of the acquisition as follows:

	Note	2015
Total consideration transferred		**P9,893**
Equity interest held before business combination	*13*	**9,295**
Non-controlling interest measured at proportionate interest in identifiable net assets		**9,435**
Total identifiable net asset at fair value		**(10,260)**
Goodwill	*18, 39*	**P18,363**

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

- MNHPI

On December 9, 2015, SMHC subscribed to 13,000,000 common shares of MNHPI equivalent to 43.33% equity interest for a total consideration of P1,300.

MNHPI holds the concession right to manage, operate, develop and maintain the Manila North Harbor and other port facilities.

With the 43.33% ownership interest of SMHC and the 35% equity interest held by Petron, the Group obtained control and consolidated MNHPI effective December 9, 2015.

The Group has elected to measure non-controlling interest at proportionate interest in identifiable net assets.

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

	Note	**2015**
Assets		
Cash and cash equivalents		**P1,394**
Trade and other receivables - net		**597**
Inventories		**303**
Prepaid expenses and other current assets		**745**
Property, plant and equipment - net	*15*	**30**
Other intangible assets	*18*	**9,818**
Deferred tax assets		**33**
Other noncurrent assets - net		**264**
Liabilities		
Loans payable		**(2,345)**
Accounts payable and accrued expenses		**(554)**
Long-term debt - net of debt issue costs		**(2,251)**
Finance lease liabilities		**(75)**
Other noncurrent liabilities		**(3,821)**
Total Identifiable Net Assets at Fair Value	*39*	**P4,138**

The fair value of trade and other receivables amounted to P597. The gross amount of the receivables is P676, of which P79 is expected to be uncollectible as at the acquisition date (Note 10).

Goodwill was recognized as a result of the acquisition as follows:

	Note	**2015**
Total consideration transferred		**P1,300**
Equity interest held before business combination		**1,807**
Non-controlling interest measured at proportionate interest in identifiable net assets		**1,356**
Total identifiable net assets at fair value		**(4,138)**
Goodwill	*18, 39*	**P325**

Telecommunications

- LTHI

On July 14, 2015, the BOD of the Parent Company authorized Vega to acquire the entire interest and participation of West Bay Holding S.P.C. Company, formerly Qtel West Bay Holdings S.P.C., wi-tribe Asia Limited, and White Dawn Solutions Holdings, Inc. (collectively, the "Sellers") in LTHI. In compliance with the Securities Regulation Code, Vega conducted a tender offer of the common shares of LTHI held by the public.

A total of 57,271,369 common shares or 4.43% of the outstanding common shares of LTHI were tendered, and subsequently crossed at the PSE on September 2, 2015. After completion of the tender offer, Vega held 87.18% of the common shares of LTHI.

On September 2, 2015, Vega acquired beneficial ownership in LTHI in a separate share sale transactions from the Sellers for a total of 426,800,168 common shares and 2,907,768,174 preferred shares.

Upon completion of the tender offer and share purchases, Vega effectively owned 97.46% of the total outstanding capital stock of LTHI, inclusive of the common and preferred shares. As such, Vega obtained control and consolidated LTHI effective September 2, 2015.

LTHI is a holding company and owns 100% of shares of stock in Tori Spectrum Telecom Inc. (formerly wi-tribe), which is in the business of providing data communication services.

Vega has elected to measure non-controlling interest at proportionate interest in identifiable net assets.

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

	Note	2015
Assets		
Cash and cash equivalents		**P32**
Trade and other receivables - net		**60**
Inventories		**43**
Prepaid expenses and other current assets		**486**
Property, plant and equipment - net	*15*	**1,687**
Other intangible assets - net	*18*	**11,933**
Other noncurrent assets - net		**88**
Liabilities		
Accounts payable and accrued expenses		**(1,892)**
Deferred tax liabilities		**(152)**
Other noncurrent liabilities		**(180)**
Total Identifiable Net Assets at Fair Value	*39*	**P12,105**

The fair value of trade and other receivables amounted to P60. The gross amount of the receivables is P514, of which P454 is expected to be uncollectible as at the acquisition date (Note 10).

Total identifiable net assets at fair value is equal to the consideration transferred, the equity interest held before business combination and non-controlling interest measured at proportionate interest in identifiable net assets.

- CTI

On December 4, 2015, Vega acquired 88.17% ownership in CTI through the acquisition of 100% equity interest in TDEI, which holds 78.45% equity interest in the total outstanding capital stock of CTI and direct acquisition of 9.72% equity interest for a total consideration of P5,180.

CTI is primarily engaged in the operations and maintenance of a nationwide cellular mobile telephone system using analog advance mobile phone service system.

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

	Note	2015
Assets		
Cash and cash equivalents		**P3**
Trade and other receivables - net		**3**
Prepaid expenses and other current assets		**20**
Property, plant and equipment - net	*15*	**28**
Other intangible assets - net	*18*	**6,202**
Other noncurrent assets - net		**3**
Liabilities		
Accounts payable and accrued expenses		**(46)**
Other noncurrent liabilities		**(1,170)**
Total Identifiable Net Assets at Fair Value	*39*	**P5,043**

The fair value of trade and other receivables amounted to P3. The gross amount of the receivables is P225, of which P222 is expected to be uncollectible as at the acquisition date (Note 10).

Total identifiable net assets at fair value is equal to the consideration transferred, the amounts deposited for future stock subscription and non-controlling interest measured at proportionate interest in identifiable net assets.

As discussed in Note 7, the Parent Company sold its 100% ownership interest in Vega, the holding company of the Group's telecommunications business, to Philippine Long Distance Telephone Company (PLDT) and Globe Telecom, Inc. (Globe) on May 30, 2016.

6. Investments in Shares of Stock of Subsidiaries

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

Fuel and Oil

- Petron

  a) Additional Investment in PAHL

  On November 17, 2015, Petron subscribed to additional 18,324,889 ordinary shares of PAHL for a total consideration of US$12 which effectively increased Petron's ownership interest by 1.40% to 47.25%.

  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.

  b) Redemption of the Preferred Shares

  On March 5, 2015, Petron redeemed the preferred shares issued in 2010 at P100.00 per share, which were delisted by the PSE on March 6, 2015 in line with the latter's rule on the delisting of redeemed shares which are not re-issuable at the time of redemption under the issuing company's Articles of Incorporation. On July 6, 2015, the SEC approved the amendment of the Articles of Incorporation of Petron to provide a re-issuability feature on its preferred shares.

- PGL

  As of December 31, 2014, PGL has issued an aggregate of 73,559,188 common shares with a par value of US$1.00 per share to Petron and 150,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares Series A and 200,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares Series B at an issue price equal to the par value of each share of US$1.00 to a third party investor. The said preferred shares were redeemed on May 13, 2015 at US$1.00 per share.

  On various dates in 2015, the Parent Company through Petron, acquired additional PGL common shares of 12,131,829 for US$1.00 per share or for a total consideration of US$12.

  As of December 31, 2016, Petron held a total of 85,691,017 common shares of PGL representing 100% of the voting capital stock of PGL.

Infrastructure

- SMHC

  On August 6, 2015, the Parent Company subscribed to an additional 9,100,000 common shares of SMHC for a total subscription price of P13,650 or P1,500.00 per common share of which P7,716 was paid. The balance of the subscription price amounting to P5,934 was paid by the Parent Company in 2016.

  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 is still pending approval by the SEC as of March 16, 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$3.8.

  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 Republic of the Philippines, 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.

- Rapid

  On various dates in 2014, SMHC entered into Subscription Agreements with Rapid for the subscription of 14,000,000 common shares for a total subscription price of P2,100 or P150.00 per share.

  On various dates in 2014, SMHC made additional deposits for future stock subscriptions amounting to P579. In 2015, SMHC subscribed to 12,500,000 common shares of Rapid at P150.00 per share for a total consideration of P1,875. As payment for the subscription, SMHC applied its P579 deposit for future stock subscription and paid P531. The balance amounting to P765 remained unpaid as of December 31, 2016.

  On December 19, 2014, the BOD and stockholders of Rapid approved the increase in authorized capital stock from P1,800 divided into 18,000,000 common shares to P3,050 divided into 30,500,000 common shares, both with a par value of P100.00 per share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 29, 2014 and was approved on April 21, 2015.

  On September 21, 2015, Rapid and DMCI Holdings, Inc. and D.M. Consuji, Inc. (collectively, "DMCI") entered into a Deed of Sale of Shares wherein Rapid acquired the shares of DMCI in PIDC for a consideration of P1,827, making PIDC 70.11% owned by Rapid.

- TADHC

  On November 18, 2015, SMHC executed a Subscription Agreement with TADHC for the subscription of 34,420 common shares at P100.00 per share or a total subscription price of P3.

  On December 9, 2015, the BOD and stockholders of TADHC resolved and approved the increase in authorized capital stock from P1,720 divided into 17,000,000 common shares and 200,000 preferred shares to P2,520 divided into 25,000,000 common shares and 200,000 preferred shares, both with a par value of P100.00 per share. Of the total increase in authorized capital stock, SMHC subscribed to 3,250,000 common shares at P150.00 per share or a total subscription price of P488. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 22, 2015.

  On April 6, 2016, SMHC subscribed to 3,300,000 common shares at P150.00 per share or a total subscription price of P495. The application for the increase in authorized capital stock was approved by SEC on April 26, 2016. On August 1, 2016, SMHC executed a Subscription Agreement with TADHC for the subscription of the remaining unissued 1,450,000 common shares at P150.00 per share or a total subscription price of P218.

  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. Of the total increase in authorized capital stock, SMHC subscribed to 7,200,000 common shares at P150.00 per share or a total subscription price of P1,080. The application for the Amended Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 29, 2016 and was approved on February 1, 2017.

Food

- SMPFC

  a) Redemption of Outstanding Preferred Shares

     On February 3, 2015, SMPFC's BOD approved the redemption of the 15,000,000 outstanding preferred shares issued on March 3, 2011 at the redemption price of P1,000.00 per share or a total redemption price of P15,000.

     The redemption price and all accumulated unpaid cash dividends were paid on March 3, 2015 to relevant stockholders of record as at February 17, 2015. The redeemed preferred shares thereafter became part of SMPFC's treasury shares.

  b) Issuance of Perpetual Series "2" Preferred Shares

     On March 12, 2015, SMPFC issued 15,000,000 cumulative, non-voting, non-participating, and non-convertible peso-denominated perpetual Series "2" preferred shares with a par value of P10.00 per share at the offer price of P1,000.00 per share. The Series "2" preferred shares were issued with a dividend rate set at 5.6569% per annum payable once for every dividend period as follows: (i) March 12 to June 11, (ii) June 12 to September 11, (iii) September 12 to December 11 or (iv) December 12 to March 11 of each year calculated on a 30/360-day basis, as and if declared by the BOD of SMPFC.

     The Series "2" preferred shares are redeemable in whole and not in part, in cash, at the sole option of SMPFC, on the third anniversary of the listing date or on any dividend period thereafter, at the price equal to the offer price plus any accumulated and unpaid cash dividends. The Series "2" preferred shares may also be redeemed in whole and not in part, under certain conditions. Unless the Series "2" preferred shares are redeemed by SMPFC on the fifth year anniversary of the listing date, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 5.6569% or the three-day average of the seven-year Philippine Dealing System Treasury Reference Rates - PM (PDST-R2) plus 3.75%.

     On March 12, 2015, the SMPFC Series "2" preferred shares were listed on the PSE.

The proceeds from the issuance of the perpetual Series "2" preferred shares, net of transaction costs amounted to P14,885.

The proceeds of the issuance were used to refinance the redemption of the outstanding 15,000,000 preferred shares issued on March 3, 2011 at the redemption price of P1,000.00 per share plus any and all accumulated unpaid cash dividends to relevant stockholders of record as of February 17, 2015.

c) Acquisition of the 49% ownership interest in SMPFI Limited

In January 2015, SMPFIL, a wholly-owned subsidiary of SMPFC, signed an agreement for the purchase from Hormel Netherlands B.V. (Hormel) of the latter's 49% of the issued share capital of SMPFI Limited. SMPFIL already owned 51% interest in SMPFI Limited prior to the acquisition. SMPFI Limited is the sole investor in SMHVN, a company incorporated in Vietnam, which is licensed to engage in live hog farming and the production of feeds and fresh and processed meats.

Following the acquisition, SMPFI Limited became a wholly-owned subsidiary of SMPFIL. Consequently, Hormel's non-controlling interest amounting to P126 as of January 2015 was derecognized. As part of the agreement, Hormel paid its share of the cash requirement to settle SMHVN's obligations, including estimated contingent liabilities and costs to temporarily close the farm and feedmill operations. This resulted in the recognition of equity reserves amounting to P384 presented as part of "Equity reserves" account in the consolidated statements of financial position.

With the divestment made by Hormel, SMHVN changed its corporate name to San Miguel Pure Foods (VN) Co., Ltd., in June 2015 following the issuance of the Binh Duong People's Committee of the amended business license of SMHVN.

Energy

- SMC Global

Issuance of Undated Subordinated Capital Securities

On August 26, 2015, SMC Global issued and listed in the Singapore Stock Exchange (SGX-ST) a Reg S, Unrated Perpetual Non-Call 5.5 years US$300 Undated Subordinated Capital Securities. SMC Global priced the deal at 6.75% per annum with a step-up date on February 26, 2021.

The holders of the Securities are conferred a right to receive distributions on a semi-annual basis from their issue date at the initial rate of distribution, subject to the step-up rate. SMC Global has a right to defer this distribution under certain conditions.

The Securities have no fixed redemption date and are redeemable in whole, but not in part, at the option of SMC Global on step-up date, or any distribution payment date thereafter or upon the occurrence of certain other events.

The proceeds were used by SMC Global to finance investments in power-related assets and other general corporate purposes.

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. As of December 31, 2015, the Parent Company paid P692 as deposit for subscription of the shares.

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 various dates in 2016, the Parent Company paid the remaining balance of the subscription amounting to P8,308.

- SMPI Flagship

On October 20, 2014, the BOD and stockholders of SMPI Flagship approved to amend its Articles of Incorporation to change its primary purpose to allow SMPI Flagship to engage in the development, management and administration of condominiums, hotels, condominium hotels, service apartments, residential or buildings, and other horizontal or vertical developments. The amendment was approved by the SEC on November 3, 2014.

In 2015, SMPI Flagship completed the Makati Diamond Residence, a first class, high-rise serviced apartment, open to the general public, located in Makati City.

Others

- SWCC

On April 1, 2015, the Parent Company through SMEII subscribed to additional 770,000 common shares of SWCC for P116. The said subscription was fully paid, and the subject shares of stock were issued to SMEII on April 1, 2015.

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.

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

	December 31, 2016			December 31, 2015		
	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	**P58,624**	**P24,999**	**P20,447**	P54,235	P20,477	P19,759
Net income attributable to non-controlling interests	**P6,947**	**P8,848**	**P1,849**	P5,335	P6,588	P1,710
Other comprehensive income (loss) attributable to non-controlling interests	**P573**	**P785**	**P27**	(P2,363)	(P170)	(P21)
Dividends paid to non-controlling interests	**P4,919**	**P5,112**	**P1,188**	P4,970	P4,836	P1,453

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

	December 31, 2016			December 31, 2015		
	Petron	**SMB**	**SMPFC**	Petron	SMB	SMPFC
Current assets	**P125,818**	**P33,256**	**P40,778**	P115,725	P25,935	P40,032
Noncurrent assets	**193,075**	**68,335**	**26,237**	178,542	67,156	21,005
Current liabilities	**(158,808)**	**(14,531)**	**(23,613)**	(126,579)	(10,263)	(21,150)
Noncurrent liabilities	**(71,265)**	**(36,302)**	**(215)**	(84,588)	(40,837)	(871)
Net assets	**P88,820**	**P50,758**	**P43,187**	P83,100	P41,991	P39,016
Sales	**P343,840**	**P97,160**	**P111,586**	P360,178	P82,374	P106,860
Net income	**P10,822**	**P17,658**	**P5,976**	P6,270	P13,518	P4,752
Other comprehensive income (loss)	**2,378**	**1,408**	**193**	(5,932)	(73)	(44)
Total comprehensive income	**P13,200**	**P19,066**	**P6,169**	P338	P13,445	P4,708
Cash flows provided by operating activities	**P29,269**	**P21,658**	**P7,216**	P8,468	P18,522	P11,995
Cash flows used in investing activities	**(19,165)**	**(5,467)**	**(8,440)**	(14,592)	(3,052)	(5,704)
Cash flows used in financing activities	**(12,025)**	**(10,303)**	**(524)**	(66,343)	(9,713)	(11,220)
Effect of exchange rate changes on cash and cash equivalents	**372**	**277**	**4**	746	207	(3)
Net increase (decrease) in cash and cash equivalents	**(P1,549)**	**P6,165**	**(P1,744)**	(P71,721)	P5,964	(P4,932)

7. Discontinued Operations and Assets Held for Sale

a. Vega

On May 30, 2016, the Parent Company entered into agreements with PLDT and Globe for the sale of 100% ownership interest of the Parent Company in Vega for 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 was also assigned to PLDT and Globe in the total amount of P22,077. 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 is payable on May 30, 2017 (Note 10).

On May 30, 2016, the Parent Company PLDT and Globe filed a notice with the Philippine Competition Commission (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 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 12th Division of the Court of Appeals 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.

The Parent Company is not a party to the pending cases between the PCC and PLDT and Globe.

As required by PFRS 5, 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 and 2014, were presented as a separate item under "Income (loss) after income tax from discontinued operations" account in the consolidated statements of income. Accordingly, the comparable 2015 and 2014 consolidated statements of income were restated.

The result of discontinued operations is presented below:

	Note	**2016**	2015	2014
Net sales		**P818**	P1,743	P1,515
Cost of sales		**389**	856	852
Gross profit		**429**	887	663
Selling and administrative expenses		**(1,380)**	(2,692)	(1,127)
Interest expense and other financing charges	*31*	**(6)**	(3)	(2)
Interest income	*32*	**14**	29	35
Equity in net losses of an associate	*13*	**-**	(266)	(390)
Loss on sale of property and equipment		**-**	(2)	-
Other income - net		**136**	2,372	87
Income (loss) before income tax		**(807)**	325	(734)
Income tax expense		**175**	163	135
Income (loss) from discontinued operations		**(982)**	162	(869)
Gain on sale of investment - net of tax of P772		**12,800**	-	-
Net income (loss) from discontinued operations		**P11,818**	P162	(P869)
Attributable to:				
Equity holders of the Parent Company		**P11,756**	P83	(P932)
Non-controlling interests		**62**	79	63
		P11,818	P162	(P869)

Basic and diluted earnings per common share from discontinued operations, attributable to shareholders of the Parent Company, are presented in Note 38.

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

	2016	2015	2014
Net cash flows used in operating activities	**(P419)**	(P2,881)	(P1,533)
Net cash flows provided by (used in) investing activities	**33,512**	(3,082)	(1,779)
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)	(P3,312)

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**

b. 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.

8. 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 and interchanges.

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, 2015 and 2014 and presented under "Income (loss) after income tax from discontinued operations" account (Note 7). Accordingly, the comparable 2015 and 2014 financial information about reportable segments were restated to show the discontinued operation separately from continuing operations.

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, 2016, 2015 and 2014																										
	Beverage			Food			Packaging			Energy			Fuel and Oil			Infrastructure			Others			Eliminations			Consolidated		
	2016	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014
Sales																											
External sales	**P115,609**	P98,386	P94,230	**P111,500**	P106,845	P102,976	**P19,990**	P19,751	P19,365	**P67,980**	P68,704	P77,586	**P337,660**	P356,813	P475,425	**P19,866**	P13,288	P922	**P12,709**	P8,456	P1,739	**P -**	P -	P -	**P685,314**	P672,243	P772,243
Inter-segment sales	**123**	616	286	**86**	15	23	**7,396**	5,299	4,861	**9,992**	8,803	6,708	**6,180**	3,365	7,110	**-**	-	-	**10,552**	14,900	5,820	**(34,329)**	(32,998)	(24,808)	**-**	-	-
Total sales	**P115,732**	P99,002	P94,516	**P111,586**	P106,860	P102,999	**P27,386**	P25,050	P24,226	**P77,972**	P77,507	P84,294	**P343,840**	P360,178	P482,535	**P19,866**	P13,288	P922	**P23,261**	P23,356	P7,559	**(P34,329)**	(P32,998)	(P24,808)	**P685,314**	P672,243	P772,243
Result																											
Segment result	**P28,166**	P23,252	P22,437	**P8,931**	P7,644	P6,463	**P2,584**	P2,198	P2,078	**P26,730**	P23,703	P25,899	**P24,591**	P13,984	P2,211	**P9,849**	P7,272	(P373)	**(P419)**	P1,911	(P2,921)	**(P778)**	P585	P480	**P99,654**	P80,549	P56,274
Interest expense and other financing charges																									**(34,803)**	(32,518)	(29,708)
Interest income																									**3,693**	4,286	3,977
Equity in net earnings (losses) of associates and joint ventures																									**203**	(120)	2,091
Gain (loss) on sale of investments and property and equipment																									**154**	(79)	777
Other income (charges) - net																									**(11,426)**	(6,506)	6,185
Income tax expense																									**(17,053)**	(16,781)	(10,149)
Net income from continuing operations																									**40,422**	28,831	29,447
Income (loss) after income tax from discontinued operations																									**11,818**	162	(869)
Net income																									**P52,240**	P28,993	P28,578
Attributable to:																											
Equity holders of the Parent Company																									**P29,289**	P12,448	P15,137
Non-controlling interests																									**22,951**	16,545	13,441
Net income																									**P52,240**	P28,993	P28,578

December 31, 2016, 2015 and 2014

	Beverage			Food			Packaging			Energy			Fuel and Oil			Infrastructure			Others			Eliminations			Consolidated		
	2016	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014
Other Information																											
Segment assets	**P80,281**	P75,289	P72,346	**P62,278**	P56,365	P62,494	**P35,421**	P34,611	P31,959	**P314,738**	P318,022	P300,520	**P308,913**	P284,140	P380,435	**P175,345**	P168,207	P60,734	**P284,747**	P276,382	P264,950	**(P108,957)**	(P111,397)	(P100,985)	**P1,152,766**	P1,101,619	P1,072,453
Investments in and advances to associates and joint ventures	**465**	525	659	**-**	-	-	**4,221**	3,950	3,782	**16,245**	10,613	10,612	**6**	1,811	1,169	**-**	(624)	10,769	**11,575**	10,654	19,660	**-**	-	-	**32,512**	26,929	46,651
Goodwill and trademarks and brand names																									**58,791**	59,279	41,454
Other assets																									**42,304**	41,754	41,726
Assets held for sale																									**184**	-	554
Deferred tax assets																									**20,267**	16,441	14,651
Consolidated Total Assets																									**P1,306,824**	P1,246,022	P1,217,489
Segment liabilities	**P11,367**	P22,558	P21,243	**P17,764**	P17,233	P16,220	**P6,921**	P5,688	P5,318	**P31,896**	P28,197	P23,519	**P50,219**	P31,756	P65,165	**P43,153**	P40,487	P16,811	**P90,767**	P101,751	P100,916	**(P111,116)**	(P114,718)	(P117,636)	**P140,971**	P132,952	P131,556
Loans payable																									**189,277**	146,859	180,059
Long-term debt																									**328,600**	368,377	302,988
Finance lease liabilities																									**170,240**	179,280	186,330
Income and other taxes payable																									**16,967**	13,907	13,303
Dividends payable and others																									**6,759**	4,441	5,513
Deferred tax liabilities																									**17,229**	15,329	7,820
Consolidated Total Liabilities																									**P870,043**	P861,145	P827,569

For the Years Ended December 31, 2016, 2015 and 2014

	Beverage			Food			Packaging			Energy			Fuel and Oil			Infrastructure			Others			Eliminations			Consolidated		
	2016	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014
Capital expenditures	**P1,451**	P1,319	P1,138	**P6,460**	P3,128	P647	**P1,723**	P2,150	P2,092	**P14,840**	P31,105	P17,447	**P5,342**	P13,474	P13,038	**P295**	P243	P34	**P10,538**	P8,554	P4,555	**P -**	P -	P -	**P40,649**	P59,973	P38,951
Depreciation and amortization of property, plant and equipment (Note 15)	**1,906**	1,837	2,153	**982**	945	1,057	**1,694**	1,580	1,468	**6,573**	6,513	6,171	**8,246**	5,364	5,494	**208**	148	54	**1,672**	1,708	1,510	**-**	-	-	**21,281**	18,095	17,907
Noncash items other than depreciation and amortization of property, plant and equipment	**2,907**	1,668	1,190	**2,613**	2,171	2,089	**145**	218	299	**9,265**	7,895	1,952	**3,708**	2,955	626	**3,376**	3,621	366	**6,461**	(3,404)	(356)	**-**	-	-	**28,475**	15,124	6,166
Loss on impairment of goodwill, property, plant and equipment, and other noncurrent assets	**-**	1,098	-	**109**	-	245	**67**	-	19	**272**	-	-	**333**	262	798	-	-	-	**12**	1,333	-	-	-	-	**793**	2,693	1,062

9. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	**2016**	2015
Cash in banks and on hand		**P29,559**	P33,011
Short-term investments		**173,594**	147,747
	41, 42	**P203,153**	P180,758

Cash in banks earn interest at the respective 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 the respective short-term investment rates (Note 32).

10. Trade and Other Receivables

Trade and other receivables consist of:

	Note	**2016**	2015
Trade		**P54,989**	P55,573
Non-trade		**56,552**	40,535
Amounts owed by related parties	*34, 36*	**16,640**	14,544
		128,181	110,652
Less allowance for impairment losses	*4, 5*	**13,656**	9,925
	4, 41, 42	**P114,525**	P100,727

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, subscription receivable and others. Claims from the Government consist of duty drawback, VAT and specific tax claims as well as subsidy receivables from the Government of Malaysia under the Automatic Pricing Mechanism.

Non-trade receivables also include the receivable from PLDT and Globe amounting to P13,020 related to the sale of the investment in shares of stock of Vega (Note 7).

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

	Note	**2016**	2015
Balance at beginning of year		**P9,925**	P8,253
Charges for the year	*28, 33*	**4,883**	189
Amounts written off		**(255)**	(84)
Acquisition (disposal) of subsidiaries	*5, 7*	**(922)**	1,421
Translation adjustments and others		**25**	146
Balance at end of year		**P13,656**	P9,925

The aging of receivables is as follows:

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**

December 31, 2015	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P35,774	P24,153	P14,525	P74,452
Past due:				
1 - 30 days	6,175	3,687	-	9,862
31 - 60 days	1,813	639	1	2,453
61 - 90 days	1,068	4,065	-	5,133
Over 90 days	10,743	7,991	18	18,752
	P55,573	P40,535	P14,544	P110,652

Various collaterals for trade receivables such as bank guarantees, time deposit 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 41).

11. Inventories

Inventories consist of:

	2016	2015
At Net Realizable Value:		
Finished goods and goods in process (including petroleum products)	**P52,153**	P37,901
Materials and supplies (including coal)	**24,667**	20,431
Containers	**1,908**	1,482
At Cost:		
Raw land inventory and real estate projects	**4,513**	4,334
	P83,241	P64,148

The cost of finished goods and goods in process amounted to P52,491 and P38,629 as of December 31, 2016 and 2015, 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 P1,906 and P2,798 as of December 31, 2016 and 2015, respectively.

The cost of materials and supplies amounted to P25,840 and P21,295 as of December 31, 2016 and 2015, respectively.

Containers at cost amounted to P2,123 and P2,080 as of December 31, 2016 and 2015, respectively.

The fair value of agricultural produce less costs to sell, which formed part of the cost of finished goods inventory, amounted to P466 and P649 as of December 31, 2016 and 2015, respectively, with corresponding costs at point of harvest amounting to P468 and P621, respectively. Net unrealized gain (loss) on fair valuation of agricultural produce amounted to (P2), P29 and P44 in 2016, 2015 and 2014, 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, 2016 and 2015, based on management's assessment.

The fair value of raw land inventory amounted to P10,225 and P9,740 as of December 31, 2016 and 2015, 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).

12. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	**2016**	2015
Prepaid taxes and licenses		**P61,606**	P60,227
Advances to contractors and suppliers	*34*	**4,833**	1,720
Restricted cash - current	*41, 42*	**3,059**	4,230
Prepaid insurance		**640**	603
Prepaid rent		**442**	426
Catalyst		**400**	454
CIP - airport concession arrangements	*4, 35*	**319**	974
Financial assets at FVPL	*41, 42*	**157**	147
Derivative assets	*41, 42*	**84**	391
AFS financial assets - current portion	*4, 14, 41, 42*	**71**	70
Others	*34*	**3,591**	4,417
		P75,202	P73,659

The CIP - airport concession arrangement of the Group includes the accumulated costs incurred on the design of the upgrade component of the Boracay Airport Project. It also includes the cost of a parcel of land earmarked for such upgrade, capitalized borrowing cost and the present value of the IRO to maintain and restore the Boracay Airport prior to its transfer to the ROP at the end of the concession period. The cost included in CIP that relates to the upgrade component of the Boracay Airport Project was recognized as construction cost upon commencement of the upgrade (Note 4). The interest expense related to the accretion of the IRO amounting to P4 in 2016, 2015 and 2014, was recognized as part of "Other financing charges" under "Interest expense and other financing charges" account in the consolidated statements of income (Note 31).

Restricted cash - current represents cash in banks maintained by Vertex, PIDC, MTDME, SIDC, CCEC and TADHC 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 payments for professional services related to project financing of SCPC.

As of December 31, 2016, "Advances to contractors and suppliers" and "Others" include amounts owed to related parties amounting to P15 and P29, respectively (Note 34).

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 42.

13. Investments and Advances

Investments and advances consist of:

	Note	2016	2015
Investments in Shares of Stock of Associates and Joint Ventures - at Equity			
Acquisition Cost			
Balance at beginning of year		**P14,733**	P27,129
Additions		**6,509**	700
Reclassification to investments in shares of stock of subsidiaries	*5*	**-**	(13,096)
Balance at end of year		**21,242**	14,733
Accumulated Equity in Net Earnings (Losses)			
Balance at beginning of year		**500**	1,709
Equity in net earnings (losses)	*7*	**203**	(386)
Share in other comprehensive loss		**(18)**	(121)
Reclassification to investments in shares of stock subsidiaries	*5*	**-**	(695)
Dividends		**(7)**	(7)
Balance at end of year		**678**	500
		21,920	15,233
Advances		**10,592**	11,696
	4	**P32,512**	P26,929

Investments in Shares of Stock of Associates

a. Investment in Bank of Commerce (BOC)

In 2012, the Parent Company through SMPI, started the negotiation for the sale of 44,817,164 common shares of BOC, representing 39.93% equity ownership interest. Accordingly, the investment in BOC with a carrying amount of P8,785, which includes the accumulated share in total comprehensive income of BOC amounting to P984, was reclassified from "Investments and advances" account to "Assets held for sale" account.

In 2015, SMPI's management determined that there were no active buyers of its investment. Consequently, SMPI ceased to classify the investment as part of "Assets held for sale". As a result, the Group restated the comparative consolidated financial statements to appropriately recognize and bring back the investment in BOC to its carrying amount, using equity method, as if the reclassification did not occur.

b. 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.

c. Mariveles Power Generation Corporation (MPGC)

On June 16, 2016, Meralco Powergen Corporation (MGen), a subsidiary of Meralco and Zygnet Prime Holdings, Inc. (Zygnet) subscribed to 2,500 and 102 common shares of MPGC, respectively. As a result, SMC Global holds 49% of the outstanding capital stock of MPGC while MGen and Zygnet holds 49% and 2%, respectively. MPGC was a wholly-owned subsidiary of SMC Global prior to the subscription of MGen and Zygnet. 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. On January 9, 2017, the SEC approved the increase in the authorized capital stock of MPGC.

d. AAIBV

Upon the execution of a Notarial Deed of Transfer of Shares, Padma transferred to SMHC an additional 48.47% equity interest in AAIBV resulting in the increase in SMHC's ownership to 95%. As such, SMHC gained control and consolidated AAIBV effective March 5, 2015 (Note 5).

e. Trustmark Holdings Corporation (Trustmark), Zuma Holdings and Management Corporation (Zuma) and Fortunate Star Limited (Fortunate Star)

On October 23, 2014, the Group received from the Lucio Tan Group, a total of US$874 or an equivalent of P38,616 from the sale of the 49% equity interest in Trustmark and Zuma, including indirect ownership interests of 43.23% and 48.98% in Philippine Airlines, Inc. and Air Philippines Corporation, respectively, and the sale of the equity interest and cancellation of subscription rights on the shares of stock of Fortunate Star. As a result, a gain of P491 was recognized in the 2014 consolidated statement of income, included as part of "Gain on sale of investments and property and equipment" account.

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.

b. TSML

The Parent Company through GSMI's subsidiary, GSMIL, 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 GSMIL owns 40% 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.

Through the acquisition by SHL, a subsidiary of GSMI, of the 49% ownership interest in Siam Wine Liquor Co., Ltd. (SWL) and SWL's acquisition of shares representing 10% ownership of the outstanding capital stock of TSML, the Group's share in TSML increased from 40% to 44.9%.

c. TGT

The Parent Company through GSMI's subsidiary, GSMIHL, also has an existing 40% ownership interest in TGT, which was formed as another joint venture with Thai Life. TGT functions as the selling and distribution arm of TSML.

Through the acquisition of SWL of the 10% ownership interest in TGT, the Group's share in TGT increased from 40% to 44.9%.

Advances:

a. SMPI made deposits to Primeria Commercio Holdings, Inc. (PCHI) amounting to P806 amd P804 as of December 31, 2016 and 2015, respectively. The deposits will be applied against future stock subscriptions of SMPI to the shares of stock of PCHI.

b. SMC Global and SMEC made deposits to certain land holding companies and power-related expansion projects for future stock subscriptions amounting to P8,549 and P9,131, as of December 31, 2016 and 2015, 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, 2016, outstanding Investment advances amounted to P783.

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, 2016							December 31, 2015					
	Angat Hydro and KWPP	**NCC**	**BOC**	**TGT and TSML**	**MPGC**	**Others**	**Total**	Angat Hydro and KWPP	NCC	BOC	TGT and TSML	Others	Total
Country of incorporation	**Philippines**	**Philippines**	**Philippines**	**Thailand**	**Philippines**			Philippines	Philippines	Philippines	Thailand		
Percentage of ownership	**60.00%**	**35.00%**	**39.93%**	**44.90%**	**49.00%**			60.00%	35.00%	39.93%	44.90%		
Share in net income (loss)	**(P294)**	**P282**	**P290**	**(P97)**	**(P6)**	**P28**	**P203**	(P529)	P194	P50	(P110)	P9	(P386)
Share in other comprehensive income (loss)	**-**	**(11)**	**(44)**	**37**	**-**	**-**	**(18)**	-	(27)	(324)	(25)	255	(121)
Share in total comprehensive income (loss)	**(P294)**	**P271**	**P246**	**(P60)**	**(P6)**	**P28**	**P185**	(P529)	P167	(P274)	(P135)	P264	(P507)
Dividends received from associates	**P -**	**P -**	**P -**	**P -**	**P -**	**P7**	**P7**	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**	**P958**	**P539**	**P21,920**	P1,290	P3,950	P8,949	P525	P519	P15,233

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

	December 31, 2016						December 31, 2015				
	Angat Hydro and KWPP	**NCC**	**BOC**	**TGT and TSML**	**MPGC**	**Others**	Angat Hydro and KWPP	NCC	BOC	TGT and TSML	Others
Current assets	**P2,788**	**P1,872**	**P71,655**	**P1,460**	**P123**	**P3,072**	P1,146	P1,720	P77,484	P1,397	P2,825
Noncurrent assets	**19,323**	**6,401**	**67,031**	**1,324**	**1,841**	**1,411**	19,736	5,741	59,990	1,355	1,120
Current liabilities	**(13,348)**	**(1,151)**	**(118,432)**	**(859)**	**-**	**669**	(20,867)	(1,280)	(118,928)	(891)	(853)
Noncurrent liabilities	**(31)**	**(168)**	**(2,948)**	**(1,265)**	**-**	**405**	(35)	(200)	(1,816)	(1,241)	(889)
Net assets (liabilities)	**P8,732**	**P6,954**	**P17,306**	**P660**	**P1,964**	**P5,557**	(P20)	P5,981	P16,730	P620	P2,203
Sales	**P1,231**	**P5,846**	**P3,326**	**P1,427**	**P -**	**P2,271**	P1,249	P4,841	P3,107	P1,272	P2,004
Net income (loss)	**(P490)**	**P1,003**	**P641**	**P4**	**(P12)**	**P115**	(P882)	P780	P330	(P67)	P99
Other comprehensive income (loss)	**-**	**(30)**	**(111)**	**36**	**-**	**-**	-	(39)	(777)	(86)	-
Total comprehensive income (loss)	**(P490)**	**P973**	**P530**	**P40**	**(P12)**	**P115**	(P882)	P741	(P447)	(P153)	P99

14. Available-for-Sale Financial Assets

Available-for-sale financial assets consist of:

	Note	2016	2015
Equity securities		**P41,413**	P40,933
Government and other debt securities		**479**	457
Proprietary membership shares and others		**247**	226
	4, 41, 42	**42,139**	41,616
Less current portion	*12*	**71**	70
		P42,068	P41,546

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 P36,082 and P35,597 as of December 31, 2016 and 2015, 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 7.75% in 2016 and 4.47% to 8.88% in 2015 (Note 32).

b) Ovincor's outstanding corporate bond is maintained at the Bank of N.T. Butterfield and carried at fair value with fixed annual interest rate of 6.75% (Note 32).

The movements in AFS financial assets are as follows:

	Note	2016	2015
Balance at beginning of the year		**P41,616**	P41,890
Additions		**91**	163
Disposals		**(72)**	(438)
Amortization of premium		**(7)**	(15)
Fair value gain (loss)		**502**	(2)
Currency translation adjustments and others		**9**	18
Balance at end of the year	*4, 12, 41, 42*	**P42,139**	P41,616

The methods and assumptions used to estimate the fair value of AFS financial assets are discussed in Note 42.

15. 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, 2015		P28,605	P49,743	P226,789	P50,532	P16,142	P126,939	P2,219	P135,978	P636,947
Additions		869	3,743	-	1,177	1,191	9,041	115	43,837	59,973
Disposals/reclassifications/ acquisition of subsidiaries		3,036	(1,770)	-	(362)	(74)	5,132	(147)	2,938	8,753
Currency translation adjustments		(1,158)	(1,263)	-	(1,562)	(1,029)	(317)	-	(346)	(5,675)
December 31, 2015		31,352	50,453	226,789	49,785	16,230	140,795	2,187	182,407	699,998
Additions		1,150	1,402	10,654	871	363	9,077	1,277	15,855	40,649
Disposals/reclassifications/ acquisition of subsidiaries		(52)	(4,992)	4,611	94,310	(494)	(22,806)	(509)	(104,948)	(34,880)
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**
Accumulated Depreciation and Amortization										
January 1, 2015		3,383	19,939	26,931	32,218	10,471	77,185	1,270	-	171,397
Depreciation and amortization	*8, 29*	205	1,754	6,031	1,730	1,287	6,925	163	-	18,095
Disposals/reclassifications/ acquisition of subsidiaries		61	(777)	-	(109)	(53)	4,656	(284)	-	3,494
Currency translation adjustments		(75)	(722)	-	(751)	(565)	(841)	-	-	(2,954)
December 31, 2015		3,574	20,194	32,962	33,088	11,140	87,925	1,149	-	190,032
Depreciation and amortization	*8, 29*	252	1,839	6,049	5,010	1,192	6,744	195	-	21,281
Disposals/reclassifications/ acquisition of subsidiaries		(97)	(1,401)	(2,444)	(20)	(369)	(16,462)	(290)	-	(21,083)
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**

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, 2015		P266	P2,270	P -	P -	P -	P7,690	P1	P -	P10,227
Impairment	*29*	-	202	-	-	-	2,129	-	-	2,331
Disposals and reclassifications		-	-	-	-	-	(9)	-	-	(9)
Currency translation adjustments		-	(22)	-	-	-	87	-	-	65
December 31, 2015		266	2,450	-	-	-	9,897	1	-	12,614
Disposals and reclassifications		-	(6)	-	-	-	(1,308)	25	-	(1,289)
Currency translation adjustments		-	(32)	-	-	-	76	(1)	-	43
December 31, 2016		**266**	**2,412**	**-**	**-**	**-**	**8,665**	**25**	**-**	**11,368**
Carrying Amount										
December 31, 2015		P27,512	P27,809	P193,827	P16,697	P5,090	P42,973	P1,037	P182,407	P497,352
December 31, 2016		**P28,578**	**P23,865**	**P205,487**	**P106,818**	**P4,185**	**P40,560**	**P1,878**	**P93,340**	**P504,711**

"Equipment, furniture and fixtures" includes machinery, transportation equipment, tools and small equipment and office equipment in 2016 and 2015 and telecommunications equipment in 2015.

Total depreciation, amortization and impairment losses recognized in the consolidated statements of income amounted to P21,281, P20,426 and P17,926 in 2016, 2015 and 2014, respectively (Notes 29 and 33). These amounts include annual amortization of capitalized interest amounting to P488, P128 and P123 in 2016, 2015 and 2014, respectively.

The Group has interest amounting to P735 and P3,027 which was capitalized in 2016 and 2015, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization range from 2% to 6.29% and 4.35% to 6.77% in 2016 and 2015, respectively. The unamortized capitalized borrowing costs amounted to P11,765 and P12,047 as of December 31, 2016 and 2015, respectively.

The combined carrying amounts of power plants and equipment under finance lease amounted to P177,930 and P183,042 as of December 31, 2016 and 2015, respectively (Notes 4 and 35).

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.

16. 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, 2015	P3,403	P541	P468	P19	P4,431
Additions	1,189	-	1	77	1,267
Reclassifications	(272)	412	-	5	145
Disposals	(4)	-	-	-	(4)
Currency translation adjustments	18	19	-	-	37
December 31, 2015	4,334	972	469	101	5,876
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**
Accumulated Depreciation and Amortization					
January 1, 2015	110	219	451	-	780
Depreciation and amortization	10	14	5	-	29
Disposals and reclassifications	16	284	-	-	300
Currency translation adjustments	5	8	-	-	13
December 31, 2015	141	525	456	-	1,122
Depreciation and amortization	15	21	1	-	37
Reclassifications	49	87	(36)	-	100
Currency translation adjustments	7	12	-	-	19
December 31, 2016	**212**	**645**	**421**	**-**	**1,278**
Accumulated Impairment Losses December 31, 2015 and 2016	**8**	**-**	**-**	**-**	**8**
Carrying Amount					
December 31, 2015	P4,185	P447	P13	P101	P4,746
December 31, 2016	**P6,527**	**P565**	**P -**	**P203**	**P7,295**

No impairment loss was recognized in 2016, 2015 and 2014.

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 2016, 2015 and 2014.

The fair value of investment property amounting to P20,130 and P21,420 as of December 31, 2016 and 2015, 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%.

17. Biological Assets

Biological assets consist of:

	Note	**2016**	2015
Current:			
Growing stocks	*4*	**P2,749**	P2,950
Goods in process	*4*	**373**	369
		3,122	3,319
Noncurrent:			
Breeding stocks - net	*4*	**2,263**	2,177
		P5,385	P5,496

The amortization of breeding stocks recognized in the consolidated statements of income amounted to P1,947, P1,769 and P1,537 in 2016, 2015 and 2014, respectively (Note 29).

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	**2016**	2015
Cost			
Balance at beginning of year		**P6,590**	P6,173
Increase (decrease) due to:			
Production		**40,974**	39,157
Purchases		**500**	604
Mortality		**(710)**	(712)
Harvest		**(38,880)**	(37,072)
Retirement		**(1,820)**	(1,560)
Balance at end of year		**6,654**	6,590
Accumulated Amortization			
Balance at beginning of year		**1,094**	880
Additions	*29*	**1,947**	1,769
Retirement		**(1,772)**	(1,555)
Balance at end of year		**1,269**	1,094
Carrying Amount		**P5,385**	P5,496

The Group harvested approximately 508.3 million and 477.9 million kilograms of grown broilers in 2016 and 2015, respectively, and 0.64 million and 0.68 million heads of marketable hogs and cattle in 2016 and 2015, 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 P47,016 and P42,857 in 2016 and 2015, respectively.

18. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of:

	2016	2015
Goodwill	**P58,113**	P58,603
Other intangible assets	**125,165**	139,969
	P183,278	P198,572

The movements in goodwill are as follows:

	Note	**2016**	2015
Balance at beginning of year		**P58,603**	P41,211
Additions	*4, 5, 39*	**4**	18,918
Impairment loss	*33*	**(298)**	(100)
Disposals	*7*	**(734)**	-
Currency translation adjustments and others		**538**	(1,426)
Balance at end of year	*4*	**P58,113**	P58,603

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

	Note	Licenses	Trademarks and Brand Names	Total
Cost				
January 1, 2015		P7,009	P437	P7,446
Additions		-	446	446
Acquisition of subsidiaries	*5, 39*	18,465	-	18,465
Currency translation adjustments		(69)	12	(57)
December 31, 2015		25,405	895	26,300
Disposals		(23,686)	-	(23,686)
Currency translation adjustments		110	14	124
December 31, 2016		**1,829**	**909**	**2,738**
Accumulated Impairment Losses				
January 1, 2015		-	194	194
Impairment		-	14	14
Currency translation adjustments		-	11	11
December 31, 2015		-	219	219
Currency translation adjustments		-	12	12
December 31, 2016		-	231	231
Carrying Amount				
December 31, 2015		P25,405	P676	P26,081
December 31, 2016		**P1,829**	**P678**	**P2,507**

In February 2015, the acquisition by the Parent Company through SMPFC of Felicisimo Martinez & Co. Inc.'s trademarks, formulations, recipes and other intangible properties relating to *La Pacita* biscuit and flour-based snack business was completed following the substantial fulfillment of the closing conditions of the Intellectual Property Rights Transfer Agreement and the payment of the consideration.

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

	Note	Concession Rights					Leasehold and Land Use Rights	Mineral Rights and Evaluation Assets	Computer Software and Licenses and Others	Total
		Toll Road	Airport	Power	Port	Water				
Cost										
January 1, 2015		P31,892	P2,319	P496	P -	P -	P1,493	P1,885	P2,562	P40,647
Additions		10,052	1,056	47	621	-	-	-	409	12,185
Acquisition of subsidiaries	*5, 39*	71,564	-	-	10,353	-	-	-	33	81,950
Disposals and reclassifications		9	-	-	-	-	2	-	39	50
Currency translation adjustments		1,799	-	-	-	-	14	-	(84)	1,729
December 31, 2015		115,316	3,375	543	10,974	-	1,509	1,885	2,959	136,561
Additions		9,318	2,178	228	1,131	756	172	-	228	14,011
Acquisition of subsidiaries	*5, 39*	-	-	-	-	-	-	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**
Accumulated Amortization										
January 1, 2015		594	37	15	-	-	523	-	1,616	2,785
Amortization		2,556	41	21	28	-	32	-	296	2,974
Acquisition of subsidiaries	*5, 39*	15,994	-	-	535	-	-	-	-	16,529
Disposals and reclassifications		-	-	-	-	-	-	-	175	175
Currency translation adjustments		259	-	-	-	-	2	-	(51)	210
December 31, 2015		19,403	78	36	563	-	557	-	2,036	22,673
Amortization		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**
Carrying Amount										
December 31, 2015		P95,913	P3,297	P507	P10,411	P -	P952	P1,885	P923	P113,888
December 31, 2016		**P100,959**	**P5,489**	**P689**	**P11,090**	**P824**	**P1,206**	**P1,734**	**P667**	**P122,658**

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:

	2016		2015	
	Goodwill	**Licenses, Trademarks and Brand Names**	Goodwill	Licenses, Trademarks and Brand Names
Fuel and oil	**P29,831**	**P -**	P29,719	P -
Infrastructure	**21,950**	**-**	21,946	-
Food	**2,820**	**678**	2,820	676
Packaging	**2,542**	**-**	2,418	-
Beverage	**909**	**1,829**	905	1,719
Telecommunications	**-**	**-**	733	23,686
Energy	**-**	**-**	-	-
Others	**61**	**-**	62	-
Total	**P58,113**	**P2,507**	P58,603	P26,081

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 rate applied to after tax cash flow projections ranged from 6% to 14% in 2016 and 2015. 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).

Impairment loss recognized in 2016 and 2015 amounted to P298 and P100, respectively (Note 33).

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 range from 6.4% to 18.8% and from 6.8% to 17.5% in 2016 and 2015, respectively. 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 33).

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.

19. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	**2016**	2015
Noncurrent receivables and deposits - net	*4, 34, 41, 42*	**P10,068**	P9,389
Deferred containers - net	*4, 29*	**7,141**	7,014
Retirement assets	*36*	**3,487**	3,175
Noncurrent prepaid input tax		**2,971**	1,418
Advances to contractors and suppliers		**2,947**	3,939
Noncurrent prepaid rent		**2,211**	2,228
Deposits on land for future development		**1,968**	1,546
Idle assets	*4*	**850**	1,194
Catalyst		**833**	947
Restricted cash	*41, 42*	**798**	1,431
Deferred exploration and development costs	*4, 35*	**694**	690
Others		**1,035**	2,677
		P35,003	P35,648

Noncurrent receivables and deposits include amounts owed by related parties amounting to P3,265 and P5,771 as of December 31, 2016 and 2015, respectively (Note 34) and the costs related to the capitalized expenditures for the development of the Metro Rail Transit Line 7 (MRT 7) Project amounting to P4,648 and P2,598 as of December 31, 2016 and 2015, respectively (Note 35).

Noncurrent receivables and deposits are net of allowance for impairment losses amounting to P460 and P372 as of December 31, 2016 and 2015, respectively.

Restricted cash represents:

i. the amount received from PEMC, totaling to P475, 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);

ii. APEC's reinvestment fund for sustainable capital expenditures and cash collected from customers for membership fees and bill deposits which are refundable amounting to P189 and P103 as of December 31, 2016 and 2015, respectively;

iii. SPI's Cash Flow Waterfall Accounts with a local bank as part of the provisions in the Omnibus Loan and Security Agreement amounting to P1,209 as of December 31, 2015. The related long-term debt was paid in 2016; and

iv. cash in bank maintained by AAIPC and CCEC in accordance with the specific purposes and terms as required under certain loan agreements, amounting to P134 and P119 as of December 31, 2016 and 2015, respectively (Note 12).

The methods and assumptions used to estimate the fair values of noncurrent receivables and deposits and restricted cash are discussed in Note 42.

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

20. Loans Payable

Loans payable consist of:

	Note	**2016**	2015
Parent Company			
Peso-denominated		**P36,850**	P7,050
Foreign currency-denominated	*22*	**20,882**	-
Subsidiaries			
Peso-denominated		**128,017**	123,035
Foreign currency-denominated		**3,528**	16,774
	41, 42	**P189,277**	P146,859

Loans payable mainly represent unsecured peso and foreign currency-denominated amounts obtained from local and foreign banks. Interest rates for peso-denominated loans range from 2.00% to 5.75% and 2.00% to 5.50% in 2016 and 2015, respectively. Interest rates for foreign currency-denominated loans range from 1.51% to 11.10% and 3.00% to 12.60% in 2016 and 2015, respectively (Note 31).

Loans payable include interest-bearing amounts payable to a related party amounting to P11,375 and P9,243 as of December 31, 2016 and 2015, respectively (Note 34).

21. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	**2016**	2015
Trade		**P58,790**	P46,692
Non-trade		**47,983**	41,152
Accrued payroll		**5,242**	4,771
Accrued interest payable		**2,768**	2,434
Amounts owed to related parties	*34*	**2,695**	2,963
Derivative liabilities	*41, 42*	**2,475**	2,581
Deferred income		**804**	444
Current portion of IRO	*4*	**230**	370
Retention payable		**185**	1,203
Retirement liabilities	*36*	**87**	91
Others		**343**	135
	41, 42	**P121,602**	P102,836

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 42.

22. Long-term Debt

Long-term debt consists of:

	2016	2015
Parent Company		
Term notes:		
Foreign currency-denominated:		
Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, with maturities in various dates through 2018 (a)	**P28,603**	P -
Floating interest rate based on LIBOR plus margin (b)	**-**	77,749
Floating interest rate based on LIBOR plus margin, maturing in 2020 (c)	**14,034**	13,210
Fixed interest rate of 4.875% maturing in 2023 (d)	**25,447**	24,044
	P68,084	P115,003
Subsidiaries		
Bonds:		
Peso-denominated:		
Fixed interest rate of 6.05%, 5.93% and 6.60% maturing in 2017, 2019 and 2022, respectively (e)	**P19,917**	P19,889
Fixed interest rate of 5.50% and 6.00% maturing in 2021 and 2024, respectively (f)	**14,900**	14,881
Fixed interest rate of 4.3458%, 4.7575%, and 5.1792% maturing in 2021, 2023 and 2026, respectively (g)	**14,843**	-
Fixed interest rate of 4.9925%, 5.5796% and 6.4872% maturing in 2020, 2022 and 2025, respectively (h)	**7,223**	7,217
Fixed interest rate of 10.50% maturing in 2019 (i)	**2,800**	2,796
Foreign currency-denominated:		
Fixed interest rate of 7.00% maturing in 2016 (j)	**-**	13,952
Term notes:		
Foreign currency-denominated:		
Fixed interest rate of 12.85%, 12.45% and 13.27% maturing in 2016 (k)	**-**	65

Forward

	Note	2016	2015
Peso-denominated:			
Fixed interest rate of 6.52% and 6.7394% maturing in 2021 and 2026, respectively (l)		**P21,340**	P9,163
Fixed interest rate of 7.00% maturing in 2017 (m)		**19,964**	19,926
Fixed interest rate of 4.0032% and 4.5219% maturing in 2021 and 2023, respectively (n)		**19,801**	-
Fixed interest rate of 6.50% with maturities up to 2021 (o)		**14,097**	14,824
Fixed interest rate of 6.865%, 6.9283% and 7.4817% with maturities up to 2027 (p)		**8,594**	8,579
Fixed interest rate of 6.7495%, 6.7701%, 7.165%, 7.5933% and 7.6567% with maturities up to 2025 (q)		**7,419**	6,321
Fixed interest rate of 8.74899% with maturities up to 2022 (r)		**5,843**	8,676
Fixed interest rate of 5.4583% with maturities up to 2022 (s)		**4,981**	4,976
Fixed interest rate of 6.3212% and 7.1827% with maturities up to 2018 and 2021, respectively (t)		**3,401**	3,433
Fixed interest rate of 6.6583% with maturities up to 2023 (u)		**3,042**	3,384
Fixed interest rate of 5.65% with maturities up to 2019 (v)		**1,650**	2,250
Fixed interest rate of 5.00% in 2016 and 6.175% and 6.145% in 2015 with maturities up to 2021 (w)		**1,493**	1,500
Fixed interest rate of 6.2921% and 6.0606% (x)		**-**	12,056
Floating interest rate based on PDST-R2 plus margin, with maturities up to 2022 (y)		**3,123**	3,177
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 (z)		**2,371**	3,243
Floating interest rate based on PDST-R2 plus margin, or 5.75%, whichever is higher with maturities up to 2021 (aa)		**299**	349
Floating interest rate based on PDST-R2 plus margin or BSP overnight rate, whichever is higher, with maturities up to 2018 (bb)		**229**	343
Foreign currency-denominated:			
Floating interest rate based on LIBOR plus margin, maturing in 2018 (cc)		**34,482**	32,439
Floating interest rate based on LIBOR plus margin, with maturities up to 2020 (dd)		**22,891**	25,177
Floating interest rate based on LIBOR plus margin, with maturities up to 2022 (ee)		**16,999**	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2019 (ff)		**6,556**	15,639
Floating interest rate based on Cost of Fund (COF) plus margin, with maturities up to 2019 (gg)		**2,258**	3,269
Floating interest rate based on LIBOR plus margin, maturing in 2016 (hh)		**-**	15,850
		260,516	253,374
	41, 42	**328,600**	368,377
Less current maturities		**31,378**	37,554
		P297,222	P330,823

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

Unamortized debt issue costs amounted to P235 as of December 31, 2016.

b. The amount represents the drawdown by the Parent Company of US$1,670 on various dates in 2013 to pay in full and refinance the US$1,000 loan availed in 2010, to fund infrastructure investments and for general corporate purposes.

On April 7, 2016, the Parent Company fully paid its US$170 loan. The payment was funded by the proceeds from the issuance of Subseries "2-G", "2-H" and "2-I" preferred shares of the Parent Company (Note 25).

On various dates in 2016, the Parent Company refinanced the remaining balance of US$1,500 through the availment of: a) P25,000 short-term bridge loan from local banks, which was partially refinanced by the issuance of the P20,000 bonds on March 1, 2017 (Note 44); b) US$420 short-term loans (Note 20); and c) US$580 medium-term loans from foreign banks.

Unamortized debt issue costs amounted to P841 as of December 31, 2015.

c. The amount represents the drawdown of US$287 on September 8, 2015 from the Parent Company's US$800-Term Facility signed in March 2015. Proceeds from the five-year floating rate loan were used to fund of the Medium Term Notes (MTN) Tender Offer in April 2015.

Unamortized debt issue costs amounted to P237 and P296 as of December 31, 2016 and 2015, respectively.

d. The amount represents the drawdown of US$800 Notes (the Notes) issued on April 19, 2013, from the Parent Company's US$2,000 MTN Programme. The Notes which were listed on the SGX-ST on the same date bear interest at the rate of 4.875% per annum, payable semi-annually in arrears every 26th of April and October of each year.

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 33).

Unamortized debt issue costs amounted to P227 and P257 as of December 31, 2016 and 2015, respectively.

e. The amount represents SMB's Bonds worth P20,000, which were sold to the public pursuant to a registration statement that was rendered effective by the SEC on March 16, 2012. The Bonds were issued on April 2, 2012 at the issue price of 100.00% of face value in three series: Series D Bonds with a term of five years and one day and a fixed interest rate of 6.05% per annum; Series E Bonds with a term of seven years and a fixed interest rate of 5.93% per annum; and Series F Bonds with a term of 10 years and a fixed interest rate of 6.60% per annum. The proceeds were used to refinance SMB's existing financial indebtedness and for general working capital purposes.

The Series E Bonds and Series F Bonds were listed on the Philippine Dealing & Exchange Corp. (PDEx) on April 2, 2012 while the Series D Bonds were listed for trading on the PDEx effective October 3, 2012.

Unamortized debt issue costs amounted to P83 and P111 as of December 31, 2016 and 2015, respectively.

f. The amount represents the issuance of Philippine Peso fixed rate bonds by SMB in the aggregate principal amount of P15,000, consisting of Series G Bonds in the aggregate principal amount of P12,462 with a term of seven years and interest rate of 5.50% per annum and Series H Bonds in the aggregate principal amount of P2,538 with a term of 10 years and interest rate of 6.00% per annum (Series G and Series H Bonds).

Interest on the Series G and Series H Bonds is paid every April 2 and October 2 of each year (each on Interest Payment Date). SMB may (but shall be likewise not obligated to) redeem all (and not a part only) of the outstanding Series G and Series H Bonds on the 11th Interest Payment Date for the Series G Bonds, and on the 14th, 16th or 18th Interest Payment Dates for the Series H Bonds.

Series G and Series H Bonds were sold to the public pursuant to a registration statement that was rendered effective, and permit to sell issued, by the SEC on March 17, 2014 and were listed on the PDEx for trading on April 2, 2014.

Unamortized debt issue costs amounted to P100 and P119 as of December 31, 2016 and 2015, respectively.

g. The amount represents issuance of SMC Global of the fixed rate Philippine Peso-denominated bonds with an aggregate principal amount of P15,000. The Bonds were issued on July 11, 2016 at the issue price of 100.00% of face value in three series: Series A Bonds with fixed interest rate of 4.3458% per annum; Series B Bonds with fixed interest rate of 4.7575% per annum; Series C Bonds with fixed interest rate of 5.1792% per annum. Interest is payable quarterly in arrears starting on October 11, 2016, for the first interest payment date, and January 11, April 11, July 11 and October 11 of each year thereafter.

The net proceeds were used on July 25, 2016 to refinance the short-term US$300 bridge financing loan, availed for the redemption of the US$300 bond.

The Series A Bonds, Series B Bonds and Series C Bonds, were listed on the PDEx on July 11, 2016.

Unamortized debt issue costs amounted to P157 as of December 31, 2016.

h. The amount represents SLTC's peso-denominated fixed rate bonds (SLTC Bonds) worth P7,300. The SLTC Bonds were issued in three series: Series A Bonds amounting to P2,400 with a fixed interest rate of 4.9925% per annum, Series B Bonds amounting to P2,400 with a fixed interest rate of 5.5796% per annum and Series C Bonds amounting to P2,500 with a fixed interest rate of 6.4872% per annum.

The net proceeds of the bond offering were used to prepay the five-year Peso-denominated Corporate Notes drawn in 2012. The SLTC Bonds were listed on the PDEx on May 22, 2015.

Unamortized debt issue costs amounted to P77 and P83 as of December 31, 2016 and 2015, respectively.

i. The amount represents SMB's peso denominated fixed rate Series C Bonds with an aggregate principal amount of P2,810 which was part of the P38,800 SMB Bonds sold to the public pursuant to a registration statement that was rendered effective by the SEC on March 17, 2009. The SMB Bonds were listed on the PDEx for trading on November 17, 2009.

Unamortized debt issue costs amounted to P10 and P14 as of December 31, 2016 and 2015, respectively.

j. The amount represents US$300, 7%, five-year bond issued by SMC Global in 2011 under the Regulations of the US Securities Act of 1933, as amended. The unsecured bond issue was listed on the SGX-ST.

On January 14, 2016, SMC Global availed of a US$300 bridge financing six-month term loan, with a local bank for the redemption of the US$300 bonds payable.

On January 26, 2016, SMC Global redeemed the US$300 bonds using the proceeds from the US$300 bridge financing.

Unamortized bond issue costs amounted to P5 as of December 31, 2015.

k. The amount represents unsecured facility loans entered into by PT SMPFI on various dates in 2015 with a foreign bank amounting to P65. PT SMPFI obtained the loans in three tranches with fixed interest rates of 12.85%, 12.45% and 13.27%, all fully paid on December 9, 2016. Proceeds were used to refinance capital expenditure requirements including the purchase of machineries.

l. The amount in 2015 represents the remaining balance of the P14,500 Corporate Notes Facility entered into by AAIPC with various local 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. AAIPC paid P4,385 in 2016.

On March 14, 2016, AAIPC entered into another Corporate Notes Facility Agreement with local banks amounting to P16,700 to finance its 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 P1,767 and P2,566 as of December 31, 2016 and 2015, respectively (Note 34).

Unamortized debt issue costs amounted to P279 and P140 as of December 31, 2016 and 2015, respectively.

m. The amount represents P20,000 peso-denominated notes issued by Petron in 2010. The notes bear interest of 7% per annum, payable semi-annually in arrears every 10th of May and November of each year. The notes will mature on November 10, 2017. The principal and interest will be 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 and P74 as of December 31, 2016 and 2015, respectively.

n. The amount represents P20,000 retail bonds issued by Petron on October 27, 2016, divided into Series A (P13,000) and Series B (P7,000). Series A Bonds is due on October 27, 2021 with fixed interest rate of 4.0032% per annum. Series B Bonds will mature on October 27, 2023 with fixed interest rate of 4.5219% per annum. Interests are payable quarterly on January 27, April 27, July 27 and October 27 of each year. The proceeds from the issuance were used to partially settle the $475 and $550 Term Loan facilities and to repay short-term loans and for general corporate requirements.

Unamortized debt issue costs amounted to P199 as of December 31, 2016.

o. The amount represents series of drawdowns by PIDC from the P15,140 loan facility agreement with creditor banks, to finance the TPLEX. The loan is payable in 24 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. Unamortized debt issue costs amounted to P97 and P127 as of December 31, 2016 and 2015, respectively.

p. The amount represents the P8,700 loan drawn by CCEC in 2015, from the P31,000 Loan Facility with various banks. The loan is payable in 35 unequal consecutive quarterly installments. Proceeds of the loan were used to finance the design, construction and the operation and maintenance of the Stage 3 of Metro Manila Skyway Project.

The drawdown includes payable to BOC amounting to P1,038 as of December 31, 2016 and 2015 (Note 34).

Unamortized debt issue costs amounted to P106 and P121 as of December 31, 2016 and 2015, respectively.

q. The amount represents the P1,100 and P6,400 loan drawn by Vertex in 2016 and 2015, respectively, from the P7,500 Loan Facility with various banks. The loan is payable in quarterly installments up to February 27, 2025. Proceeds of the loan were used to finance the ongoing construction of the NAIA Expressway.

The drawdown includes payable to BOC amounting to P2,000 and P1,707 as of December 31, 2016 and 2015, respectively (Note 34).

Unamortized debt issue costs amounted to P81 and P79 as of December 31, 2016 and 2015, respectively.

r. The amount represents 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 P902 and P1,338 as of December 31, 2016 and 2015, respectively (Note 34).

Unamortized debt issue costs amounted to P87 and P116 as of December 31, 2016 and 2015, respectively.

s. The amount represents P5,000 loan drawn by Petron on October 13, 2015 from the term loan facility agreement signed and executed on October 7, 2015. The facility is amortized over seven years with a two-year grace period and is subject to a fixed interest rate of 5.4583%.

Unamortized debt issue costs amounted to P19 and P24 as of December 31, 2016 and 2015 respectively.

t. 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.

Unamortized debt issue costs amounted to P18 and P23 as of December 31, 2016 and 2015, respectively.

u. 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 P24 and P31 as of December 31, 2016 and 2015, respectively.

v. 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 P633 and P863 as of December 31, 2016 and 2015, respectively (Note 34).

w. 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 P7 as of December 31, 2016.

x. The amount represents P12,300 and P1,500 drawn by SPI on September 30, 2013 and 2014, respectively, from the P13,800 10-year term loan facility agreement with syndicate of banks.

Pursuant to the Facility Agreement, the amount of the loan drawn in 2015 and 2014 will bear interest at the rate of 6.5446% and 6.3131%, respectively, as determined by the Facility Agent. Effective November 28, 2014, step-down interest rate is at 6.2921% and 6.0606% for 2015 and 2014 loans, respectively.

The proceeds of the loan were used for the acquisition of the 2 x 35 MW Co-Generation Coal Fuel-Fired Power Plant and all other pertinent machinery, equipment, facilities and structures for the expansion of the capacity.

The drawdown includes payable to BOC amounting to P3,103 as of December 31, 2015 (Note 34).

On December 23, 2016, SPI pre-settled the entire loan with accrued interest amounting to P11,271 using the proceeds from the sale of power plant to Petron.

Unamortized debt issue costs amounted to P178 as of December 31, 2015.

y. 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 P56 and P111 as partial settlement of the loan principal in 2016 and 2015, respectively (Note 34).

Unamortized debt issue costs amounted to P10 and P12 as of December 31, 2016 and 2015, respectively.

z. The amount represents drawdown from the loan agreement entered into by SMYPC with BOC in October 2012 amounting to P3,500 used for general financing and corporate requirements maturing on October 11, 2019. SMYPC paid P875 and P250 as partial settlement of the loan principal in 2016 and 2014, respectively (Note 34).

Unamortized debt issue costs amounted to P4 and P7 as of December 31, 2016 and 2015, respectively.

aa. 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 P50 as partial settlement of the loan principal in 2016 (Note 34).

Unamortized debt issue costs amounted to P1 as of December 31, 2016 and 2015.

bb. 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).

cc. 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 8, 2013. The loan proceeds were used to refinance SMC Global's 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.

Unamortized debt issue costs amounted to P322 and P503 as of December 31, 2016 and 2015, respectively.

dd. 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 about US$206 and US$345 under the US$480 and US$485 term loan facility, respectively. On November 11, 2015, Petron completed the syndication of facility with 29 banks. Petron made partial payment on October 28, 2016 amounting to US$80.

Unamortized debt issue costs amounted to P477 and P706 as of December 31, 2016 and 2015, respectively.

ee. 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. Repayment of the loan principal shall commence on October 31, 2017, and every three months thereafter.

The drawdown includes payable to BOC amounting to P2,680 as of December 31, 2016 (Note 34).

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

ff. 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 2016 and 2015, Petron made partial payments amounting to US$205 and US$135, respectively.

Unamortized debt issue costs amounted to P156 and P361 as of December 31, 2016 and 2015, respectively.

gg. The amount represents the Malaysian Ringgit (MYR) 300 loan 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.

Unamortized debt issue costs amounted to P9 and P20 as of December 31, 2016 and 2015, respectively.

hh. The amount represents the US$340 loan facility agreement entered into by AAIBV with Standard Chartered Bank on September 17, 2014. Proceeds of the loan were used for payment of the subscription price for S3HC shares subscribed by AAIBV and payment of the subscription price of CCEC shares provided to the Philippine National Construction Corporation (PNCC). The loan is payable lump sum on September 19, 2016 and bears an interest rate of the sum of 5.375% margin rate and LIBOR rate applicable to the loan payable at the end of each interest period.

On March 15, 2016, AAIBV sold its 100% ownership interest in S3HC to AAIPC for a total consideration of P16,300. The proceeds from the sale of shares were used to pre-pay the US$340 loan.

Unamortized debt issue costs amounted to P151 as of December 31, 2015.

Long-term debt includes interest-bearing amounts payable to a related party amounting to P14,828 and P17,404 as of December 31, 2016 and 2015, respectively (Note 34).

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 as of December 31, 2016 and 2015.

The movements in debt issue costs are as follows:

	Note	**2016**	2015
Balance at beginning of year		**P4,400**	P3,807
Additions		**1,835**	1,341
Amortization	*31*	**(2,174)**	(1,157)
Reclassification, capitalized and others		**(136)**	409
Balance at end of year		**P3,925**	P4,400

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

Year	Gross Amount	Debt Issue Costs	Net
2017	P31,742	P364	P31,378
2018	87,188	1,410	85,778
2019	36,892	449	36,443
2020	37,633	510	37,123
2021 and thereafter	139,070	1,192	137,878
Total	**P332,525**	**P3,925**	**P328,600**

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 41.

23. Other Noncurrent Liabilities

Other noncurrent liabilities consist of:

	Note	2016	2015
Retirement liabilities	*36*	**P7,153**	P11,668
Amounts owed to related parties	*34*	**6,759**	6,222
Obligation to ROP - service concession agreement	*4, 18, 35*	**2,427**	2,456
ARO	*4*	**2,324**	1,839
IRO	*4*	**789**	683
Cylinder deposits		**499**	454
Cash bonds		**387**	382
Concession liabilities		**103**	105
Redeemable preferred shares	*4*	**16**	15
Subscription deposits		**-**	6,910
Others		**1,679**	1,827
	41, 42	**P22,136**	P32,561

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-F). 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.

Subscription Deposits. In 2015, Vega received P6,910 as a deposit for future stock subscription from a certain investor which was cancelled in 2016.

"Others" include amounts owed to a supplier for the purchase of equipment amounting to P1,327 and P1,487 as of December 31, 2016 and 2015, respectively.

24. Income Taxes

Deferred tax assets and liabilities arise from the following:

	2016	2015
Allowance for impairment losses on trade and other receivables and inventory	**P4,757**	P3,643
MCIT	**227**	747
NOLCO	**2,146**	487
Undistributed net earnings of foreign subsidiaries	**(898)**	(828)
Unrealized intercompany charges and others	**(3,194)**	(2,937)
	P3,038	P1,112

The above amounts are reported in the consolidated statements of financial position as follows:

	Note	**2016**	2015
Deferred tax assets	*4*	**P20,267**	P16,441
Deferred tax liabilities		**(17,229)**	(15,329)
		P3,038	P1,112

As of December 31, 2016, 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**
2014	December 31, 2017	P220	P70
2015	December 31, 2018	370	155
2016	December 31, 2019	6,563	2
		P7,153	**P227**

The components of income tax expense are shown below:

	2016	2015 As restated	2014 As restated
Current	**P19,529**	P14,829	P10,764
Deferred	**(2,476)**	1,952	(615)
	P17,053	P16,781	P10,149

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:

	2016	2015 As restated	2014 As restated
Statutory income tax rate	**30.00%**	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subject to final tax	**(1.93%)**	(2.82%)	(3.01%)
Equity in net losses (earnings) of associates and joint ventures	**(0.11%)**	0.08%	(1.58%)
Loss (gain) on sale of investments subject to final or capital gains tax	**(0.08%)**	0.05%	(0.59%)
Others, mainly income subject to different tax rates - net	**1.79%**	9.48%	0.81%
Effective income tax rate	**29.67%**	36.79%	25.63%

25. 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 of the Parent Company providing 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 SMC Series "1" preferred treasury shares to SMC Series "2" preferred treasury shares and 118,900,314 SMC Series "1" preferred unissued shares to SMC 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 36,426 and 36,718 common stockholders as of December 31, 2016 and 2015, respectively.

The movements in the number of issued and outstanding shares of common stock are as follows:

	Note	**2016**	2015	2014
Issued and outstanding shares at beginning of year		**3,283,277,515**	3,282,897,671	3,282,756,743
Issuances during the year	*40*	**1,683,272**	379,844	140,928
Issued shares at end of year		**3,284,960,787**	3,283,277,515	3,282,897,671
Less treasury shares		**904,752,537**	904,752,537	904,752,537
Issued and outstanding shares at end of year		**2,380,208,250**	2,378,524,978	2,378,145,134

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 of the said Series "1" preferred shares as of December 31, 2016 and 2015.

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 9, 2015.

The Series "2" preferred shares were issued in three subseries (Subseries "2-A", Subseries "2-B" and Subseries "2-C") and were peso-denominated, perpetual, cumulative, non-participating and non-voting.

The Parent Company has the redemption option starting on the 3rd, 5th and 7th 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" 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 shall have 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 1,334 preferred stockholders as of December 31, 2016.

The Parent Company has 792,654,600 outstanding Series "2" preferred shares and has a total of 702 preferred stockholders as of December 31, 2015.

c. Treasury Shares

Treasury shares consist of:

	2016	2015	2014
Common	**P67,093**	P67,093	P67,093
Preferred	**42,408**	72,408	72,788
	P109,501	P139,501	P139,881

Common Shares

The movements in the number of common shares held in treasury are as follows:

	Note	**2016**	2015	2014
Number of shares at beginning of year		**904,752,537**	904,752,537	905,761,960
Cancellation of ESPP	*40*	**-**	-	68,150
Conversion of exchangeable bonds		**-**	-	(1,077,573)
Number of shares at end of year		**904,752,537**	904,752,537	904,752,537

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 San Miguel Corporation (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.

   On April 29, 2014 and on various dates in 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, 2016 and 2015, 3,478,400 common shares under the ESPP were cancelled and held in treasury (Note 40).

d. Unappropriated Retained Earnings

The unappropriated retained earnings of the Parent Company is restricted in the amount of P67,093 in 2016, 2015 and 2014, 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 P24,230, P20,764 and P23,858 in 2016, 2015 and 2014, respectively, to finance future capital expenditure projects. Reversal of appropriations amounted to P16,251 and P23,925 in 2016 and 2015, respectively.

26. Sales

Sales consist of:

	2016	2015 As restated	2014 As restated
Goods	**P662,471**	P656,874	P770,284
Services	**22,131**	15,091	1,934
Others	**712**	278	25
	P685,314	P672,243	P772,243

27. Cost of Sales

Cost of sales consist of:

	Note	2016	2015 As restated	2014 As restated
Inventories		**P343,168**	P372,890	P515,198
Taxes and licenses		**46,576**	44,768	40,065
Depreciation, amortization and impairment	*29*	**22,899**	17,715	15,180
Energy fees	*35*	**20,478**	23,224	30,776
Communications, light and water		**13,769**	12,546	8,889
Contracted services		**12,636**	10,807	2,460
Freight, trucking and handling		**11,203**	11,667	11,593
Fuel and oil		**10,796**	8,827	11,834
Power purchase		**7,837**	8,331	6,046
Personnel	*30*	**7,567**	7,079	6,275
Tolling Fees		**7,525**	7,029	6,748
Repairs and maintenance		**4,823**	3,420	2,857
Rent	*4, 35*	**814**	862	588
Others		**3,930**	2,902	1,552
		P514,021	P532,067	P660,061

28. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	2016	2015 As restated	2014 As restated
Selling	**P30,899**	P29,870	P28,840
Administrative	**40,740**	29,757	27,068
	P71,639	P59,627	P55,908

Selling expenses consist of:

	Note	2016	2015	2014
Freight, trucking and handling		**P7,889**	P7,323	P7,194
Personnel	*30*	**7,724**	7,716	7,330
Advertising and promotions		**5,952**	5,370	5,035
Depreciation, amortization and impairment	*29*	**3,397**	3,305	3,076
Rent	*4, 35*	**1,655**	2,498	2,824
Repairs and maintenance		**1,232**	1,129	1,071
Supplies		**758**	639	453
Taxes and licenses		**678**	564	621
Professional fees		**448**	529	562
Communications, light and water		**374**	384	451
Others		**792**	413	223
		P30,899	P29,870	P28,840

Administrative expenses consist of:

	Note	2016	2015 As restated	2014 As restated
Personnel	*30, 40*	**P14,947**	P14,103	P13,581
Depreciation, amortization and impairment	*29*	**4,885**	4,338	4,442
Impairment loss	*10*	**4,704**	970	1,063
Taxes and licenses		**2,914**	2,630	1,907
Professional fees		**2,620**	2,016	2,218
Advertising and promotion		**2,073**	1,632	1,149
Repairs and maintenance		**1,107**	906	726
Supplies		**790**	510	641
Communications, light and water		**694**	640	773
Rent	*4, 35*	**426**	233	74
Freight, trucking and handling		**161**	264	265
Research and development		**103**	144	94
Others		**5,316**	1,371	135
		P40,740	P29,757	P27,068

"Others" consist of entertainment and amusement, gas and oil, and other administrative expenses.

29. Depreciation, Amortization and Impairment

Depreciation, amortization and impairment are distributed as follows:

	Note	2016	2015 As restated	2014 As restated
Cost of sales:				
Property, plant and equipment	*15*	**P16,429**	P12,926	P12,849
Deferred containers, biological assets and others	*17, 19*	**6,470**	4,789	2,331
	27	**22,899**	17,715	15,180
Selling and administrative expenses:				
Property, plant and equipment	*15*	**4,526**	4,647	4,680
Deferred containers and others	*19*	**3,756**	2,996	2,838
	28	**8,282**	7,643	7,518
		P31,181	P25,358	P22,698

Depreciation expense from discontinued operations amounted to P326, P522 and P378 in 2016, 2015 and 2014, respectively (Notes 7 and 8).

"Others" include amortization of concession rights, computer software, leasehold and land use rights, licenses and investment property.

30. Personnel Expenses

Personnel expenses consist of:

	Note	2016	2015 As restated	2014 As restated
Salaries and wages		**P15,539**	P14,214	P13,067
Retirement costs - net	*36*	**1,742**	1,556	1,186
Other employee benefits	*40*	**12,957**	13,128	12,933
		P30,238	P28,898	P27,186

Personnel expenses are distributed as follows:

	Note	2016	2015 As restated	2014 As restated
Cost of sales	*27*	**P7,567**	P7,079	P6,275
Selling expenses	*28*	**7,724**	7,716	7,330
Administrative expenses	*28*	**14,947**	14,103	13,581
		P30,238	P28,898	P27,186

31. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

	Note	2016	2015 As restated	2014 As restated
Interest expense		**P30,567**	P29,685	P26,566
Other financing charges	*12, 22*	**4,236**	2,833	3,142
		P34,803	P32,518	P29,708

Amortization of debt issue costs included in "Other financing charges" amounted to P2,174, P1,157 and P764 in 2016, 2015 and 2014, respectively (Note 22).

Interest expense on loans payable, long-term debt and finance lease liabilities is as follows:

	Note	2016	2015	2014
Loans payable	*20*	**P4,343**	P8,913	P5,028
Long-term debt	*22*	**16,548**	10,559	10,820
Finance lease liabilities	*35*	**9,676**	10,213	10,718
		P30,567	P29,685	P26,566

Interest expense from discontinued operations amounted to P6, P3 and P2 in 2016, 2015 and 2014, respectively (Note 7).

32. Interest Income

Interest income consists of:

	Note	2016	2015 As restated	2014 As restated
Interest from short-term investments, cash in banks and others	*9, 14*	**P3,209**	P3,725	P3,504
Interest on amounts owed by related parties	*34, 36*	**484**	561	473
		P3,693	P4,286	P3,977

Interest income from discontinued operations amounted to P14, P29 and P35 in 2016, 2015 and 2014, respectively (Note 7).

33. Other Income (Charges)

Other income (charges) consists of:

	Note	2016	2015 As restated	2014 As restated
Construction revenue	*12, 18, 35*	**P12,623**	P11,003	P8,735
PSALM monthly fees reduction		**1,509**	1,859	815
Dividend income		**1,075**	25	542
Gain on return of donated property (a)		**-**	495	-
Gain/(loss) on derivatives - net	*42*	**(616)**	3,971	7,513
Additional provision on impairment (b)	*15, 18, 19*	**(793)**	(1,600)	(242)
Loss on foreign exchange - net	*41*	**(11,961)**	(12,140)	(2,415)
Construction costs	*12, 18, 35*	**(12,623)**	(11,003)	(8,735)
Others (c)	*22*	**(640)**	884	(28)
		(P11,426)	(P6,506)	P6,185

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 16).

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, 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.

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 18 years, which is the remaining estimated useful life of the assets. Cash flows beyond the 10-year period are kept constant.

Sales volume growth rate and pre-tax discount rate used for value in use calculation were 4% - 20% and 8.86%, respectively.

Management determined the growth rate and gross contribution rate based on past experiences, future expected market trends and an intermediate holding company's import plan of beer brewed by the Group.

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.

34. Related Party Disclosures

The Parent Company, certain subsidiaries and their shareholders and associates and joint ventures in the normal course of business, purchase products and services from one another. 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	*10, 19, 37*	**2016**	**P1**	**P -**	**P6,598**	**P551**	On demand or less than 2 to 5 years; interest and non-interest bearing	Unsecured; no impairment
		2015	1	1	5,816	551		
Retirement Plans	*10, 19, 36*	**2016**	**450**	**-**	**11,813**	**-**	On demand; interest bearing	Unsecured; no impairment
		2015	485	-	13,194	-		
Associates	*10, 19, 21*	**2016**	**2,085**	**199**	**524**	**56**	On demand; interest and non-interest bearing	Unsecured; no impairment
		2015	1,940	119	452	28		
	20, 22	**2016**	**-**	**-**	**-**	**26,203**	Less than 1 to 10 years; interest bearing	Unsecured and secured
		2015	-	-	-	26,647		
Joint Ventures	*10,19, 21*	**2016**	**72**	**370**	**640**	**8**	On demand; non-interest bearing	Unsecured; no impairment
		2015	3	416	665	162		
Shareholders in Subsidiaries	*10, 21*	**2016**	**299**	**711**	**194**	**2,595**	On demand; non-interest bearing	Unsecured; no impairment
		2015	222	381	108	2,763		
Others	*10, 12, 21, 23*	**2016**	**267**	**-**	**178**	**6,795**	On demand; non-interest bearing	Unsecured; no impairment
		2015	142	-	80	6,232		
Total		**2016**	**P3,174**	**P1,280**	**P19,947**	**P36,208**		
Total		2015	P2,793	P917	P20,315	P36,383		

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 37).

c. The amounts owed to associates include interest bearing loans 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	**2016**	2015	2014
Short-term employee benefits		**P630**	P552	P544
Retirement cost (benefits)	*36*	**22**	1	(1)
		P652	P553	P543

35. Significant Agreements and Lease Commitments

Significant Agreements:

- **Energy**

a. *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 Contracted 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 so 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 contracted 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 to 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 P20,478, P23,224 and P30,776 in 2016, 2015 and 2014, respectively (Note 27). SMEC and SPDC renewed their performance bonds in US dollar amounting to US$58 and US$20, which will expire on November 3, 2017 and January 25, 2017, respectively. Subsequently, the performance bond of SPDC was renewed up to January 25, 2018.

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 45).

b. Market Participation Agreements (MPA)

SMEC, SPDC, SPPC and SCPC have entered into a MPA with the Philippine Electricity Market Corporation (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 and SPPC amounted to P161, P220 and P234 in 2016, 2015 and 2014, respectively (Note 28).

In March 2013, SMELC entered into an 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, 2017, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

c. Power Supply Agreements

SMEC, SPPC, SPDC, SPI and SMCPC have Power Supply Agreements with various counterparties, including related parties, to sell electricity produced by the power plants. All agreements provide for renewals or extensions subject to mutually agreed terms and conditions of the parties.

Certain customers, particularly electric cooperatives and industrial customers, are billed based on the time-of-use (TOU) per kilowatt hour (kWh) while others are billed at capacity-based rate. As stipulated in the contracts, each TOU-based customer has to pay the minimum charge based on the contracted power using the basic energy charge and/or adjustments if customer has not fully taken or failed to consume the contracted power. 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 and SPDC 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.

d. Coal Supply Agreements

SMEC has supply agreements with various coal suppliers for the Sual Power Plant's coal requirements.

e. Retail Supply Agreements

SMELC has retail supply agreements with customers to supply or sell electricity purchased from WESM, SMEC or other operators. All agreements provide for renewals or extensions subject to terms and conditions mutually agreed by the parties.

The customers are billed based on the capacity charge and associated energy charge. As stipulated in the contracts, each customer has to pay the capacity charge based on the contracted capacity using the capacity fee and associated energy fee with adjustments if customer has not fully taken or failed to consume the contracted capacity.

f. 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".

g. 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. ALECO formally turned over the operations to APEC on February 26, 2014.

h. 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.

i. 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, 2016.

SEPC has a coal mining 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, 2016, 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, 2016.

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, 2008	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 January 26, 2015, DOE granted the request by DAMI, SEPC and BERI for further extension of the moratorium of their work commitments 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 is retrospectively effective from January 1, 2013 and is valid 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 December 5, 2016, DAMI, SEPC and BERI requested for moratorium extension of work commitments. DOE in return required the three mining companies to submit supplemental information which the latter complied on December 27, 2016.

- **Fuel and Oil**

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 American 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 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, 2016 and 2015 (Note 21).

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 EXTAP, 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.

- **Infrastructure**

a. 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. 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 (Godofredo P. Ramos) Airport (marketed 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, 2016, 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 (Notes 22 and 34).

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 2016, 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 12).

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. Various pre-construction work is being done for the new terminal, such as project design, clearing and acquisition of the right of way.

b. 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.

c. 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 Project

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 Project, 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.

- 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 CMMTC, SOMCO for the operations and maintenance of the SMMS, and PNCC.

  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.

- Skyway Stage 3 Project

  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 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 the CCEC and/or the CMMSC.

As of December 31, 2016, 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.

(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. Segments 7B (Binalonan to Pozorrubio) and Segment 8 (Pozorrubio to Rosario) are expected to be completed in April 2017 and July 2018, respectively.

(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

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.

d. 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.

e. 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:

   - P5.0 million 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;
   - 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 P177,760 and P170,089 as of December 31, 2016 and P182,946 and P179,193 as of December 31, 2015, 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 15).

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 P9,668, P10,213 and P10,711, in 2016, 2015 and 2014, respectively (Note 31).

The future minimum lease payments for each of the following periods are as follows:

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 value of finance lease liabilities	**US$1,880**	**P93,492**	**P76,597**	**P170,089**

2015

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US$250	P11,774	P11,981	P23,755
More than one year and not later than five years	1,072	50,446	51,334	101,780
Later than five years	1,119	52,643	53,617	106,260
	2,441	114,863	116,932	231,795
Less: Future finance charges on finance lease liabilities	383	18,032	34,570	52,602
Present value of finance lease liabilities	US$2,058	P96,831	P82,362	P179,193

The present values of minimum lease payments for each of the following periods are as follows:

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**

2015

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US$197	P9,275	P7,272	P16,547
More than one year and not later than five years	768	36,132	25,606	61,738
Later than five years	1,093	51,424	49,484	100,908
	US$2,058	P96,831	P82,362	P179,193

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 P170 and P96 as of December 31, 2016 and 2015, respectively (Notes 4 and 15).

The Group's share in the minimum lease payments for these finance lease liabilities are as follows:

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**

2015

	Minimum Lease Payable	Interest	Principal
Within one year	P25	P5	P20
After one year but not more than five years	76	9	67
	P101	P14	P87

- Operating Leases

Group as Lessor
The Group has entered into lease agreements on its investment property portfolio, consisting of surplus office spaces (Note 16) and certain service stations and other related structures and machinery and equipment (Note 15). The non-cancellable leases have remaining terms of 3 to 10 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:

	2016	2015
Within one year	**P344**	P382
After one year but not more than five years	**330**	397
After five years	**51**	14
	P725	P793

Rent income recognized in the consolidated statements of income amounted to P1,378, P1,173 and P1,637 in 2016, 2015 and 2014, 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:

	2016	2015
Within one year	**P2,563**	P2,531
After one year but not more than five years	**5,580**	5,228
More than five years	**13,144**	11,516
	P21,287	P19,275

Rent expense recognized in the consolidated statements of income amounted to P2,895, P3,593 and P3,486 in 2016, 2015 and 2014, respectively (Notes 4, 27 and 28).

36. 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, 2016. 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**	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Balance at beginning of year	**P21,410**	P25,444	**(P28,056)**	(P26,925)	**(P1,938)**	(P2,786)	**(P8,584)**	(P4,267)
Benefit asset of (obligation) newly-acquired and disposed subsidiaries	**(296)**	20	**184**	(312)	**26**	-	**(86)**	(292)
Recognized in profit or loss								
Service costs	**-**	-	**(1,311)**	(1,333)	**-**	-	**(1,311)**	(1,333)
Interest expense	**-**	-	**(1,338)**	(1,198)	**-**	-	**(1,338)**	(1,198)
Interest income	**989**	1,102	**-**	-	**-**	-	**989**	1,102
Interest on the effect of asset ceiling	**-**	-	**-**	-	**(82)**	(114)	**(82)**	(114)
Settlements	**-**	-	**-**	(21)	**-**	-	**-**	(21)
	989	1,102	**(2,649)**	(2,552)	**(82)**	(114)	**(1,742)**	(1,564)
Recognized in other comprehensive income								
Remeasurements								
Actuarial (gains) losses arising from:								
Experience adjustments	**-**	-	**(1,101)**	(922)	**-**	-	**(1,101)**	(922)
Changes in financial assumptions	**-**	-	**380**	435	**-**	-	**380**	435
Changes in demographic assumptions	**-**	-	**333**	395	**-**	-	**333**	395
Return on plan asset excluding interest income	**4,993**	(5,399)	**-**	-	**-**	-	**4,993**	(5,399)
Changes in the effect of asset ceiling	**-**	-	**-**	-	**(963)**	962	**(963)**	962
	4,993	(5,399)	**(388)**	(92)	**(963)**	962	**3,642**	(4,529)
Others								
Contributions	**2,943**	1,830	**-**	-	**-**	-	**2,943**	1,830
Benefits paid	**(2,288)**	(1,601)	**2,414**	1,657	**-**	-	**126**	56
Transfers from other plans	**-**	-	**(16)**	-	**-**	-	**(16)**	-
Transfers to other plans	**-**	-	**16**	-	**-**	-	**16**	-
Other adjustments	**48**	14	**(100)**	168	**-**	-	**(52)**	182
	703	243	**2,314**	1,825	**-**	-	**3,017**	2,068
Balance at end of year	**P27,799**	P21,410	**(P28,595)**	(P28,056)	**(P2,957)**	(P1,938)	**(P3,753)**	(P8,584)

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 P7, (P26) and (P31) in 2016, 2015 and 2014, respectively (Note 30).

Retirement costs recognized in the consolidated statements of income by the subsidiaries amounted to P1,735, P1,590 and P1,222 in 2016, 2015 and 2014, respectively, of which P8 and P5 are included as part of "Income (loss) after income tax from discontinued operations" account in the consolidated statements of income in 2015 and 2014, respectively (Notes 7 and 30).

As of December 31, 2016, net retirement assets and liabilities, included as part of "Other noncurrent assets" account, amounted to P3,487 (Note 19) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P87 and P7,153, respectively (Notes 21 and 23).

As of December 31, 2015, net retirement assets and liabilities, included as part of "Other noncurrent assets" account, amounted to P3,175 (Note 19) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P91 and P11,668, respectively (Notes 21 and 23).

The carrying amounts of the Group's retirement fund approximate fair values as of December 31, 2016 and 2015.

The Group's plan assets consist of the following:

	In Percentages	
	2016	2015
Investments in marketable securities and shares of stock	**77.35**	72.74
Investments in pooled funds:		
Fixed income portfolio	**8.48**	8.68
Stock trading portfolio	**5.86**	6.11
Investments in real estate	**0.85**	0.54
Others	**7.46**	11.93

Investments in Marketable Securities

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.

As of December 31, 2015, the plan assets include:

- 25,146,517 common shares and 32,511,970 Subseries "2-B", 2,666,700 Subseries "2-D", 4,000,000 Subseries "2-E" and 8,000,000 Subseries "2-F" preferred shares of the Parent Company with fair market value per share of P49.90, P77.40, P85.00, P76.00 and P79.90, respectively;
- 731,516,097 common shares and 290,470 preferred shares of Petron with fair market value per share of P6.99 and P1,070.00, respectively;
- 20,459,785 common shares of GSMI with fair market value per share of P12.28;
- 226,998 common shares and 300,000 preferred shares of SMPFC with fair market value per share of P129.00 and P1,029.00, respectively;
- 33,635,700 common shares of SMB with fair market value per share of P20.00; and
- 2,170,861 common shares of Top Frontier with fair market value per share of P67.60.

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 P4,716, P3,183 and P3,993 in 2016, 2015 and 2014, respectively.

Dividend income from the investment in shares of stock of the Parent Company and its subsidiaries amounted to P457, P350 and P365 in 2016, 2015 and 2014, 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 P10,168 and P9,938 as of December 31, 2016 and 2015, respectively. SMCRP recognized its share in total comprehensive income (loss) of BOC amounting to P230 and (P226) in 2016 and 2015, respectively.

b. PAHL

PCERP has an investment in PAHL with a carrying amount of P1,472 equivalent to 53% equity interest as of December 31, 2015.

PCERP recognized its share in net losses amounting to P81 in 2015.

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 P471 as of December 31, 2016 and 2015.

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 41% and 16% 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, 2016 and 2015, respectively.

Approximately 66% and 64% 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, 2016 and 2015, 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 P369 and P385 as of December 31, 2016 and 2015, 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 P1,718 to the Retirement Plans in 2017.

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	
	2016	2015
Discount rate	**4.81 - 8.25**	4.11 - 9.00
Salary increase rate	**5.00 - 8.00**	4.00 - 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 1.5 to 23.9 years and 1.5 to 31.36 years as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, 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			
	2016		2015	
	1 Percent Increase	**1 Percent Decrease**	1 Percent Increase	1 Percent Decrease
Discount rate	**(P1,068)**	**P1,267**	(P1,085)	P1,263
Salary increase rate	**1,146**	**(988)**	1,141	(1,002)

The outstanding balances of the Group's receivables from the retirement plans are as follows:

a. Petron has advances to PCERP amounting to P5,042 and P6,597 as of December 31, 2016 and 2015, respectively, included as part of "Amounts owed by related parties" under "Trade and other receivables" and "Other noncurrent assets" accounts in the consolidated statements of financial position (Notes 10 and 19). The advances are subject to interest of 5% in 2016 and 2015 (Note 32).

b. The Parent Company has advances to SMCRP amounting to P6,771 and P6,597 as of December 31, 2016 and 2015, respectively, included as part of "Amounts owed by related parties" under "Trade and other receivables" account in the consolidated statements of financial position (Note 10). The advances are subject to interest of 5.75% in 2016 and 2015 (Note 32).

Transactions with the Retirement Plans are made at normal market prices and terms. Outstanding balances as of December 31, 2016 and 2015 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 for the years ended December 31, 2016, 2015 and 2014.

37. 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:

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**

2015

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
Common				
	April 22, 2015	May 8, 2015	May 20, 2015	P0.35
	July 14, 2015	July 31, 2015	August 14, 2015	0.35
	September 17, 2015	October 9, 2015	November 4, 2015	0.35
	December 10, 2015	January 8, 2016	February 2, 2016	0.35
Preferred				
SMCP1	June 9, 2015	June 26, 2015	July 8, 2015	1.0546
	August 20, 2015	September 11, 2015	September 21, 2015	1.0565625
	November 10, 2015	December 17, 2015	December 29, 2015	1.0565625
SMC2A	May 14, 2015	May 29, 2015	June 11, 2015	1.40625
	August 20, 2015	September 11, 2015	September 21, 2015	1.40625
SMC2B	May 14, 2015	May 29, 2015	June 11, 2015	1.4296875
	August 20, 2015	September 11, 2015	September 21, 2015	1.4296875
	November 10, 2015	December 17, 2015	December 29, 2015	1.4296875
SMC2C	May 14, 2015	May 29, 2015	June 11, 2015	1.50
	August 20, 2015	September 11, 2015	September 21, 2015	1.50
	November 10, 2015	December 17, 2015	December 29, 2015	1.50
SMC2D	November 10, 2015	December 17, 2015	December 29, 2015	1.11433125
SMC2E	November 10, 2015	December 17, 2015	December 29, 2015	1.18603125
SMC2F	November 10, 2015	December 17, 2015	December 29, 2015	1.27635

On January 12, 2017, the BOD of the Parent Company declared cash dividends to all preferred stockholders of record as of March 21, 2017 on the following shares to be paid on April 5, 2017, 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 16, 2017, the BOD of the Parent Company declared cash dividends at P0.35 per share to all common stockholders of record as of April 7, 2017 to be paid on May 4, 2017.

38. Basic and Diluted Earnings Per Share

Basic and diluted EPS is computed as follows:

	Note	**2016**	2015	2014
Net income from continuing operations attributable to shareholders of the Parent Company		**P17,533**	P12,365	P16,069
Dividends on preferred shares	*25, 37*	**(6,839)**	(6,425)	(6,106)
Net income from continuing operations attributable to common shareholders of the Parent Company (a)		**10,694**	5,940	9,963
Net income (loss) from discontinued operations attributable to common shareholders of the Parent Company (b)		**11,756**	83	(932)
Net income attributable to common shareholders of the Parent Company		**P22,450**	P6,023	P9,031
Weighted average number of common shares outstanding (in millions) - basic (c)		**2,380**	2,378	2,378
Effect of dilution of common shares (in millions)	*40*	**4**	7	13
Weighted average number of common shares outstanding (in millions) - diluted (d)		**2,384**	2,385	2,391
Earnings per common share attributable to equity holders of the Parent Company				
Basic EPS from continuing operations (a/c)		**P4.49**	P2.50	P4.19
Basic EPS from discontinued operations (b/c)		**4.94**	0.03	(0.39)
		P9.43	P2.53	P3.80
Diluted EPS from continuing operations (a/d)		**P4.49**	P2.49	P4.17
Diluted EPS from discontinued operations (b/d)		**4.93**	0.04	(0.39)
		P9.42	P2.53	P3.78

39. 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):

	2016	2015	2014
Trade and other receivables - net	**(P3,214)**	P24,144	P3,454
Inventories	**(19,039)**	21,854	(3,918)
Prepaid expenses and other current assets	**(5,498)**	(13,381)	(13,930)
Accounts payable and accrued expenses	**16,004**	(31,670)	451
Income and other taxes payable and others	**(2,914)**	(7,094)	(909)
Changes in noncash current assets, certain current liabilities and others	**(P14,661)**	(P6,147)	(P14,852)

b. Acquisition of subsidiaries (Note 5)

	Note	2016	2015	2014
Cash and cash equivalents		**P37**	P23,183	P1,022
Trade and other receivables - net		**59**	7,496	86
Inventories		**6**	508	-
Prepaid expenses and other current assets		**10**	4,020	213
Property, plant and equipment - net		**2,070**	4,969	1,184
Other intangible assets - net		**-**	83,886	165
Deferred tax assets		**-**	160	9
Other noncurrent assets - net		**-**	813	2
Loans payable		**-**	(2,345)	-
Accounts payable and accrued expenses		**(89)**	(21,093)	(1,309)
Income and other taxes payable		**(12)**	(726)	(2)
Dividends payable		**-**	(373)	-
Long-term debt - net of debt issue costs		**-**	(49,886)	-
Deferred tax liabilities		**-**	(5,165)	-
Finance lease liabilities		**-**	(75)	-
Other noncurrent liabilities		**(36)**	(12,872)	-
Non-controlling interests		**-**	(10,715)	(32)
Net assets		**2,045**	21,785	1,338
Cash and cash equivalents		**(37)**	(23,183)	(1,022)
Goodwill in subsidiaries	*4, 5, 18*	**4**	18,918	7
Investment and advances		**-**	(24,302)	(21)
Mineral rights and evaluation assets	*4, 5, 18*	**14**	-	-
Gain on acquisition of a subsidiary		**(121)**	-	-
Net cash flows		**P1,905**	(P6,782)	P302

40. 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, 2016 and 2015, 3,478,400 common shares under the ESPP, were cancelled and held in treasury (Note 25).

There were no shares offered under the ESPP in 2016 and 2015.

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 10-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 2016 and 2015.

Options to purchase 4,028,305 shares and 6,801,369 shares in 2016 and 2015, respectively, were outstanding at the end of each year. Options which were exercised and cancelled totaled 2,773,064 shares and 6,477,209 shares in 2016 and 2015, 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:

	Note	2016 Number of Share Stock Options	2016 Weighted Average Price	2015 Number of Share Stock Options	2015 Weighted Average Price
Class "A"					
Number of shares at beginning of year		**5,729,418**	**P73.79**	9,410,620	P70.25
Exercised during the year	*25*	**(1,226,991)**	**42.71**	(85,272)	60.01
Expired during the year		**(790,217)**	**49.13**	(3,595,930)	64.85
Number of shares at end of year		**3,712,210**	**89.33**	5,729,418	73.79
Class "B"					
Number of shares at beginning of year		**1,071,951**	**46.15**	3,867,958	67.30
Exercised during the year	*25*	**(456,281)**	**41.44**	(294,572)	74.88
Expired during the year		**(299,575)**	**40.75**	(2,501,435)	75.48
Number of shares at end of year		**316,095**	**63.35**	1,071,951	46.15

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, 2016 and 2015, 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 range of prices for options outstanding was P58.05 to P40.50 as of December 31, 2016 and 2015.

Share-based payment charged to operations, included under "Administrative expenses - personnel expenses" account, amounted to P29 and P1 in 2016 and 2015, respectively (Note 28).

41. 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 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 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 financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with legal and regulatory requirements, including the disclosure control and procedures; 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 Committee shall also prepare the reports required to be included in the annual report of the Group.

The Audit 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. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit 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. Investments 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 P1,342, P1,933 and P1,655 in 2016, 2015 and 2014, 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, 2016	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P28,388**	**P8,654**	**P22,539**	**P13,235**	**P44,511**	**P55,361**	**P172,688**
Interest rate	**5.65% - 8.74899%**	**5.4583% - 8.74899%**	**5.5% - 10.50%**	**4.9925% - 8.74899%**	**4.0032% - 8.74899%**	**4.5219% - 7.6567%**	
Foreign currency-denominated (expressed in Philippine peso)	-	-	-	-	-	**25,674**	**25,674**
Interest rate	-	-	-	-	-	**4.875%**	
Floating Rate							
Philippine peso-denominated	**1,216**	**1,304**	**1,059**	**545**	**534**	**1,379**	**6,037**
Interest rate	**PDST-R2 + margin or BSP overnight rate, whichever is higher**	**PDST-R2 + margin or BSP overnight rate, whichever is higher**	**PDST-R2 + margin or BSP overnight rate, whichever is higher**	**PDST-R2 + margin or 5.75%, whichever is higher**	**PDST-R2 + margin or 5.75%, whichever is higher**	**PDST-R2 + margin**	
Foreign currency-denominated (expressed in Philippine peso)	**2,138**	**77,230**	**13,294**	**23,853**	**1,893**	**9,718**	**128,126**
Interest rate	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	
	P31,742	**P87,188**	**P36,892**	**P37,633**	**P46,938**	**P92,132**	**P332,525**

December 31, 2015	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P6,060	P29,399	P9,643	P23,426	P13,730	P58,854	P141,112
Interest rate	5.65% - 8.74899%	5.65% - 8.74899%	5.4583% - 8.74899%	5.4583% - 10.50%	4.9925% - 8.74899%	5.4583% - 8.74899%	
Foreign currency-denominated (expressed in Philippine peso)	14,021	-	-	-	-	24,301	38,322
Interest rate	7% - 13.27%	-	-	-	-	4.875%	
Floating Rate							
Philippine peso-denominated	1,096	1,215	1,303	1,059	545	1,915	7,133
Interest rate	PDST-R2 + margin or BSP overnight rate, whichever is higher	PDST-R2 + margin or BSP overnight rate, whichever is higher	PDST-R2 + margin or BSP overnight rate, whichever is higher	PDST-R2 + margin or BSP overnight rate, whichever is higher	PDST-R2 + margin or 5.75%, whichever is higher	PDST-R2 + margin or 5.75%, whichever is higher	
Foreign currency-denominated (expressed in Philippine peso)	16,672	11,181	126,410	11,046	20,901	-	186,210
Interest rate	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin		
	P37,849	P41,795	P137,356	P35,531	P35,176	P85,070	P372,777

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, 2016		December 31, 2015	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$2,011**	**P99,956**	US$1,766	P83,084
Trade and other receivables	**482**	**24,060**	866	40,098
Prepaid expenses and other current assets	**5**	**241**	56	2,578
Noncurrent receivables	**50**	**2,496**	43	2,007
	2,548	**126,753**	2,731	127,767
Liabilities				
Loans payable	**491**	**24,410**	356	16,774
Accounts payable and accrued expenses	**1,166**	**58,007**	851	40,064
Long-term debt (including current maturities)	**3,093**	**153,800**	4,770	224,532
Finance lease liabilities (including current portion)	**1,880**	**93,499**	2,058	96,843
Other noncurrent liabilities	**155**	**7,667**	1	33
	6,785	**337,383**	8,036	378,246
Net foreign currency- denominated monetary liabilities	**(US$4,237)**	**(P210,630)**	(US$5,305)	(P250,479)

The Group reported net losses on foreign exchange amounting to P11,961, P12,140 and P2,415 in 2016, 2015 and 2014, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 33). 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, 2016	**49.72**
December 31, 2015	47.06
December 31, 2014	44.72

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**	
December 31, 2016	**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)**

December 31, 2015	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	(P1,457)	(P1,329)	P1,457	P1,329
Trade and other receivables	(689)	(662)	689	662
Prepaid expenses and other current assets	(47)	(42)	47	42
Noncurrent receivables	(34)	(36)	34	36
	(2,227)	(2,069)	2,227	2,069
Loans payable	240	284	(240)	(284)
Accounts payable and accrued expenses	529	692	(529)	(692)
Long-term debt (including current maturities)	4,360	3,462	(4,360)	(3,462)
Finance lease liabilities (including current portion)	2,058	1,441	(2,058)	(1,441)
Other noncurrent liabilities	1	1	(1)	(1)
	7,188	5,880	(7,188)	(5,880)
	P4,961	P3,811	(P4,961)	(P3,811)

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 and affiliates 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 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, 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**

December 31, 2015	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	P180,758	P180,758	P180,758	P -	P -	P -
Trade and other receivables - net	100,727	100,727	100,727	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	391	391	391	-	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	147	147	147	-	-	-
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	41,616	41,647	85	41,172	213	177
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	9,389	9,473	-	2,587	1,089	5,797
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	5,661	5,661	4,230	1,431	-	-
Financial Liabilities						
Loans payable	146,859	147,633	147,633	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO and deferred income)	99,350	99,350	99,350	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	2,581	2,581	2,581	-	-	-
Long-term debt (including current maturities)	368,377	439,427	54,480	56,767	232,745	95,435
Finance lease liabilities (including current portion)	179,280	231,882	23,776	24,040	77,806	106,260
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	18,371	18,376	-	17,831	4	541

Credit Risk

Credit risk is the risk of financial loss to the Group if 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.

	Note	**2016**	2015
Cash and cash equivalents (excluding cash on hand)	*9*	**P201,249**	P178,581
Trade and other receivables - net	*10*	**114,525**	100,727
Derivative assets	*12*	**84**	391
Financial assets at FVPL	*12*	**157**	147
AFS financial assets	*12, 14*	**42,139**	41,616
Noncurrent receivables and deposits - net	*19*	**10,068**	9,389
Restricted cash	*12, 19*	**3,857**	5,661
		P372,079	P336,512

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, cumulative translation adjustments, reserve for retirement plan and equity reserves are excluded from capital for purposes of capital management.

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 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 Group, except for BOC which is subject to certain capitalization requirements by the BSP, is not subject to externally imposed capital requirements.

42. 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, 2016		December 31, 2015	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P203,153**	**P203,153**	P180,758	P180,758
Trade and other receivables - net	**114,525**	**114,525**	100,727	100,727
Derivative assets (included under "Prepaid expenses and other current assets" account)	**84**	**84**	391	391
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**157**	**157**	147	147
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	**42,139**	**42,139**	41,616	41,616
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**10,068**	**10,068**	9,389	9,389
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**3,857**	**3,857**	5,661	5,661
Financial Liabilities				
Loans payable	**189,277**	**189,277**	146,859	146,859
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO and deferred income)	**118,006**	**118,006**	99,350	99,350
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**2,475**	**2,475**	2,581	2,581
Long-term debt (including current maturities)	**328,600**	**346,523**	368,377	392,690
Finance lease liabilities (including current portion)	**170,240**	**170,240**	179,280	179,280
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO and ARO)	**11,870**	**11,870**	18,371	18,371

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, 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 1.8% to 4.9% and 2.4% to 4.6% as of December 31, 2016 and 2015, respectively. The discount rates used for foreign currency-denominated loans range from 1.1% to 2.2% and 0.4% to 9.1% as of December 31, 2016 and 2015, 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, 2016 and 2015, 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 P1,288 and P632 as of December 31, 2016 and 2015, respectively.

Currency Forwards
The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$875 and US$1,013 as of December 31, 2016 and 2015, respectively, and with various maturities in 2017 and 2016. The net negative fair value of these currency forwards amounted to P38 and P202 as of December 31, 2016 and 2015, respectively.

Currency Options
As of December 31, 2016 and 2015, the Group has outstanding currency options with an aggregate notional amount of US$360 and US$565, respectively, and with various maturities in 2017 and 2016. The net negative fair value of these currency options amounted to P150 and P1,232 as of December 31, 2016 and 2015, respectively.

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 outstanding equivalent notional quantity covered by the commodity swaps is 1,150 metric tons as of December 31, 2015. The net negative fair value of these swaps amounted to P2 as of December 31, 2015.

The Group has no outstanding commodity swaps on the purchase of aluminum as of December 31, 2016.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2017 and 2016. 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 equivalent notional quantity covered by the commodity swaps is 26.3 million barrels and 10.9 million barrels as of December 31, 2016 and 2015, respectively. The negative fair value of these swaps amounted to P676 and P39 as of December 31, 2016 and 2015, respectively.

Commodity Options
As of December 31, 2016 and 2015, 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, 2016 and 2015.

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$140 and US$173 as of December 31, 2016 and 2015, 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 negative fair value of these embedded currency forwards amounted to P239 and P83 as of December 31, 2016 and 2015, respectively.

Embedded Currency Options
As of December 31, 2016 and 2015, 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 (P616), P3,971 and P7,513 in 2016, 2015 and 2014, respectively (Note 33).

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments are as follows:

	2016	2015
Balance at beginning of year	**(P2,190)**	P35
Net change in fair value of non-accounting hedges	**(616)**	3,971
	(2,806)	4,006
Less fair value of settled instruments	**(415)**	6,196
Balance at end of year	**(P2,391)**	(P2,190)

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, 2016			December 31, 2015		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P -**	**P84**	**P84**	P -	P391	P391
Financial assets at FVPL	**-**	**157**	**157**	-	147	147
AFS financial assets	**910**	**41,229**	**42,139**	407	41,209	41,616
Financial Liabilities						
Derivative liabilities	**-**	**2,475**	**2,475**	-	2,581	2,581

The Group has no financial instruments valued based on Level 3 as of December 31, 2016 and 2015. In 2016 and 2015, 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.

43. 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, the rules and regulations of the BOI and the terms and conditions prescribed. As of 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. The ITH incentives shall be limited only to the revenues generated from the sale of the electricity from the power plants.

- On September 20, 2016, LPPC was registered with the BOI under the Omnibus Investment Code of 1987 as expanding operator of 2x150 MW Circulating Fluidized Bed Coal Fired 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 2x150 MW coal-fired 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 be limited only to the revenues generated from the sale of the electricity from the power plant.

- On August 26, 2015, February 11, 2016 and October 26, 2016, the BOI issued a Certificate of Authority to SMCPC, SCPC and LPPC, respectively, subject to provisions and implementing rules and regulations of Executive Order No. 70, entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises". Authority shall be valid for one year from the date of issuance.

- SMEC, SPDC and SPPC are registered with the BOI as administrator/operator of their respective power plant 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 the Omnibus Investments Code of 1987 (Executive Order 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 R.A. No. 9136, otherwise known as the 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 operations of consolidated subsidiaries of SMPFC are registered with the BOI as pioneer and non-pioneer activities. As registered enterprises, these consolidated subsidiaries are subject to some requirements and are entitled to certain tax and non-tax incentives.

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 the Omnibus Investments Code of 1987 (Executive Order No. 226), GBGTC is entitled to incentives which include, among others, ITH for a period of four years from July 2013 until July 2017.

SMFI
SMFI's (formerly Monterey Foods Corporation) Sumilao Hog Project (Sumilao Project) was registered with the BOI on a pioneer status as New Producer of Hogs on July 30, 2008 under Registration No. 2008-192. In accordance with the provisions of the Omnibus Investments Code of 1987 (Executive Order No. 226), the Sumilao Project was entitled to incentives which include, among others, ITH for a period of six years, extendable under certain conditions to eight years.

SMFI's six-year ITH for the Sumilao 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's management decided to no longer apply for the second-year extension of ITH.

c. Petron

Benzene, Toluene and Propylene Recovery Units
On October 20, 2005, Petron registered with the BOI under the Omnibus Investments Code of 1987 (Executive Order 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: (1) 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; and (2) for six years from December 2007 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration for Propylene.

The BOI extended Petron's ITH incentive for its Propylene sales from December 2013 to November 2014 and 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 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:

a. 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.

b. Minimum duty of 3% and VAT on imported capital equipment and accompanying spare parts.

c. 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.

d. 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 3% duty imposed on the imported counterpart.

e. Exemption from real property tax on production equipment or machinery.

f. Exemption from contractor's tax.

The RMP-2 Project commenced its commercial operations on January 1, 2016 and Petron availed of the ITH during the year.

Yearly certificates of entitlement have been timely obtained by Petron to support its ITH credits.

d. SMCSLC

SMCSLC is registered with the BOI for the operation of domestic cargo vessels and motor tankers with the following incentives:

a. *Operation of Two Brand New Double-Hulled Oil Tanker Vessels (SL Tanglad and SL Banaba).* The project was registered on December 23, 2009, where SMCSLC is entitled to ITH for six years from August 2010 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.

b. *Operation of Brand New Non-Propelled Barge (M/V Kalusugan 2)*. The project was registered on July 22, 2010, where SMCSLC is entitled to ITH for six years from August 2010 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.

c. *Operation of Brand New Non-Propelled Barge (M/V Katarungan 2).* The project was registered on November 11, 2010, where SMCSLC is entitled to ITH for six years from November 2010 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.

d. *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.

e. *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.

f. *Operation of Double-Hulled Marine Tanker Vessel (MMM Ashton).* The project was registered on January 6, 2012, where SMCSLC is entitled to ITH for four years from January 2012 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.

g. *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.

h. *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.

i. *Importation of Consigned Equipment.* For the operation of cargo vessels, SMCSLC is entitled for importation of consigned equipment for a period of 10 years from November 11, 2008, subject to the posting of re-export bond.

j. *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 (0%) duty from the date of registration of the project as indicated above pursuant to Executive Order 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 Downstream Oil Industry Deregulation Act (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:

a. *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.

b. *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.

c. *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.

d. *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 3% duty imposed on the imported counterpart.

e. *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.

f. *Exemption from Taxes and Duties on Imported Spare Parts for Consigned Equipment with Bonded Manufacturing Warehouse.* SLHBTC is entitled to this exception 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.

g. *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.

h. *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.

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.

44. Event After the Reporting Date

On February 9, 2017, the SEC approved the shelf registration of up to P60,000 worth of Fixed Rate Bonds of the Parent Company, and issued the corresponding Permit to Sell for the first tranche consisting of P15,000 Fixed Rate Bonds with an Oversubscription Option of P5,000 Fixed Rate Bonds (collectively, the Bonds).

The Bonds were issued on March 1, 2017 and comprised of five-year Series A Bonds due 2022, seven-year Series B Bonds due 2024, and 10-year Series C Bonds due 2027.

The Series A Bonds, Series B Bonds and Series C Bonds have fixed interest rate equivalent to 4.8243% per annum, 5.2840% per annum and 5.7613% per annum, respectively.

The Parent Company listed the Bonds in the PDEx on the issue date, March 1, 2017.

On March 13, 2017, the Parent Company filed with the SEC the Registration Statement and Offer Supplement for the offer of up to P10,000 Fixed Rate Bonds with an oversubscription option of up to P5,000 Fixed Rate Bonds (the Offer Bonds) under its P60,000 Shelf Registration.

The Offer Bonds will be issued at face value and comprised of five-year Series D Bonds due 2022 with a fixed interest rate equivalent to 5.1923%, to be listed and traded through the PDEx. The corresponding application for listing of the Offer Bonds was likewise filed with the PDEx.

45. 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.

- Deficiency Excise Tax

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 numbers 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 numbers 7052 and 7053) and claim for refund (CTA case number 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 number 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 numbers 7052 and 7053 "in order to obviate the necessity of issuing a Warrant of Distraint 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 Distraint 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, 2016, 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 number 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 number 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 Second Division of 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 numbers 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 P781, 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 has been 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, have filed their respective Memoranda.

On January 25, 2017, the Supreme Court decided in a consolidated case 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.

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 filed eight 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); and

(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).

CTA Case No. 7973, which was consolidated with CTA Case No. 7953, has been decided in favor of SMB by the Third Division and 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.

CTA Case No. 8209 was decided in favor of SMB by the CTA's First Division. The case was not elevated 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. 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*. The BIR filed a Motion for Reconsideration, which remains pending to date.

CTA Case No. 8591 was decided in favor of SMB and, on appeal, is now submitted for decision before the CTA *En Banc*. The BIR filed a Motion for Reconsideration, which remains pending to date.

CTA Case Nos. 8748, 8955, 9223 and 9513 are still pending in their respective Divisions.

- 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.

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. As of December 31, 2016, IBI recognized a provision amounting to P376.

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.

- 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, 2016.

- 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 Regional Trial Court (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 the Comprehensive Land Use Plan and Zoning Ordinance (Ordinance No. 8119), 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 (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 (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 CTA on January 23, 2013. The parties have filed their respective briefs. As of December 31, 2016, the appeal remained pending.

  With regard to Ordinance No. 8187, petitions were filed before the Supreme Court, seeking for its nullification and the enjoinment 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 (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 implemented 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, 2016.

- 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 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 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 Temporary Restraining Order (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." SPPC shall file the appropriate pleading and opposition to the TRO and injunction applications of PSALM.

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. The case has been referred to Judicial Dispute Resolution process at the trial court level.

Meanwhile, there are no restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its Power Supply Agreement 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.

- 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 partially and evident bad faith. 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, 2016.

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 Justice.

On June 17, 2016, SMEC filed with the RTC Pasig a civil complaint for consignation 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.

- 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 shall be covered by a 24-month Special Payment Arrangement agreed with PEMC already completed on May 25, 2016.

On June 26, 2014, SMEC, SPPC and SPDC filed with the Court of Appeals a Petition for Review of these orders.

In a resolution dated October 11, 2016, the Court of Appeals directed the parties to file their respective memoranda. SPPC, SMEC, SPDC and SPI filed their memoranda on December 21, 2016. The case is still pending resolution with the Court as of December 31, 2016.

b. Electric Power Industry Reform Act of 2001

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.

The EPIRA requires generation and distribution utility (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, 2016.

c. Commitments

The outstanding purchase commitments of the Group amounted to P86,183 as of December 31, 2016.

Amount authorized but not yet disbursed for capital projects is approximately P115,433 as of December 31, 2016.

d. Foreign Exchange Rates

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries and associates and joint ventures to Philippine peso were closing rates of P49.72 and P47.06 in 2016 and 2015, respectively, for consolidated statements of financial position accounts; and average rates of P47.48, P45.50 and P44.39 in 2016, 2015 and 2014, 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.

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