SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b) OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

   Preliminary Information Statement

   Definitive Information Statement

2. Name of Registrant as specified in its charter

   TOP FRONTIER INVESTMENT HOLDINGS, INC.

3. Province, country or other jurisdiction of incorporation or organization

   Philippines

4. SEC Identification Number

   CS200803939

5. BIR Tax Identification Code

   006-990-128

6. Address of principal office

   5th Floor, ENZO Building, No. 399 Sen. Gil Puyat Ave., Makati City

   Postal Code

   1200

7. Registrant's telephone number, including area code

   (02) 632-3481

8. Date, time and place of the meeting of security holders

   July 12, 2017, Executive Dining Room, 2nd Floor, San Miguel Corporation Head Office Complex, 40 San Miguel Avenue, Mandaluyong City

9. Approximate date on which the Information Statement is first to be sent or given to security holders

   Jun 1, 2017

10. In case of Proxy Solicitations:

    Name of Person Filing the Statement/Solicitor

    Top Frontier Investment Holdings, Inc.

    Address and Telephone No.

    5th Floor, ENZO Building, No. 399 Sen. Gil Puyat Ave., Makati City; (02) 632-3481

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	332,886,167

13. Are any or all of registrant's securities listed on a Stock Exchange?

Yes No

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange, Inc. - Common Shares

The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.

Top Frontier Investment Holdings, Inc.
TFHI

PSE Disclosure Form 17-5 - Information Statement for Annual or Special Stockholders' Meeting

References: SRC Rule 20 and Section 17.10 of the Revised Disclosure Rules

Date of Stockholders' Meeting	Jul 12, 2017
Type (Annual or Special)	Annual
Time	2pm
Venue	Executive Dining Room, 2nd Floor, San Miguel Corporation Head Office Complex, 40 San Miguel Avenue, Mandaluyong City
Record Date	May 26, 2017

Inclusive Dates of Closing of Stock Transfer Books

Start Date	May 27, 2017
End date	Jun 2, 2017

Other Relevant Information

Attached herein is the 2017 Definitive Information Statement (under SEC Form 20-IS) of Top Frontier Investment Holdings, Inc. (the "Corporation"), as filed with the Securities and Exchange Commission on June 1, 2017. Kindly note that the Certifications of the Independent Directors of the Corporation are attached to the 2017 Definitive Information Statement as Annexes A-1 and A-2, respectively, in compliance with SEC Memorandum Circular No. 5, Series of 2017.

Filed on behalf by:

Name	Irene Cipriano
Designation	Assistant Corporate Secretary

COVER SHEET

CS200803939

S. E. C. Registration Number

TOP FRONTIER INVESTMENT HOLDINGS, INC.

(Company's Full Name)

5th Floor ENZO Bldg. 399 Sen. Gil Puyat Ave., Makati City

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

Virgilio S. Jacinto	(02) 632-3144
Contact Person	Company Telephone Number

12	31	2017 Definitive Information Statement SEC Form 20-IS	07	09
Month	Day	FORM TYPE	Month	Day
Fiscal Year			Annual Meeting	

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

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TOP FRONTIER
INVESTMENT HOLDINGS, INC

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
July 12, 2017

The Annual Meeting of the Stockholders of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** will be held on **July 12, 2017 (Wednesday) at 2:00 p.m. at the Executive Dining Room, 2nd Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City**.

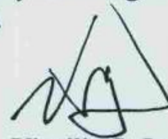
The Agenda of the Meeting is as follows:

1. Certification of Notice and Quorum
2. Approval of the Minutes of the Annual Stockholders' Meeting held on July 14, 2016
3. Presentation of the Annual Report
4. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
5. Appointment of External Auditors
6. Election of the Board of Directors
7. Other Matters
8. Adjournment

The Minutes of the Annual Stockholders' Meetings held on July 14, 2016, as well as the resolutions of the Board of Directors beginning July 14, 2016 will be available for examination during office hours at the Office of the Corporate Secretary.

The deadline for submission of proxies is on **June 28, 2017**. For corporations, proxies must be accompanied by its Corporate Secretary's sworn certification setting the corporate officer's authority to represent the corporation in the meeting. Proxies need not be notarized. Validation of proxies will be on **July 05, 2017** at 10:00 a.m. at the SMC Stock Transfer Service Corporation Office, 2nd Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City.

For your convenience in registering your attendance, please present some form of identification, such as passport, driver's license, or company I.D. Registration will start at 11:30 a.m. and the registration booths will be closed at 2:15 p.m.



Virgilio S. Jacinto
Corporate Secretary and
Compliance Officer

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

[ ] Preliminary Information Statement

[√] Definitive Information Statement

2. Name of Registrant as specified in its charter **Top Frontier Investment Holdings, Inc.**

3. Province, country or other jurisdiction of incorporation or organization **Philippines**

4. SEC Identification Number **CS200803939**

5. BIR Tax Identification Number **006-990-128**

6. **5th Floor, ENZO Building, No. 399 Sen. Gil J. Puyat Ave., Makati City** **1200**
Address of principal office Postal Code

7. Registrant's telephone number, including area code **(02) 632-3481**

8. **July 12, 2017 (Wednesday) at 2:00 p.m.**
Executive Dining Room, 2nd Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City
Date, time and place of the meeting of security holders

9. Approximate date on which the Information Statement is first to be sent or given to security holders **June 1, 2017**

10. Name of Person Filing the Statement: **Top Frontier Investment Holdings, Inc.**
Address: **5th Floor, ENZO Building,**
No. 399 Sen. Gil J. Puyat Ave.,
Makati City 1200
Telephone No.: **(02) 632-3481**

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding (as of March 31, 2017)
Common Shares	**332,886,167***
Total Liabilities	**P964,208 million**

**Net of the 157,310,033 common shares held in Treasury*

12. Are any or all of registrant's securities listed in a Stock Exchange?

Yes [√] No [ ]

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

Philippine Stock Exchange, Inc. – Common Shares

INFORMATION STATEMENT

GENERAL INFORMATION

Date, time and place of meeting of security holders.

The annual stockholders' meeting of **Top Frontier Investment Holdings, Inc.** (the "Company", "Top Frontier" or the "Parent Company") will be held at the **Executive Dining Room, 2nd Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City** on **July 12, 2017 (Wednesday)** at **2:00 p.m.** The complete mailing address of the principal office of the Company is **5th Floor, ENZO Building, No. 399 Sen. Gil J. Puyat Ave., Makati City**.

The information statement and form of proxy are first to be sent to the stockholders approximately on **June 1, 2017**.

Revocability of Proxies

A person giving a proxy may revoke it at any time before it is exercised. A proxy may be revoked through any of the following means: (i) filing with the Corporate Secretary, at least ten (10) working days before the scheduled meeting, a written notice revoking it; or (ii) attending the meeting and voting in person. Mere attendance at the meeting will not automatically revoke a proxy.

Dissenters' Right of Appraisal

Under Title X of The Corporation Code of the Philippines (the "Corporation Code"), stockholders dissenting from and voting against the following corporate actions may demand payment of the fair value of their shares as of the date prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action, namely: (i) any amendment to the articles of incorporation that has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence; (ii) sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; (iii) merger or consolidation; and (iv) investment of corporate funds in another corporation or business or for any other purpose other than the primary purpose for which the corporation was organized, as provided under Section 42 of the Corporation Code.

There are no corporate matters or actions that will entitle dissenting stockholders to exercise their right of appraisal as provided under the aforementioned pertinent provisions of Corporation Code.

SOLICITATION INFORMATION

Person Making the Solicitation

This solicitation is being made by the Company.

Solicitation of proxies in the Philippines will be mainly conducted through mail. Proxies will also, however, be solicited in person or through telephone. The cost of solicitation of approximately P1,000,000.00 will be borne by the Company.

Interest of Certain Persons in Matters to be Acted Upon

No director, officer, or nominee for election as director of the Company, or any of their associates, at any time since the beginning of the last fiscal year, has any substantial interest, direct or indirect, by security holdings or otherwise in any matter to be acted upon in the meeting, other than their election to office.

None of the incumbent directors has informed the Company in writing of an intention to oppose any action to be taken by the Company at the meeting.

CONTROL AND COMPENSATION INFORMATION

Voting Securities and Principal Holders Thereof

As of April 30, 2017, the Company has the following outstanding shares:

Title of Class	No. of Shares Outstanding
Common Shares	332,886,167
Preferred Shares	1,904,540
Total	334,790,707

As of April 30, 2017, the following is the breakdown of the foreign and Filipino ownership of the shares of stock of the Company:

Share Class	Number of Foreign-owned Shares	% of Foreign Ownership	Number of Filipino-owned Shares	% of Filipino Ownership	Total Shares Outstanding
Common	52,570,107	15.79%	280,316,060	84.21%	332,886,167
Preferred	-	-	1,904,540	100%	1,904,540
	52,570,107	**15.70%**	**282,220,600**	**84.30%**	**334,790,707**

The record date with respect to this solicitation is **May 26, 2017**. Only stockholders of record at the close of business on **May 26, 2017** will be entitled to vote at the meeting.

A stockholder entitled to vote at the meeting has the right to vote in person or by proxy. With respect to the election of directors, in accordance with Section 24 of the Corporation Code, a stockholder may vote the number of common shares held in his name in the Company's stock books as of **May 26, 2017**, and may vote such number of common shares for as many persons as there are directors to be elected or he may cumulate said common shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his common shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; provided, that the total number of votes cast by him shall not exceed the number of common shares owned by him as shown in the books of the Company multiplied by the total number of directors to be elected.

The total number of votes that may be cast by a stockholder of the Company is computed as follows: **number of common shares held on record as of record date multiplied by seven (7) directors**.

The deadline for submission of proxies is on **June 28, 2017**. Validation of proxies will be on **July 05, 2017** at 10:00 a.m. at the SMC Stock Transfer Service Corporation Office, 2nd Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City.

Beneficial owners of more than five percent (5%) of the Company's voting[1] securities (both common and preferred shares) as of April 30, 2017 are as follows:

Title of Class	Name of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held by the Beneficial Owners (includes Common Shares held by their nominees)	% out of the Total Outstanding Shares	% out of Total Outstanding Common Shares
Common	Iñigo U. Zobel (Chairman of the Board) 5th Floor, ENZO Bldg., No. 399 Sen. Gil J. Puyat Ave., Makati City	Iñigo U. Zobel	Filipino	199,601,417	59.62%	59.96%
	Aurora T. Calderon (Director and Treasurer) No. 40 San Miguel Ave., Mandaluyong City	Nominee-director of Mr. Zobel in the Board	Filipino	100		
	Patrick T. Lugue (Former Director) 5th Floor, ENZO Bldg., No. 399 Sen. Gil J. Puyat Ave., Makati City	Nominee of Mr. Zobel	Filipino	100		
				Total: 199,601,617		

[1] *Holders of common shares have the right to vote on all matters requiring stockholders' approval. The holders of the preferred shares shall not be entitled to vote except in matters provided for in the Corporation Code, namely: amendment of Articles of Incorporation; adoption and amendment of By-laws; sale, lease, exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; incurring, creating or increasing bonded indebtedness; increase or decrease of capital stock; merger or consolidation with another corporation or other corporations; investment of corporate funds in another corporation or business; and dissolution.*

Title of Class	Name of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held by the Beneficial Owners (includes Common Shares held by their nominees)	% out of the Total Outstanding Shares	% out of Total Outstanding Common Shares
Common	Master Year Limited Scotia Centre, 4/F P.O. Box 2804, George Town Grand Cayman KYI-1112, Cayman Islands Ramon S. Ang (President and CEO) No. 40 San Miguel Ave., Mandaluyong City Ferdinand K. Constantino (Director) No. 40 San Miguel Ave., Mandaluyong City	Master Year Limited ("MYL") Sole director / shareholder of MYL and Nominee-director of MYL in the Board Nominee-director of MYL in the Board	Caymanian Filipino Filipino	49,799,800 100 100 Total: 49,800,000	14.87 %	14.96%
Common	Privado Holdings, Corp. Room 306 Narra Building, 2776 Pasong Tamo Ext., Makati City	Privado Holdings, Corp. (100% owned by Mr. Ramon S. Ang)	Filipino	36,814,051 44,500 [in PCD Nominee Corporation (Filipino)] Total: 36,858,551	11.00%	11.07%
Common	PCD Nominee Corporation (Filipino) Makati City	Various individuals / entities	Filipino	32,861,858 [inclusive of the 44,500 shares of Privado Holdings, Corp.]	9.82%	9.87%

As regards security ownership of management, the table below sets out the details of the voting securities in the name of the directors, executive officers, and nominees for election as directors, of the Company as of April 30, 2017:

	Name of Record Owner	Position	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Total No. of Shares	% of Total Outstanding Shares	% of Total Outstanding Common Shares
Common	Iñigo U. Zobel	Chairman of the Board	Iñigo U. Zobel	Filipino	199,601,417	59.62%	59.96%
Common	Aurora T. Calderon	Director and Treasurer	Iñigo U. Zobel; Nominee-director Aurora T. Calderon	Filipino Filipino	100 2,260	0% 0%	0% 0%
Common	Ramon S. Ang	President and CEO	MYL; Nominee-director Ramon S. Ang	MYL - Caymanian Filipino	100 75,787	0% 0.02%	0% 0.02%
Common	Ferdinand K. Constantino	Director	MYL; Nominee-director Ferdinand K. Constantino	MYL - Caymanian Filipino	100 14,750	0% 0%	0% 0%
Common	Nelly A. Favis-Villafuerte	Director	Nelly A. Favis-Villafuerte	Filipino	100	0%	0%
Common	Consuelo M. Ynares-Santiago	Independent Director	Consuelo M. Ynares-Santiago	Filipino	100	0%	0%
Common	Minita V. Chico-Nazario	Independent Director	Minita V. Chico-Nazario	Filipino	100	0%	0%
Common	Bella O. Navarra	Chief Finance Officer	Bella O. Navarra	Filipino	10,260	0%	0%
Common	Virgilio S. Jacinto	Corporate Secretary and Compliance Officer	Virgilio S. Jacinto	Filipino	2,562	0%	0%
Common	Maria Rosario B. Balanza	Investment Relations Officer	Maria Rosario B. Balanza	Filipino	1,307	0%	0%
Common	Irene M. Cipriano	Assistant Corporate Secretary	Irene M. Cipriano	Filipino	1,000	0%	0%

The aggregate number of shares owned of record by the directors and key officers of the Company as a group as of April 30, 2017 is 199,709,943 common shares, which is approximately 59.65% of the outstanding shares of the Company.

Voting Trust

None of the stockholders holding more than five percent (5%) of the voting securities of the Company are under a voting trust or similar agreement.

Changes in Control

The Company is not aware of any change of control or arrangements that may result in a change in control of the Company.

DIRECTORS AND EXECUTIVE OFFICERS

Directors and Executive Officers

The overall management and supervision of Top Frontier is undertaken by the Board of Directors. The Board is composed of seven (7) members of the Board, two (2) of whom are independent directors. Pursuant to Section 2, Article III of the Company's By-laws, the directors are elected at each regular stockholders' meeting by stockholders entitled to vote. The term of a director is one (1) year from date of election and until their successors are elected and qualified.

The incumbent members of the Board of Directors of Company, all of whom are nominees for re-election as directors in the meeting, are as follows:

Name	Age	Citizenship	Position	Year Position was Assumed
Iñigo U. Zobel	60	Filipino	Chairman	2008
Ramon S. Ang	63	Filipino	Director	2010
Ferdinand K. Constantino	65	Filipino	Director	2010
Aurora T. Calderon	62	Filipino	Director	2013
Nelly A. Favis-Villafuerte	80	Filipino	Director	2013
Consuelo M. Ynares-Santiago	77	Filipino	Independent Director	2013
Minita V. Chico-Nazario	77	Filipino	Independent Director	2014

The following are the executive officers of Company:

Name	Age	Citizenship	Position	Year Position was Assumed
Iñigo U. Zobel	60	Filipino	Chairman of the Board	2008
Ramon S. Ang	63	Filipino	President and Chief Executive Officer	2013
Aurora T. Calderon	62	Filipino	Treasurer	2010
Bella O. Navarra	56	Filipino	Chief Finance Officer	2013
Virgilio S. Jacinto	60	Filipino	Corporate Secretary and Compliance Officer	2010 2013
Maria Rosario B. Balanza	55	Filipino	Investment Relations Officer	2014
Irene M. Cipriano	42	Filipino	Assistant Corporate Secretary	2013

The following is the brief description of the business experience of each of the directors and executive officers of the Company over the past five (5) years.

Iñigo U. Zobel

Mr. Zobel is the Chairman of Top Frontier (since 2008) and the Chairman of the Executive Committee (since 2013). He is also the Chairman and President of E. Zobel, Inc. (since 1983), IZ Investment Holdings, Inc. (since 2013) and Zygnet Prime Holdings Inc. (since 2015); Director of San Miguel Corporation (since 2009); Chairman (2015-2016), Vice Chairman (since 2016) and President (since 2015) of Manila North Harbour Port, Inc.; and a Director of E. Zobel Foundation, Inc., Calatagan Golf Club, Inc., Calatagan Bay Realty, Inc., Hacienda Bigaa, Inc., MERMAC, Inc., among others. He was formerly an Independent Director of San Miguel Corporation (1999-2009), San Miguel Brewery Inc. (2007-2010), San Miguel Pure Foods Company, Inc. (2006-2009), San Miguel Properties, Inc. (2009-2010), and Ginebra San Miguel, Inc. (2004-2010); President and Chief Operating Officer of Air Philippines Corporation (2012-2014); and Director of PAL Holdings, Inc. (2012-2014) and Philippine Airlines, Inc. (2012-2014).

Ramon S. Ang

Mr. Ang is the Director (since 2010) and President and Chief Executive Officer (since 2013) of Top Frontier. He is also a member of the Executive Committee, Corporate Governance Committee, and the Chairman of the Executive Compensation Committee of Top Frontier (since 2013). Mr. Ang is the Vice Chairman (since 1999), President and Chief Operating Officer of San Miguel Corporation (since 2002); Chairman of San Miguel Brewery Inc. (since 2007), San Miguel Brewery Hong Kong Limited (since 2005), Sea Refinery Corporation (since 2011), SMC Global Power Holdings Corp. (since 2010), San Miguel Foods, Inc. (since 2006), San Miguel Yamamura Packaging Corporation (since 2006), Anchor Insurance Brokerage Corporation (since 2001), Clariden Holdings, Inc. (since 2012) and Manila North Harbour Port, Inc. (since 2016); Vice Chairman (since 2010) and Director (since 2000) of Ginebra San Miguel, Inc.; Vice Chairman (since 2011) and Director (since 2001) of San Miguel Pure Foods Company, Inc.; President and Chief Executive Officer of Petron Corporation (since 2015), and Integrated Geo Solutions, Inc. (since 2009); President of Northern Cement Corporation (since 2012); Chairman (since 2002) and President (since 2010) of San Miguel Properties, Inc.; Chairman, President and Chief Executive Officer of Far East Cement Corporation (since 2016); Chairman and President of San Miguel Holdings Corp. (since 2010) and San Miguel Equity Investments Inc. (since 2011); and Chairman of Philippine Diamond Hotel & Resort, Inc. (since 2004). He is also the sole director and shareholder of Master Year Limited (since 2012) and the Chairman of Privado Holdings, Corp (since 2010). He was formerly the Chairman of Liberty Telecoms Holdings Inc. (2008-2016); President and Chief Operating Officer of PAL Holdings, Inc. (2012-2014) and Philippine Airlines, Inc. (2012-2014); Vice Chairman and Director of Manila Electric Company (2009-2014); and Director of Air Philippines Corporation (2012-2014). Mr. Ang holds directorships in various subsidiaries of San Miguel Corporation.

Ferdinand K. Constantino

Mr. Constantino is a Director of Top Frontier (since 2010) and the Chairman of the Nomination and Hearing Committee and a member of the Audit Committee and Corporate Governance Committee (since 2013). He is also the Senior Vice President, Chief Finance Officer and Treasurer (since 2001) and Director (since 2010) of San Miguel Corporation; President of Anchor Insurance Brokerage Corporation (since 2002); Vice Chairman of SMC Global Power Holdings Corp. (since 2011); a Director of San Miguel Brewery Inc. (since 2007), San Miguel Yamamura Packaging Corporation (since 2002), SMC Stock Transfer Service Corporation (since 1993 and Chairman since 2010), San Miguel Holdings Corp. (since 2001), and Clariden Holdings, Inc. (since 2012); and a Director and Treasurer of San Miguel Equity Investments, Inc. (since 2011). Mr. Constantino previously served as Chief Finance Officer and Treasurer of San Miguel Brewery Inc. (2007-2009); Director of San Miguel Pure Foods Company, Inc. (2008-

2009), San Miguel Properties, Inc. (2001-2009), Bank of Commerce (2008-2010), Ginebra San Miguel, Inc. (2008-2010 and 2012-2015), PAL Holdings, Inc. (2012-2014), Philippine Airlines, Inc. (2012-2014); and Chief Finance Officer of Manila Electric Company (2009). He holds directorships in various subsidiaries of San Miguel Corporation.

Aurora T. Calderon

Ms. Calderon is a Director of Top Frontier (since 2013), the Treasurer (since 2010) and a member of the Executive Committee, Audit Committee and Executive Compensation Committee (since 2013). She is also the Senior Vice President-Senior Executive Assistant to the President and Chief Operating Officer of San Miguel Corporation (since 2011); a Director of San Miguel Corporation (since 2014), Petron Corporation (since 2010), Petron Marketing Corporation (since 2010), Petron Freeport Corporation (since 2010), Sea Refinery Corporation (since 2010), New Ventures Realty Corporation (since 2010), Las Lucas Construction and Development Corp. (since 2010), Thai San Miguel Liquor Co. (since 2008), SMC Global Power Holdings Corp. (since 2010), San Miguel Equity Investments Inc. (since 2011), and Clariden Holdings, Inc. (since 2012). She was previously a consultant of San Miguel Corporation reporting directly to the President and Chief Operating Officer (1998-2010) and formerly a Director of Manila Electric Company (2009), PAL Holdings, Inc. (2012-2014), Philippine Airlines, Inc. (2012-2014) and Air Philippines Corporation (2012-2014). Ms. Calderon holds directorships in various subsidiaries of San Miguel Corporation.

Nelly A. Favis-Villafuerte

Atty. Villafuerte is a Director of Top Frontier (since 2013) and a member of the Nomination and Hearing Committee (since 2013). She is also a Director of Petron Corporation (since 2011). She was formerly a Monetary Board Member (2005-2011), an Undersecretary of the Department of Trade and Industry (1998 – 2005) and a Governor of the Board of Investment (1998 – 2005).

Consuelo M. Ynares-Santiago

Justice Santiago is an Independent Director of Top Frontier (since 2013), the Chairperson of the Corporate Governance Committee and a member of the Audit Committee and the Executive Compensation Committee (since 2013). She is also an Independent Director of SMC Global Power Holdings Corp. (since 2011), Anchor Insurance Brokerage Corporation (since 2012), South Luzon Tollway Corporation (since 2015) and Phoenix Petroleum Phil. Inc. (since 2013). She was formerly an Associate Justice of the Supreme Court (1999-2009), an Associate Justice of the Court of Appeals (1990-1999), and a Regional Trial Court Judge of Makati City (1986-1990).

Minita V. Chico-Nazario

Justice Nazario is an Independent Director of Top Frontier (since 2014), the Chairperson of the Audit Committee and a member of the Nomination and Hearing Committee (since 2014). She is also an Independent Director of San Miguel Properties, Inc. (since 2012), Ginebra San Miguel Inc. (since 2012) and San Miguel Pure Foods Company, Inc. (since 2015). She is also currently the Dean of the College of Law of the University of Perpetual Help System DALTA in Las Pinas City (since 2011), Chairperson of Philippine Grain International Corp. (since 2010), a Director of Mariveles Grains Corp. (since 2012), and a Legal Consultant of the United Coconut Planters Bank (since 2014). Justice Nazario is formerly an Associate Justice of the Supreme Court (2004-2009), the Presiding Justice of the Sandiganbayan (2003-2004) and the Chairman of the Board (2010) and Director (2010-2011) of the PNOC Exploration Corporation.

Bella O. Navarra

Ms. Navarra is the Chief Finance Officer of Top Frontier (since 2013) and the Vice President, Comptrollership of San Miguel Corporation (since 2000). She is a Director and the Treasurer of Clariden Holdings, Inc. (since 2012) and various subsidiaries of San Miguel Corporation; and a Director of San Miguel Holdings Corp. (since 2007), San Miguel Equity Investments Inc. (since 2011), and SMC Stock Transfer Service Corporation (since 2001). She holds directorships in various subsidiaries of San Miguel Corporation.

Virgilio S. Jacinto

Atty. Jacinto is the Corporate Secretary of Top Frontier (since 2010), Compliance Officer (since 2013) and a member of the Corporate Governance Committee (since 2013). He is the Corporate Secretary, Senior Vice-President, General Counsel and Compliance Officer of San Miguel Corporation (since 2010). He is also the Corporate Secretary and Compliance Officer of Ginebra San Miguel, Inc. and a Director of Petron Corporation (since 2010); President of SMC Stock Transfer Service Corporation (since 2011); a Director and Corporate Secretary of SMC Global Power Holdings Corp. (since 2010); and Corporate Secretary of San Miguel Holdings Corp. (since 2010) and various subsidiaries of San Miguel Corporation. He is also an Associate Professor at the University of the Philippines, College of Law (since 1993). Atty. Jacinto was formerly the Vice President and First Deputy General Counsel of San Miguel Corporation (2006-2010). He holds directorships in various subsidiaries of San Miguel Corporation.

Maria Rosario B. Balanza

Ms. Balanza is the Investment Relations Officer of Top Frontier (since 2014). She is also an Assistant Vice President for the Planning and Research Services Department, Corporate Finance of San Miguel Corporation.

Irene M. Cipriano

Atty. Cipriano is the Assistant Corporate Secretary of Top Frontier (since 2013) and an Assistant Vice President and Associate General Counsel of San Miguel Corporation. She is also the Corporate Secretary of San Miguel Equity Investments Inc. (since 2011), the Assistant Corporate Secretary of SMC Global Power Holdings Corp. (since 2010), and of various subsidiaries of San Miguel Corporation. Atty. Cipriano was formerly the Assistant Corporate Secretary of PAL Holdings, Inc. (2012 - 2014) and Philippine Airlines, Inc. (2012 - 2014).

Term of Office

Pursuant to the Company's By-laws, the directors are elected at each annual stockholders meeting by stockholders entitled to vote. Each director holds office until the next annual election and his successor is duly elected, unless he resigns, dies or is removed prior to such election.

The nominees for election to the Board of Directors on July 12, 2017 are as follows:

1. Iñigo U. Zobel
2. Ramon S. Ang
3. Ferdinand K. Constantino
4. Aurora T. Calderon
5. Nelly A. Favis-Villafuerte
6. Consuelo M. Ynares-Santiago – Independent Director
7. Minita V. Chico-Nazario – Independent Director

Independent Directors

The incumbent independent directors of the Company are as follows:

1. Consuelo M. Ynares-Santiago
2. Minita V. Chico-Nazario

The incumbent independent directors have certified that they possess all the qualifications and none of the disqualifications provided for in the Securities Regulation Code ("SRC"). The Certifications of the Independent Directors of the Company are attached hereto as **Annexes "A-1" and "A-2"**, respectively, in accordance with SEC Memorandum Circular No. 5, Series of 2017.

The nominees for election as independent directors of the Board of Directors on July 12, 2017 are as follows:

Nominee for Independent Director (a)	Person/Group recommending nomination (b)	Relation of (a) and (b)
Consuelo M. Ynares-Santiago	Iñigo U. Zobel	None
Minita V. Chico-Nazario	Iñigo U. Zobel	None

In approving the nominations for independent directors, the Nominations and Hearing Committee took into consideration the guidelines and procedures on the nomination of independent directors prescribed in SRC Rule 38.

The nominations for the election of all directors by the stockholders shall be submitted in writing to the Board of Directors through the Corporate Secretary on or before such date that the Board of Directors may fix, provided that such date shall be prior to the stockholders' meeting.

The nominations are forwarded to the Nominations Committee which shall pre-screen the qualifications of the nominees and prepare a final list of nominees eligible for election. No other nominations are entertained after the final list of candidates is prepared.

Under Section 2, Article III of the Company's By-laws, (i) any stockholder having at least one hundred (100) common shares registered in his name may be elected director, and (ii) a person engaged in any business which competes with or is antagonistic to that of the Company as defined in Section 2, Article III of the Company's By-laws is not qualified or eligible for nomination or election to the Board of Directors.

All the nominees for election to the Board of Directors satisfy the mandatory requirements specified under the provisions of Section 2, Article III of the Company's By-laws.

Significant Employees

While all employees are expected to make a significant contribution to Top Frontier, there is no one particular employee, not an executive officer, expected to make a significant contribution to the business of Top Frontier on his own.

Family Relationship

There are no family relationships up to the fourth civil degree either of consanguinity or affinity among any of the directors and executive officers.

Involvement in Certain Legal Proceedings

None of the directors, nominees for election as director, executive officers or control persons of the Company have been the subject of any (a) bankruptcy petition, (b) conviction by final judgment in a criminal proceeding, domestic or foreign, (c) order, judgment or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities, which is not subsequently reversed, suspended or vacated, or (d) judgment of violation of a securities or commodities law or regulation by a domestic or foreign court of competent jurisdiction (in a civil action), the Securities and Exchange Commission ("SEC") or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, which has not been reversed, suspended or vacated, for the past five (5) years up to the latest date that is material to the evaluation of his ability or integrity to hold the relevant position in the Company.

Certain Relationships and Related Transactions

See Note 34, Related Party Disclosures, of the Notes to the 2016 Audited Consolidated Financial Statements of the Company, hereto attached as **Annex "B-1"**.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Executive Compensation

The Board may provide, in its discretion, an allowance or per diem to each member of the Board during each regular meeting of the Board, provided that the said director participates in the said meeting. Pursuant thereto, Top Frontier provides each director, who are not officers of SMC, with reasonable per diem of P20,000 and P10,000 for each Board and Committee meeting attended, respectively. Additionally, the By-Laws of Top Frontier provides that as compensation of the directors, the Board at its discretion shall receive and allocate yearly an amount of not more than 10% of the net income before income tax of Top Frontier during the preceding year. Such compensation shall be determined and apportioned among the directors in such manner as the Board may deem proper, subject to the approval of stockholders representing at least a majority of the outstanding capital stock at a regular or special meeting of the stockholders.

The By-Laws of Top Frontier further provides that the officers shall receive such remuneration as the Board may determine. A director shall not be precluded from serving Top Frontier in any other capacity as an officer, agent or otherwise, and receiving compensation therefore.

Compensation to executive officers currently comprising of the Chairman, the President and Chief Executive Officer, the Treasurer, the Chief Finance Officer, the Corporate Secretary and Compliance Officer, the Assistant Corporate Secretary, and the Investment Relations Officer amounted to nil for the years ended 2016 and 2015, 2014, 2013 and 2012.

There were no other compensation paid to the directors for the periods indicated.

Employment Contract between the Company and Executive Officers

There are no special employment contracts between Top Frontier and its named executive officers.

Warrants and Options Held by the Executive Officers and Directors

As of December 31, 2016, none of the directors and executive officers of Top Frontier hold any warrants or options in Top Frontier.

Other Arrangements

Except as described above, there are no other arrangements pursuant to which any of the directors and executive officers of Top Frontier were compensated, or is to be compensated, directly or indirectly since the incorporation of Top Frontier on March 11, 2008.

INDEPENDENT PUBLIC ACCOUNTANTS

The accounting firm of R.G. Manabat & Co. served as the Company's external auditors for the last eight fiscal years. The Board of Directors will again nominate R.G. Manabat & Co. as the Company's external auditors for this fiscal year.

Representatives of R.G. Manabat & Co. are expected to be present at the annual stockholders' meeting and will be available to respond to appropriate questions. They will have the opportunity to make a statement if they so desire. R.G. Manabat & Co. (then known as Manabat Sanagustin & Co., CPAs) has been the Company's external auditors since 2009. In 2014, R.G. Manabat & Co. changed the signing partner assigned to the Company, in compliance with SRC Rule 68 (3) (b) (iv) in respect of the engagement of R.G. Manabat & Co.

FINANCIAL AND OTHER INFORMATION

Brief Description of the General Nature and Business of the Company

Top Frontier Investment Holdings, Inc. is a Philippine corporation organized on March 11, 2008 as a holding company. Top Frontier is the largest shareholder of San Miguel Corporation ("SMC") in which it holds 1,573,100,340 common shares, or 66.09% of SMC's total outstanding common stock, as of December 31, 2016. On August 30, 2013, Top Frontier acquired 100% of the outstanding common stock of Clariden Holdings, Inc. ("Clariden"), a holding company with interests in exploration, mining and development. Other than its ownership in SMC and Clariden, the Parent Company has no other operations as of December 31, 2016.

SAN MIGUEL CORPORATION

SMC, together with its subsidiaries (collectively referred to as the "SMC Group"), is one of the largest and most diversified conglomerates in the Philippines by revenues and total assets, with sales of about 4.7% of the Philippine gross domestic product in 2016.

Originally founded in 1890 as a single brewery in the Philippines, SMC has transformed itself from a beverage, food and packaging business with a globally recognized beer brand, into a diversified conglomerate with market-leading businesses in the fuel and oil, energy, infrastructure, and investment in banking. SMC owns a portfolio of companies that is tightly interwoven into the economic fabric of its home market, benefiting from and contributing to, the development and economic progress of the Philippines. The common shares of SMC were listed on November 5, 1948 at the Manila Stock Exchange, now The Philippine Stock Exchange, Inc. ("PSE").

In 2007, in light of the opportunities presented by the global financial crisis, the ongoing program of asset and industry privatization of the Philippine government, the strong cash position of SMC enhanced by divestments and the strong cash flow generated by its established

businesses, SMC adopted an aggressive business diversification program. The program channeled the resources of SMC into what it believes were attractive growth sectors, aligned with the development and growth of the Philippine economy. SMC believes this strategy will achieve a more diverse mix of sales and operating income, and better position for SMC to access capital, present different growth opportunities and mitigate the impact of downturns and business cycles.

Since January 2008, SMC has either directly or through its subsidiaries, made a series of acquisitions in the fuel and oil, energy, infrastructure and banking industries.

SMC, through its subsidiaries and affiliates, has become a Philippine market leader in its businesses with 22,396 regular employees and more than 100 production facilities in the Asia-Pacific region as of December 31, 2016. The extensive portfolio of SMC products includes beer, liquor, non-alcoholic beverages, poultry, animal feeds, flour, fresh and processed meats, dairy products, coffee, various packaging products and a full range of refined petroleum products, most of which are market leaders in their respective markets. In addition, the SMC Group contributes to the growth of downstream industries and sustains a network of hundreds of third party suppliers.

Through the partnerships it has forged with major international companies, the SMC Group has gained access to the latest technologies and expertise, thereby enhancing its status as a world-class organization.

SMC has strategic partnerships with international companies among them are Kirin Holdings Company, Limited for beer, Hormel Foods International Corporation ("Hormel") for processed meats, Nihon Yamamura Glass Company, Ltd. ("NYG") for packaging products and Korea Water Resources Corporation ("K-Water") for the Angat Hydroelectric Power Plant.

Core Businesses

Beverage

San Miguel Brewery Inc. ("SMB") is primarily engaged in the manufacture and sale of fermented and malt-based beverages, including beer of all kinds and classes, as well as non-alcoholic beverages such as ready-to-drink tea and bottled water. SMB has six production facilities strategically located across the Philippines and a highly developed distribution system serving more than 400,000 on-premise and off-premise outlets nationwide. The SMB Group also operates one brewery each in Hong Kong, Indonesia, Thailand and Vietnam, and two breweries in China.

SMC also produces hard liquor through its majority-owned subsidiary, Ginebra San Miguel, Inc. ("GSMI"). GSMI is one of the largest gin producers in the world by volume with some of the most recognizable brands in the Philippine liquor market. It operates one distillery, five liquor bottling plants and one cassava starch milk plant, and has engaged two toll bottlers strategically located throughout the Philippines and one bottling and distillery plant in Thailand.

GSMI distributes majority of its liquor products nationwide to consumers through territorial distributorship by a network of dealers and through GSMI's territorial sales offices. Furthermore, some off-premise outlets such as supermarkets, grocery stores, sari-sari stores and convenience stores, as well as on-premise outlets such as bars, restaurants and hotels are directly served by GSMI or through its key accounts group.

The Logistics Group of GSMI is responsible for planning and delivering the products from the plants to the dealers and sales offices. Thereafter, the products are sold by routing these to retailers and consumers across their territories. GSMI has 98 dealers and 10 sales offices as of

December 31, 2016. GSMI uses third party services in the warehousing and delivery of its products.

Food

The food operations of SMC holds numerous market-leading positions in the Philippine food industry, offering a wide range of high-quality food products and services to household, institutional and foodservice customers. The food business is conducted through San Miguel Pure Foods Company, Inc. ("SMPFC"). In addition to its Philippine operations, the food business also has a presence in Indonesia and Vietnam. SMPFC was formed in 2001 through the operational integration of two leading Philippine food groups - the food businesses of SMC and Pure Foods Corporation.

SMPFC, through its subsidiaries, later on diversified into poultry and livestock operations, feeds and flour milling, dairy and coffee operations, franchising and young animal ration manufacturing and distribution. In the last quarter of 2013, Golden Bay Grain Terminal in Mabini, Batangas started operations, which allowed SMPFC to ship grains through Panamax vessels, consequently lowering freight costs and addressing grain handling requirements for the animal feeds and flour operations.

SMPFC is a leading Philippine food company with market-leading positions in many key products and offers a broad range of high-quality food products and services to household, institutional and foodservice customers. SMPFC has some of the most recognizable brands in the Philippine food industry, including *Magnolia* for chicken, ice cream, and milk products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Super Coffee* for coffee, *La Pacita* for biscuits *and B-Meg* for animal feeds.

The support of intermediate parent company SMC and partnerships with major international companies like United States-based Hormel Foods International Corporation and Singapore-based Super Coffee Corporation Pte Ltd ("SCCPL") and Penderyn Pte Ltd. have given SMPFC access to the latest technologies and expertise, allowing it to deliver flavor, freshness, safety, quality and value-for-money to its customers.

SMPFC operates and manages one of the most extensive distribution networks across the Philippines, with its products available in every major city, and it believes that this provides a significant competitive advantage.

To maximize market penetration, SMPFC has a multi-channel distribution network that supplies its products to supermarkets and traditional retail outlets, trade, foodservice channels and franchised stores. For the branded value-added business, SMPFC centrally manages sales and distribution through San Miguel Integrated Sales ("SMIS") which is responsible for selling its value-added products to modern trade, such as major supermarket chains, hypermarkets, groceries, convenience stores; general trade, such as market traders and "sari-sari" stores (small neighborhood stores) and export markets. For its animal feeds, poultry, fresh meats and flour businesses, SMPFC also maintains business-specific sales forces to service trade channels and manage its distributors and dealers. Great Food Solutions of SMPFC, on the other hand, manages sales to key foodservice customers, such as hotels, restaurants, bakeshops, fast-food and pizza chains.

The Food Group operates through the following major subsidiaries:

- ***San Miguel Foods, Inc. ("SMFI")*** - is a 99.99%-owned subsidiary of SMPFC and operates the integrated Feeds, and Poultry and Fresh Meats businesses, the Franchising business, the San Miguel Integrated Sales selling and distribution activities, and the Great Food Solutions foodservice business.

  a) ***Feeds business*** - manufactures and sells different types of feeds to commercial farms and distributors. Internal requirements of SMFI's combined Poultry and Fresh Meats business are likewise being served by the Feeds business.

  b) ***Poultry and Fresh Meats business*** - engages in integrated poultry operations and sells live broilers, dressed chicken, cut-ups and cook-easy formats, as well as customized products for export and for domestic foodservice accounts. It also manages fully-integrated operations for pork and beef, and engages in the sale and distribution of fresh and marinated meats in *Monterey* meat shops located in major supermarkets and cities throughout the country. The business also sells live hogs and supplies the requirements of The Purefoods-Hormel Company, Inc. (PF-Hormel), an affiliate, for the latter's manufacture of meat-based value-added products.

  c) ***Franchising business*** - engages in franchising operations and was established in September 2011 primarily to strengthen and grow SMFI's retail business model through faster franchise expansion, brand performance improvement and development of new business concepts for retail. Its two retail concepts, namely, *San Mig Food Ave.* and *Hungry Juan* roast barbecue outlets, showcase the San Miguel Group's food and beverage products. There are a total of 300 outlets for the two retail concepts operating as at December 31, 2016.

  d) ***San Miguel Integrated Sales ("SMIS")*** - was formed in May 2009 when the receivables, inventories and fixed assets of SMC's Centralized Key Accounts Group were transferred to SMFI. SMIS is engaged in the business of providing logistics and selling services in the identified modern trade, general trade and wet market customers of the value-added businesses of SMPFC, namely, Magnolia, PF-Hormel and SMSCCI.

  e) ***Great Food Solutions ("GFS")*** - engages in the foodservice business and caters to fast food chains, hotels, restaurants, convenience stores and other institutional accounts for their processed meats, poultry, dairy, coffee and flour-based requirements, as well as provides food solutions/recipes and menus.

- ***San Miguel Mills, Inc. ("SMMI")*** - is a 100%-owned subsidiary of SMPFC and engages in the manufacture and distribution of flour, flour mixes and bakery ingredients. In September 2011, SMMI formed Golden Bay Grain Terminal Corporation ("GBGTC") as its wholly-owned subsidiary. GBGTC started commercial operations in September 2013 and operates and manages a port terminal, and provides general services such as handling of grains, among others. In June 2012, SMMI acquired Cobertson Realty Corporation ("CRC"), which became a wholly-owned subsidiary of SMMI. CRC is a Philippine corporation engaged in the purchase, acquisition, development or use for investment, among others, of real and personal property, to the extent permitted by law. In December 2012, CRC's corporate name was changed to Golden Avenue Corp. ("GAC") following the necessary approvals of CRC's Board of Directors and stockholders, and the SEC.

- ***The Purefoods-Hormel Company, Inc. ("PF-Hormel")*** - is a 60%-40% joint venture between SMPFC and Hormel Netherlands B.V., which produces and markets value-added refrigerated processed meats and canned meat products. PF-Hormel's refrigerated processed meats include, among others, hotdogs, cold cuts, hams, bacons, nuggets and other ready-to-eat meat products, while its canned meat products include corned beef, luncheon meats, sausages, meat spreads and canned viands.

- ***Magnolia, Inc. ("Magnolia")*** - is a 100%-owned subsidiary of SMPFC and manufactures and markets butter, margarine, cheese, milk, ice cream, jelly snacks, specialty oils, salad aids, flour mixes, snacks and condiments.

- ***San Miguel Super Coffeemix Co., Inc. ("SMSCCI")*** - is a 70%-30% joint venture between SMPFC and Super Coffeemix Manufacturing Ltd ("SCML") of Singapore, which started commercial operations in April 2005 by marketing its 3-in-1 regular coffee mixes in the Philippines. Since then, SMSCCI has introduced a good number of products which include sugar-free line of coffee mixes, 100% Premium Instant Black Coffee, 3-in-1 flavored coffee mixes and coffeemix with cereals. In November 2009, by virtue of the Deed of Assignment and Deed of Novation of Joint Venture Agreement executed by and among SMSCCI, SCML and SCCPL, SCML assigned and transferred its entire shareholding in SMSCCI to SCCPL, and SCCPL agreed to perform and comply with all obligations of SCML under the Joint Venture Agreement relating to SMSCCI.

- ***PT San Miguel Pure Foods Indonesia ("PTSMPFI")*** - started as a 49%-51% joint venture between SMPFC and the Hero Group of Companies and organized in 1995 for the manufacture and distribution of processed meats in Indonesia. In 2004, SMPFC increased its ownership to 75% following the Hero Group's divestment of its interest in PTSMPFI to Lasalle Financial Inc. ("Lasalle"). On February 2, 2010, Lasalle sold and transferred its entire 25% shareholding in PTSMPFI to Singapore-based Penderyn Pte Ltd. ("Penderyn"). On February 5, 2010, Lasalle, Penderyn and SMPFC executed an Adherence Agreement pursuant to which Penderyn agreed to observe and perform all obligations of Lasalle under the Joint Venture Agreement relating to PTSMPFI. On November 22, 2016, SMPFC and Penderyn approved the sale and transfer of Penderyn's entire shareholding in PTSMPFI to PT Hero Intiputra, an Indonesian company. On December 13, 2016, said sale and transfer became effective upon the approval of the Ministry of Justice of Indonesia.

- ***San Miguel Pure Foods Investment (BVI) Limited ("SMPFI Limited")*** - is a company incorporated in the British Virgin Islands in August 1996 as a wholly-owned subsidiary of SMC, through San Miguel Foods and Beverage International Limited ("SMFBIL"). SMPFI Limited owns 100% of San Miguel Pure Foods (VN) Co., Ltd. ("SMPFVN", formerly San Miguel Hormel (VN) Co., Ltd.), a company incorporated in Vietnam which is licensed to engage in live hog farming and the production of feeds, and fresh and processed meats. In December 2006, SMFBIL sold to Hormel Netherlands B.V. ("Hormel") its 49% interest in SMPFI Limited. In January 2015, SMPFI Limited became a wholly-owned subsidiary of SMPFC, through SMPFIL.

- ***San Miguel Pure Foods International, Limited ("SMPFIL")*** - is a company incorporated in the British Virgin Islands in February 2007 and is 100%-owned by SMPFC. In July 2010, SMPFC, through SMPFIL, acquired SMC's 51% interest (through SMFBIL) in SMPFI Limited. In January 2015, SMPFIL signed an agreement for the purchase from Hormel of the latter's 49% of the issued share capital of SMPFI Limited.

Packaging

The packaging business is a total packaging solutions business servicing many of the leading food, pharmaceutical, chemical, beverages, spirits and personal care manufacturers in the region. The packaging business is comprised of San Miguel Yamamura Packaging Corporation ("SMYPC"), San Miguel Yamamura Packaging International Limited ("SMYPIL"), San Miguel Yamamura Asia Corporation ("SMYAC"), SMC Yamamura Fuso Molds Inc. ("SYMFC"), Can Asia, Inc. ("CAI") and Mindanao Corrugated Fibreboard, Inc. ("Mincorr"), collectively referred to as the Packaging Group.

The Packaging Group has one of the largest packaging operations in the Philippines, producing glass, metal, plastic, aluminum cans, paper, flexibles, Polyethylene Terephthalate ("PET") and other packaging products and services such as beverage tolling for PET bottles and aluminum cans. The packaging business is the major source of packaging requirements of the other business units of SMC. It also supplies its products to customers across the Asia-Pacific region, the United States, South Africa, Australia and the Middle East, as well as to major multinational corporations in the Philippines, including Coca-Cola Femsa Philippines, Inc., Nestle Philippines and Pepsi Cola Products Philippines, Inc.

a) ***Glass*** - The glass business is the Packaging Group's largest business segment. It has three glass manufacturing facilities in the Philippines and one glass and PET mold plant serving the requirements of the beverage, food, pharmaceutical, chemical, personal care and health care industries. The bulk of the glass bottle requirements served by this segment are for the beverage, pharmaceuticals and food industries. SMYAC is the country's most technologically advanced glass manufacturing facility.

b) ***Metal*** - The metal business manufactures metal caps, crowns, resealable caps and two-piece aluminum beverage cans for a range of industries that include beer, spirits, soft drinks and food. The Packaging Group's metal container plant is the only aluminum beverage can plant in the Philippines and pioneered in the production of two-piece cans and ends for the beverage market.

c) ***Plastics*** - The plastics business provides plastic crates and pallets, plastic poultry flooring, food trays, plastic tubes, plastic consumer and industrial containers, and plastic pails and tubs to domestic and international markets.

d) ***PET*** - The PET business produces PET preforms and bottles, plastic caps and handles and offers filling services for PET bottles and aluminum cans.

e) ***Paper*** - Mincorr, a wholly-owned subsidiary of SMC based in Davao, supplies the packaging needs of a broad range of manufacturing and agricultural industries.

f) ***Flexibles -*** Through the Rightpak plant and Malaysian plants, the Packaging Group manufactures flexible packaging for the food, beverage, personal care, chemical and healthcare industries. It also provides composite materials for a varied range of industries including construction, semiconductor and electronics.

The Packaging Group has 13 international packaging facilities located in China (glass, plastic and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, woven bags and a packaging research center) and Australia (glass, trading, wine closures and bottle caps) and New Zealand (plastics and trading).

Aside from extending the reach of the packaging business overseas, these facilities also allow the Packaging Group to serve the packaging requirements of SMB breweries in China, Vietnam, Indonesia and Thailand.

In January 2008, SMC finalized the joint venture agreement with NYG pursuant to which NYG purchased 35% of San Miguel Packaging Specialists, Inc. ("SMPSI") and San Miguel Packaging International Limited ("SMPIL").

Following the creation of the joint venture between SMPSI and NYG, SMPSI changed its corporate name to "San Miguel Yamamura Packaging Corporation", as approved by the SEC on June 4, 2008. In addition, the BOD of SMPIL likewise approved the change in the corporate name of SMPIL to "San Miguel Yamamura Packaging International Limited" on January 31, 2008 and such change became effective on June 11, 2008.

SMYPC owns all of the domestic plants of the Packaging Group, except the corrugated carton plant, Mincorr and SMYAC, which is already an existing joint venture between SMC and NYG. SMYPIL's subsidiaries are the Packaging Group's international facilities.

On December 17, 2009, the Packaging Group through its international subsidiary, SMYPIL, acquired a 65% stake in JHK Investments Pty. Ltd., which owns 100% of Cospak Group, the largest packaging trading firm in Australia. As of October 2013, SMYPIL acquired the remaining shares in San Miguel Yamamura Knox, Pty. Ltd, now San Miguel Yamamura Australasia Pty. Ltd. ("SMYA"). Accordingly, SMYA is now wholly-owned by SMYPIL.

In January 2013, SMYPC finalized its joint venture with Can-Pack S.A. for its two-piece aluminum can manufacturing business. The strategic partnership through the joint-venture company, CAI, will modernize SMYPC's aluminum can business while utilizing the know-how and technologies of Can-Pack Group. It also aims to introduce various aluminum can packaging formats to the growing market in the Philippines and the Asia Pacific region.

On March 1, 2013, SMYPC acquired 104,500,000 common shares, equivalent to 35% equity interest in Northern Cement Corporation ("NCC"). NCC is primarily engaged in manufacturing, developing, processing, exploiting, buying and selling cement and/or other products derived therefrom.

On February 27, 2015, SMYPIL through its new Australian subsidiary, SMYV Pty Ltd, has completed the acquisition of Vinocor Worldwide Direct Pty. Ltd. ("Vinocor"). Vinocor is a market leader in the supply of corks and closures for wine bottles in Australia, with facilities and operations based in Adelaide, South Australia.

On September 1, 2016, SMYA through its new Australian subsidiary, SMYE Limited, acquired the assets and business of Endeavour Glass Packaging Limited (In Receivership), a trading company based in Auckland, New Zealand.

Real Estate

San Miguel Properties Inc. (SMPI) was created in 1990 initially as the corporate real estate arm of SMC. It is the primary property subsidiary of the SMC Group, currently 99.94% owned by SMC.

SMPI is presently engaged in commercial property development, sale and lease of real properties, management of strategic real estate ventures and corporate real estate services.

The first project of SMPI is the SMC Head Office Complex, now considered a landmark and a catalyst in transforming the area now known as the Ortigas Business District.

SMPI has expanded its portfolio, serving the high-end market with its foray into townhouse developments, such as Dover Hill in San Juan, One Dover View and Two Dover View in Mandaluyong, and Emerald 88 in Pasig.

Other residential developments are located in General Trias, Cavite and Sta. Rosa, Laguna.

The Makati Diamond Residences, a luxury serviced apartment across Greenbelt 5 in Legaspi Village, Makati City, is already operational in 2015.

SMPI, through E-Fare Investment Holdings, Inc., is developing the Mariveles Industrial Estate and Economic Zone. It intends to provide an attractive location for private investments, stimulate regional economic activity, generate employment opportunities and establish forward and backward linkages among industries in and around the economic zone.

SMPI is currently the marketing arm of another industrial estate for medium to heavy industries in Malita, Davao which is being developed by Kyron Landholdings, Inc.

New Businesses

Fuel and Oil

SMC operates its fuel and oil business through Petron Corporation ("Petron"), which is involved in refining crude oil and marketing and distribution of refined petroleum products mainly in the Philippines and Malaysia. Petron is the number one integrated oil refining and marketing company in the Philippines. Petron participates in the reseller (service station), industrial, lube and liquefied petroleum gas sectors. In addition, Petron is also engaged in non-fuels business by earning income from billboards and locators, situated within the premises of the service stations.

Petron owns and manages the most extensive oil distribution infrastructure in the Philippines. Petron has more than 2,200 retail service stations and more than 570 retail service stations in Malaysia as of December 31, 2016. Petron also exports various petroleum products and petrochemical feedstock, including naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

Petron owns and operates a petroleum refining complex, with a capacity of 180,000 barrels per day located in Limay, Bataan Philippines. The refinery has its own piers and two offshore berthing facilities. In 2010, Petron started the upgrade of its refinery by undertaking the Petron Bataan Refinery Master Plan Phase-2 Upgrade ("RMP-2") which started commercial operation on January 1, 2016. RMP-2 upgraded the Petron Bataan Refinery to a full conversion refining complex which further enhanced its operational efficiencies, converting its fuel oil production into higher value products – gasoline, diesel, jet fuel and petrochemicals, making it comparable to highly complex refineries worldwide. Petron also owns a refinery in Malaysia with a capacity of 88,000 barrels per day.

Energy

The energy business, which is conducted through SMC Global Power Holdings Corp. ("SMC Global"), is one of the leaders in the Philippine power generation industry in terms of installed capacity. SMC Global administers three power plants, located in Sual, Pangasinan

(coal), Ilijan, Batangas (natural gas) and San Roque, Pangasinan (hydroelectric), with a combined capacity of 2,545 MW, pursuant to the Independent Power Producer Administration ("IPPA") agreements with Power Sector Assets and Liabilities Management Corporation ("PSALM") and National Power Corporation of the Philippines.

SMC Global began acting as an IPPA of the Sual power plant in November 2009, the San Roque power plant in January 2010 and the Ilijan power plant in June 2010. SMC Global sells power through off take agreements either directly to customers, including Manila Electric Company and other distribution utilities, electric cooperatives and industrial customers, or through the Philippine Wholesale Electricity Spot Market ("WESM").

In September 2013, SMC Powergen Inc., a subsidiary of SMC Global, acquired the 4 x 35 MW co-generation solid fuel fired plant of Petron located in Limay, Bataan. The plant added 140 MW to the total capacity of SMC Global. In December 2016, the cogeneration power plant was sold back to Petron.

In October 2013, SMC Global was awarded the winning concessionaire for the rehabilitation, operations and maintenance of Albay Electric Cooperative, located in Albay, Bicol. A new subsidiary, Albay Power and Energy Corp. ("APEC") was created for this purpose.

In 2013, San Miguel Consolidated Power Corporation broke ground on the new coal-fired power plant in Malita, Davao while SMC Consolidated Power Corporation broke ground on another coal-fired power plant in Limay, Bataan, both of which will have an initial capacity of 300 MW each. The Unit 1 with 150 MW in Malita, Davao commenced commercial operation in December 2016 while the other units of the power plants are expected to be commercially available in 2017.

In 2014, PowerOne Ventures Energy Inc., a subsidiary of SMC Global, and K-Water entered into a joint venture partnership for the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant awarded by PSALM to K-Water. This brought total installed capacity of SMC Global to 2,903 MW.

As of December 31, 2016, SMC Global is one of the largest power companies in the Philippines, which holds a 21.2% market share of the total installed power generation capacity for the Luzon power grid, 6.9% market share of the Mindanao grid and a 16.6% market share of the national grid according to the Energy Regulatory Commission of the Philippines ("ERC").

Infrastructure

The infrastructure business, conducted through San Miguel Holdings Corp. (SMHC), consists of investments in companies that hold long-term concessions in the infrastructure sector in the Philippines. Current operating tollroads include the Tarlac-Pangasinan-La Union Toll Expressway ("TPLEX"), South Luzon Expressway ("SLEX"), Skyway Stage 1 and 2, the Southern Tagalog Arterial Road ("STAR") and the NAIA Expressway ("NAIAx") tollways. Ongoing tollroad projects include Skyway Stage 3, Skyway Stage 4 and SLEX TR4. It also operates and is currently expanding the Boracay Airport. In addition, it has the concession right to construct, operate and maintain the Mass Rail Transit Line 7 ("MRT-7") and has recently invested in Manila North Harbour Port Inc. It has also won the bid for the Bulacan Bulk Water Supply Project.

TPLEX

SMHC, through its subsidiary, Rapid Thoroughfares, Inc. ("Rapid"), owns a 70.11% equity interest in Private Infra Dev Corporation ("PIDC"). PIDC is a company which holds a 35-

year Build-Transfer-Operate ("BTO") concession rights to construct, operate and maintain an 88.85 km toll expressway from La Paz, Tarlac, through Pangasinan, to Rosario, La Union.

SLEX / Skyway Stage 1 and 2

As of March 5, 2015, SMHC has a 95.0% stake in Atlantic Aurum Investments B.V. ("AAIBV"), a company which has the following shareholdings:

- 80.0% stake in South Luzon Tollway Corporation ("SLTC"), through MTD Manila Expressways, Inc. ("MTDME"), a wholly-owned subsidiary of AAIBV. SLTC holds a 30-year concession rights to operate the 36.1 km SLEX, one of the three (3) major expressways that link Metro Manila to Southern Luzon;

- 87.84% beneficial ownership in Citra Metro Manila Tollways Corporation ("CMMTC"), through Atlantic Aurum Investments Philippines Corporation (AAIPC), a wholly-owned subsidiary of AAIBV. CMMTC holds a 30-year concession to construct, operate and maintain the 29.59 km Skyway Stage 1 and 2 Project.

Skyway Stage 3

On February 28, 2014, SMHC through AAIBV incorporated Stage 3 Connector Tollways Holdings Corp. ("S3HC"), which holds an 80.0% ownership interest in Citra Central Expressway Corp. ("CCEC"). CCEC holds a 30-year concession to construct, operate, and maintain the Skyway Stage 3, an elevated roadway with the entire length of approximately 14.82 km from Buendia Avenue in Makati to Balintawak, Quezon City and will connect to the existing Skyway Stage 1 and 2. This will connect areas north and south of Metro Manila to help decongest traffic and stimulate the growth of trade and industry in Luzon, outside of Metro Manila.

On March 15, 2016, AAIBV sold its 100% ownership interest in S3HC to AAIPC.

Skyway Stage 4

Skyway Stage 4 is a 34.81 km roadway from South Metro Manila Skyway to Batasan Complex, Quezon City. Skyway Stage 4 serves as another expressway system that aims to further decongest EDSA, C5 and other major arteries of the Metropolis. Further, it aims to provide faster alternate route and accessibility to the motorist when travelling from the province of Rizal and Calabarzon area to Metropolis. The project covers a concession period of 30 years (from start of operations). Targeted completion is 2022.

STAR Tollway

SMHC, through Cypress Tree Capital Investments, Inc. ("CTCII") has an effective 100.0% interest in Star Infrastructure Development Corporation ("SIDC"). SIDC holds the 30-year BTO concession rights of the STAR Project consisting of: Stage 1 - operation and maintenance of the 22.16 km toll road from Sto. Tomas to Lipa City; and Stage 2 - financing, design, construction, operation and maintenance of the 19.74 km toll road from Lipa City to Batangas City.

NAIAx

On May 31, 2013, SMHC incorporated Vertex Tollways Devt. Inc. ("Vertex"), a company that holds the 30-year BTO concession rights for the construction and operation of the NAIAx – a four lane elevated expressway with end-to-end distance of 5.4 km that will provide

access to NAIA Terminals 1, 2 and 3. NAIAx will connect to the Skyway system, the Manila-Cavite Toll Expressway ("CAVITEX") and the Entertainment City of the Philippine Amusement and Gaming Corporation ("PAGCOR").

Boracay Airport

SMC, through the 99.80% interest of SMHC in Trans Aire Development Holdings Corp. ("TADHC"), is undertaking the expansion of Boracay Airport under a 25-year Build-Rehabilitate-Operate-Transfer ("BROT") concession granted by the Republic of the Philippines ("ROP"), through the Department of Transportation and Communications (now the Department of Transportation).

MRT-7

In October 2010, SMC, through SMHC, acquired a 51.0% stake in Universal LRT Corporation (BVI) Limited ("Universal LRT"), which holds the 25-year Build-Gradual Transfer-Operate-Maintain ("BGTOM") concession for MRT-7. MRT-7 is a planned expansion of the metro rail system in Manila which mainly involves the construction of 22 km mass rail transit system with 14 stations that will start from San Jose del Monte City and end at the integrated LRT-1 / MRT-3 / MRT-7 station at North EDSA and a 22 km six (6) lane asphalt highway that will connect the North Luzon Expressway to the intermodal transport terminal in San Jose del Monte City, Bulacan and a 22-km road component from San Jose del Monte City, Bulacan to the Bocaue exit of the NLEX.

As of July 1, 2016, SMC, through SMHC holds 100% ownership in Universal LRT.

Harbour Port

Manila North Harbour Port, Inc. (MNHPI) is the terminal operator of Manila North Harbor, a 52-hectare port facility situated at Tondo, City of Manila. The port has a total quay length of 5,200 meters and forty-one (41) berths which can accommodate all types of vessels such as containerized and non-container type vessels. Under the Contract for the Development, Operation and Maintenance of the Manila North Harbor entered with the Philippine Ports Authority on November 19, 2009, the Philippine Ports Authority awarded MNHPI the sole and exclusive right to manage, operate, develop and maintain the Manila North Harbor for 25 years, renewable for another 25 years. MNHPI commenced operations on April 12, 2010.

Bulacan Bulk Water Supply Project

The Bulacan Bulk Water Supply Project aims to provide clean and potable water to the province of Bulacan that is environmentally sustainable and with a price that is equitable. The project also aims to help various water districts in Bulacan to meet the increasing water demand of consumers, expand its current service area coverage and increase the number of households served by providing a reliable source of treated bulk water. The project proponent will serve as the concessionaire for a period of 30 years (inclusive of the 2-year construction period). The target completion of the project is Q3 2018.

Banking

SMC through SMPI made a series of acquisitions of Bank of Commerce ("BOC") shares in 2007 and 2008 and has a current ownership of 39.9%. BOC is a commercial bank licensed to engage in banking operations in the Philippines.

CLARIDEN HOLDINGS, INC.

Clariden Holdings, Inc. ("Clariden") is a holding company incorporated in July 2009. It was acquired by the Parent Company as a wholly owned subsidiary in August 2013.

Clariden holds mining tenements in various areas in the Philippines. These mining tenements, owned by Clariden's various subsidiaries, include Mineral Production Sharing Agreements ("MPSAs") for the Nonoc Nickel Project and Mt. Cadig Nickel Project, Exploration Permits ("EPs") for certain areas under the Bango Gold Project, and pending Application for Production Sharing Agreement ("APSA") and pending Exploration Permit Applications ("EXPA") for other areas of the Bango Gold Project.

Clariden has a diverse portfolio of high quality mineral properties with high earnings potential that are located in mineral producing districts in the Philippines, as follows:

Nonoc Nickel Project [MPSA No. 072-97-XIII (SMR)]

Clariden, through its indirect beneficial ownership in Philnico Industrial Corporation ("PIC"), Pacific Nickel Philippines, Inc. ("PNPI"), and Philnico Processing Corp. ("PPC"), was granted a contract area of approximately 23,877 hectares located in the islands of Nonoc, Hanigad, and Awasan, Surigao City; and Basilisa and Cagdianao, Dinagat Island Province. The project was granted an additional two-year exploration period on February 25, 2015 for the conduct of: (a) exploration drilling activities to define the quality and quantity of the nickel deposit; and (b) environmental, social, metallurgical and other technical studies. An application for the renewal of the exploration period was filed with the Mines and Geosciences Bureau ("MGB") on February 22, 2017 and is currently awaiting approval.

Mt. Cadig Nickel Project (MPSA No. 346-2010-IVA)

Clariden, through V.I.L. Mines, Incorporated ("VMI", a wholly-owned subsidiary of Clariden) has the exclusive right to conduct exploration, development and utilization activities for nickel within its 11,126.3576-hectare contract area located in Tagkawayan, Quezon and Labo and Sta. Elena, Camarines Norte pursuant to its MPSA granted on June 25, 2010. In November 2015, VMI filed with the Mines and Geosciences Bureau a request for extension of its 2-year exploration period under the MPSA and is currently awaiting approval. VMI continues to implement community development activities for its host communities.

Bango Gold Project (Exploration Permit Nos. 000001-2011-XI and 000002-2011-XI)

Clariden, through Prima Lumina Gold Mining Corp. ("PLGMC"), is the assignee of the two EPs covering certain areas of Compostela Valley and Davao Oriental. These EPs allow PLGMC to conduct exploration activities for gold to determine its existence, extent, quantity and quality. In July 2016, Prima Lumina filed with the MGB a request for extension of its 2-year exploration period under the MPSA and is currently awaiting approval. PLGMC continues to implement community development activities for its host communities.

North Davao Project

In 2009, Asia-Alliance Mining Resources Corp. won the bid conducted by the Philippine Mining Development Corporation ("PMDC") to undertake the exploration, development, and utilization of North Davao Mining Property's gold and copper deposits under a Joint Operation Agreement ("JOA") to be executed between the parties.

Dinagat Nickel-Chromite Project

On January 24, 2006, PPC and the PMDC entered into a Joint Operating Agreement ("JOA") designating PPC as the project contractor exclusively authorized to explore, develop, and commercially utilize the nickel deposit within a 3,600 hectare area in the municipalities of Cagdianao and Basilisa in Dinagat Island, Surigao del Norte, adjacent to MPSA No. 072-97-XII ("SMR"). The JOA was assigned by PPC to PNPI in June 2007. Additional exploration is required to increase the current resources in the area. Discussions between PNPI and PMDC to renegotiate the sharing scheme under the JOA are ongoing.

Financial Statements

The following financial statements of the Company, namely:

1. the Audited Consolidated Financial Statements of the Company and its subsidiaries as of December 31, 2016, including the Company's Statement of Management's Responsibility and the Notes to the 2016 Audited Consolidated Financial Statements of the Company, are collectively attached hereto as **Annex "B-1"**; and

2. the Unaudited Consolidated Financial Statements of the Company and its subsidiaries as of and for the period ended March 31, 2017 (with comparative figures as of December 31, 2016 and for the period ended March 31, 2016) and Selected Notes to the Financial Statements are collectively attached hereto as **Annex "B-2"**.

Management's Discussion and Analysis or Plan of Operation

The Management's Discussion and Analysis or Plan of Operation of the Company as of December 31, 2016 and March 31, 2017 are attached hereto as **Annexes "C-1"** and **"C-2"**, respectively.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no disagreements with the Company's external auditors on accounting and financial disclosure.

Audit and Audit Related Fees

The Company paid the external auditor Audit Fees amounting to P1.8 million and P1.5 million, in 2016 and 2015, respectively. Said fees include compensation for audit services and other related services such as audit review and research work. There were no fees paid to the external auditor for tax accounting, compliance, advice, planning, and any other form of tax services. There were no other fees paid to the auditors other than the above-described services.

The stockholders approve the appointment of the Company's external auditors. The Audit Committee reviews the audit scope and coverage, strategy and results for the approval of the Board and ensures that audit services rendered shall not impair or derogate the independence of the external auditors or violate SEC regulations. Likewise, the Audit Committee evaluates and determines any non-audit work performed by external auditors, including the fees therefor, and ensures that such work will not conflict with External Auditors' duties as such or threaten its independence.

Market Price of and Dividends on the Company's Common Equity and Related Stockholder Matters

On October 17, 2013, the SMC Board approved the declaration, by way of property dividends, of 240,196,000 common shares of the Company to the SMC common shareholders of record as of November 5, 2013, which dividend declaration was approved by the SEC on November 19, 2013. The Certificate Authorizing Registration was issued by the Bureau of Internal Revenue (BIR) on December 26, 2013 and the physical distribution of the property dividends commenced on January 2, 2014.

Top Frontier's 490,196,200 common shares, composing the total issued common shares of the Company, were listed by way of introduction in the PSE on January 13, 2014. The percentage of public ownership of the Company as of April 30, 2017 is 11.91%.

The high and low closing prices of the common shares of Top Frontier for each quarter within the last two (2) fiscal years and for the first quarter of 2017 are as follows:

	2017		**2016**		**2015**	
	Common		**Common**		**Common**	
	High	Low	High	Low	High	Low
1st Quarter	P275.00	P260.00	P184.00	P 62.90	P127.90	P98.00
2nd Quarter	-	-	P195.00	P130.20	P106.80	P80.00
3rd Quarter	-	-	P229.80	P180.00	P 84.95	P63.00
4th Quarter	-	-	P269.80	P206.40	P108.50	P67.60

The closing price of the Company's common shares as of May 31, 2017, the latest practicable trading date, is P307.40 per share.

The approximate number of shareholders of the Company as of April 30, 2017 is 22,366.

The top twenty (20) stockholders of the Company as of April 30, 2017 are as follows:

Rank	**Name of Stockholders**	**No. of Common Shares**	**No. of Preferred Shares**	**Total No. of Shares**	**% out of Total Outstanding Shares**
1	Iñigo U. Zobel	199,601,417	0	199,601,417	59.6198%
2	Master Year Limited	49,799,800	0	49,799,800	14.8749%
3	Privado Holdings, Corp.	36,814,051	0	36,814,051	10.9961%
4	PCD Nominee Corporation (Filipino)	32,861,858	0	32,861,858	9.8156%
5	San Miguel Corporation	2,561,031	1,904,540	4,465,571	1.3338%
6	PCD Nominee Corporation (Non- Filipino)	2,179,045	0	2,179,045	0.6501%
7	Millennium Energy, Inc.	1,080,738	0	1,080,738	0.3228%
8	Marine Shore Investment Holdings, Inc.	258,767	0	258,767	0.0773%
9	Columbus Capitana Corporation	239,233	0	239,233	0.0715%
10	Everett Steamship Corporation	190,333	0	190,333	0.0569%
11	Gingoog Holdings Corporation	183,008	0	183,008	0.0547%
12	Eduardo M. Cojuangco, Jr.	127,354	0	127,354	0.0380%
13	Macrina Leyson	114,475	0	114,475	0.0342%
14	Pac Rim Realty & Development Corp.	91,205	0	91,205	0.0272%
15	Ramon S. Ang	75,887	0	75,887	0.0227%

Rank	Name of Stockholders	No. of Common Shares	No. of Preferred Shares	Total No. of Shares	% out of Total Outstanding Shares
16	Cheng Siok Tuan	68,911	0	68,911	0.0206%
17	Lucky Star Holdings, Inc.	66,628	0	66,628	0.0199%
18	Carmel of St. Therese of the Child Jesus	59,295	0	59,295	0.0177%
19	Q-Tech Alliance Holdings, Inc.	45,600	0	45,600	0.0136%
20	The Discaled Carmelite Nuns of Cebu	45,186	0	45,186	0.0135%
	TOTAL	326,463,822	1,904,540	328,368,362	98.08%

There were no cash dividends declared and paid by the Company for common shares in 2016.

The Company's Board of Directors approved the declaration and payment of the following cash dividends to stockholders owning preferred shares in 2016 as follows:

Date of Declaration	Date of Record	Date of Payment	Dividend per Share
August 10, 2016	August 10, 2016	August 12, 2016	P279.00
November 10, 2016	November 10, 2016	November 11, 2016	279.00

There were no cash dividends declared and paid by the Company for common and preferred shares in 2015.

Description of the securities of the Company may be found in Note 25, Equity, of the 2016 Audited Consolidated Financial Statements, attached herein as **Annex "B-1"**.

There were no securities sold by the Company within the past three (3) years which were not registered under the SRC.

Compliance with Leading Practice on Corporate Governance

The evaluation by the Company to measure and determine the level of compliance of the Board of Directors and top level management with its Manual of Corporate Governance ("Manual") is vested by the Board of Directors on the Compliance Officer. The Compliance Officer is mandated to monitor compliance by all concerned with the provisions and requirements of the Manual. On September 19, 2013, the Board of Directors adopted the Company's Manual of Corporate Governance pursuant to the Revised Code of Corporate Governance issued by the SEC under its Memorandum Circular No. 6, series of 2009. On July 31, 2014, the Board approved the adoption of the Amended Manual of Corporate Governance of the Corporation, incorporating therein, among others, the amendments pursuant to SEC Memorandum Circular 9, Series of 2014 (the "Amended Manual"). The Compliance Officer has certified that the Company has substantially adopted all the provisions of its Amended Manual. Pursuant to its commitment to good governance and business practice, the Company continues to review and strengthen its policies and procedures, giving due consideration to developments in the area of corporate governance which it determines to be in the best interests of the Company, its stockholders and other stakeholders.

ACTION WITH RESPECT TO REPORTS

The approval of the following will be considered and acted upon at the meeting:

1. Minutes of the Annual Stockholders' Meeting held on July 14, 2016, with the following items:

   a. Certification of Quorum
   b. Approval of the Minutes of the Annual Stockholders' Meeting held on July 9, 2015
   c. Approval of the Annual Report
   d. Ratification of Acts and Resolutions of the Board of Directors and Corporate Officers
   e. Appointment of External Auditors
   f. Election of the Board of Directors
   g. Other Matters
   h. Adjournment

2. Annual Report of the Company for the year ended December 31, 2016;

3. Ratification of all the acts of the Board of Directors and Officers since the 2016 Annual Stockholders' Meeting which include:

   a. Approval of:

      i. Minutes of Previous Meetings
      ii. Quarterly financial performance and financial position of the Company
      iii. Report on the issuance of the Philippine Peso-denominated Convertible Perpetual Securities
      iv. Declarations of cash dividends to shareholders owning preferred shares
      v. Self-rating form of the Board of Directors
      vi. Record date and other significant dates and details for the 2017 Annual Stockholders Meeting
      vii. Report on the qualification of the nominees for election to the Board
      viii. Report on the Corporate Governance Committee validation of the results of the Audit Committee performance assessment and self-rating form of the Board of Directors

   b. Appointment of officers;

   c. Appointment of Board Committee Members;

   d. Designation of depository banks, appointment of authorized signatories for banking and other corporate transactions and approval of their signing authorities and limits;

   e. Adoption of the New Manual on Corporate Governance of the Company; and

   f. Adoption of the Personal Data Privacy Policy of the Company.

The Minutes of the Annual Stockholders' Meeting held on July 14, 2016, as well as the resolutions of the Board of Directors beginning July 14, 2016, will be available for examination during office hours at the Office of the Corporate Secretary.

VOTING PROCEDURES

For the election of directors, the seven (7) nominees with the greatest number of votes will be elected as directors.

Shareholders vote *viva voce*, unless a motion to cast votes by ballot is made and duly seconded, and approved by the majority of the shareholders present or represented at the meeting as the method of voting for any or all of the proposals or matters submitted to a vote at the meeting.

In all proposals or matters for approval except for election of directors, each share of stock entitles its registered owner (who is entitled to vote on such particular matter) to one (1) vote. In case of election of directors, cumulative voting as set out in page 4 of this Information Statement shall be adopted. Counting of the votes will be done by the Corporate Secretary or Assistant Corporate Secretary with the assistance of the independent auditors and the Company's stock transfer agent.

UNDERTAKING

The Company undertakes to provide any requesting stockholder, free of charge, the following:

- **a printed or electronic copy of the annual report on SEC Form 17-A of the Company, at the stockholder's option, upon written request addressed to the Office of the Corporate Secretary and Compliance Officer, 7th Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City 1550, Metro Manila, Philippines or via email at smc_stsc@smg.sanmiguel.com.ph; and**
- **a printed copy of this Information Statement [considering that the Company shall be distributing this Information Statement to its stockholders in compact disc (CD) format], upon written request addressed to the SMC Stock Transfer Service Corporation, 2nd Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City 1550, Metro Manila, Philippines or via email at smc_stsc@smg.sanmiguel.com.ph.**

SIGNATURE

After reasonable inquiry and to the best of my knowledge and behalf, I certify that the information set forth in this report is true, complete and correct. This report is signed in Mandaluyong City on May 31, 2017.

TOP FRONTIER INVESTMENT HOLDINGS, INC.

By:

Virgilio S. Jacinto
Corporate Secretary and Compliance Officer

PROXY

I, the undersigned stockholder of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** (the "Company"), appoint:

The Chairman of the Board of Directors of the Company, or in his absence

The President and Chief Executive Officer of the Company, or in his absence

The Chairman of the July 12, 2017 Annual Meeting of the Stockholders

as my proxy, to represent me at the regular meeting of the stockholders of the Company scheduled for **July 12, 2017** (**Wednesday**) at **2:00 p.m.** at the **Executive Dining Room, 2nd Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City, Metro Manila, Philippines**, and any of its adjournment(s), as fully as I could do if present and voting in person, ratifying all action taken on matters that may properly come before such meeting or its adjournment(s). I direct my proxy to vote shares which I own, or may hereafter own, and such shares as I am authorized to vote in my capacity as Administrator, Executor or Attorney-in Fact, on the agenda items I have indicated with "X" below. **If I fail to indicate my vote on the items specified below, my proxy shall vote in accordance with the recommendation of Management. Management recommends a "FOR ALL" vote for proposal 1, and a "FOR" vote for proposals 2 through 5.**

PROPOSAL	ACTION		
	FOR ALL	WITHHOLD FOR ALL	EXCEPTION
1. Election of Management's Nominees as Directors			
Management's Nominees for Directors are Iñigo U. Zobel, Ramon S. Ang, Ferdinand K. Constantino, Aurora T. Calderon, and Nelly A. Favis-Villafuerte. The nominees for Independent Directors are Consuelo M. Ynares-Santiago and Minita V. Chico-Nazario. **INSTRUCTIONS:** *To withhold authority to vote for any individual nominee(s) of Management, please mark Exception box and list the name(s) under.*			
	FOR	AGAINST	ABSTAIN
2. Approval of the Minutes of the Annual Stockholders' Meeting held on July 14, 2016			
3. Approval of the Annual Report of the Company for year ended December 31, 2016			
4. Ratification of all the acts and proceedings of the Board of Directors and Officers since the Annual Stockholders' Meeting held on July 14, 2016			
5. Appointment of R.G. Manabat & Co. as external auditors of the Company for fiscal year 2017			

Signed this _____ day of _____________ 2017.

_______________________________ PRINTED NAME OF SHAREHOLDER

_______________________________ SIGNATURE OF SHAREHOLDER/ AUTHORIZED SIGNATORY

Revocability of Proxies. A person giving a proxy may revoke it at any time before it is exercised. A proxy may be revoked by any of the following means: (1) filing with the Corporate Secretary, at least ten (10) working days before the scheduled meeting, a written notice revoking it; or (2) attending the meeting and voting in person. Mere attendance at the meeting will not automatically revoke a proxy.

Persons Making the Solicitation. This solicitation is being made by the Company. Solicitation of proxies in the Philippines will be mainly conducted through mail. Proxies will also, however, be solicited in person or through telephone. The cost of solicitation, approximately P1,000,000.00, will be borne by the Company.

Interest of Certain Persons in Matters to be Acted Upon. No director, officer, or nominee for election as director of the Company, or any of their associates, at any time since the beginning of the last fiscal year, has any substantial interest, direct or indirect, by security holdings or otherwise, in any of the matters to be acted upon in the meeting, other than election to office.

Annex "A-1"

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **CONSUELO M. YNARES-SANTIAGO**, Filipino, of legal age and a resident of No. 4 Queensville cor. Derby Streets, White Plains, Quezon City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** and has been its Independent Director since 2013 to present.

2. I am affiliated with the following companies or organizations:

Company/Organization	*Position/Relationship*	*Period of Service*
SMC Global Power Holdings Corp.	Independent Director	2011 to present
Anchor Insurance Brokerage Corporation	Independent Director	2012 to present
South Luzon Tollway Corporation	Independent Director	2015 to present
Phoenix Petroleum Phil. Inc.	Independent Director	2013 to present
National Sandigan Foundation of the Philippines	Legal Consultant	2009 to present
Tahanan Outreach Program Services (TOPS)	Member, Board of Directors	2014 to present
UP Women Lawyers' Circle (WILOCI)	Consultant	2002 to present
Women's Lawyers' Association of the Philippines	Member	1990 to present
Federacion International de Abogadas	Member	1990 to present
Apostleship of Prayer Association	Member	2002 to present
Retired Supreme Court Justices Association of the Philippines	Member	2009 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **TOP FRONTIER INVESTMENT HOLDINGS, INC.**, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC Issuances.

4. I am not related to any director/officer/substantial shareholder of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** and its subsidiaries and affiliates.

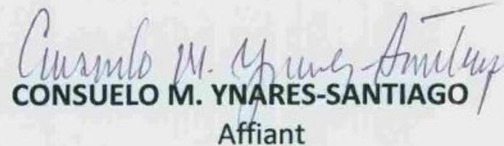
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

6. I am not in government service nor affiliated with a government agency or any Government-Owned or Controlled Corporation (GOCC).

7. I shall faithfully and diligently comply with my duties and responsibilities as Independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this 10 May 2017 at Mandaluyong City.



CONSUELO M. YNARES-SANTIAGO
Affiant

SUBSCRIBED AND SWORN to before me this 10 May 2017 at Mandaluyong City, affiant personally appeared before me and exhibited to me her Philippine Passport with No. EC2448352 issued on 17 October 2014 at DFA NCR East.

Doc. No.: 119;
Page No.: 24;
Book No.: II;
Series of 2017.

PAULA KATHERINA A. GAN
Commission No. 0308-17
Notary Public for Mandaluyong City
Until Dec. 31, 2018
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 55988
PTR No. 3024239; 01-04-17; Mandaluyong City
IBP Lifetime Member No. 013353; 02-05-15; Q.C.
MCLE Compliance No. V-0015241; 03/08/16; Pasig City

Annex "A-2"

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **MINITA V. CHICO-NAZARIO**, Filipino, of legal age and a resident of 299 Gov. A. Santos St., BF Homes, Parañaque City after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** and has been its Independent Director since 2014 to present.

2. I am affiliated with the following companies or organizations:

Company/Organization	*Position/Relationship*	*Period of Service*
San Miguel Properties, Inc.	Independent Director	2012 to present
Ginebra San Miguel Inc.	Independent Director	2012 to present
San Miguel Pure Foods Company, Inc.	Independent Director	2015 to present
University of Perpetual Help System DALTA in Las Pinas City	Dean, College of Law	2011 to present
Mariveles Grains Corp.	Member, Board of Directors	2012 to present
Philippine Grain International Corp.	Chairperson	2010 to present
United Coconut Planters Bank	Legal Consultant	2014 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **TOP FRONTIER INVESTMENT HOLDINGS, INC.**, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC Issuances.

4. I am not related to any director/officer/substantial shareholder of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** and its subsidiaries and affiliates.

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

6. I am not in government service nor affiliated with a government agency or any Government-Owned or Controlled Corporation (GOCC).

7. I shall faithfully and diligently comply with my duties and responsibilities as Independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this 10 May 2017 at Mandaluyong City.

MINITA V. CHICO-NAZARIO
Affiant

SUBSCRIBED AND SWORN to before me this 10 May 2017 at Mandaluyong City, affiant personally appeared before me and exhibited to me her Philippine Passport with No. EC3431212 issued on 11 February 2015 at DFA NCR South.

Doc. No.: 115;
Page No.: 24;
Book No.: II;
Series of 2017.

PAULA KATHERINA A. GAN
Commission No. 0308-17
Notary Public for Mandaluyong City
Until Dec. 31, 2018
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 55988
PTR No. 3024239; 01-04-17; Mandaluyong City
IBP Lifetime Member No. 013353; 02-05-15; Q.C.
MCLE Compliance No. V-0015241; 03/08/16; Pasig City

Annex "B-1"

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016, 2015 and 2014

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of Top Frontier Investment Holdings, Inc. (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.

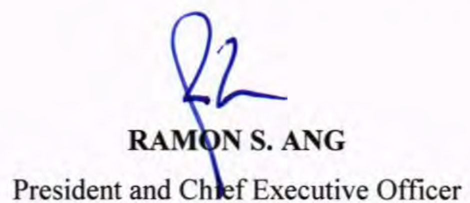
In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the 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.

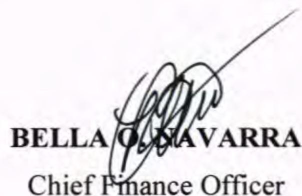
The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders or members.

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.

IÑIGO U. ZOBEL
Chairman of the Board



RAMON S. ANG
President and Chief Executive Officer



BELLA O. NAVARRA
Chief Finance Officer

Signed this 16th day of March 2017

ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES)
CITY OF MANDALUYONG) S.S.

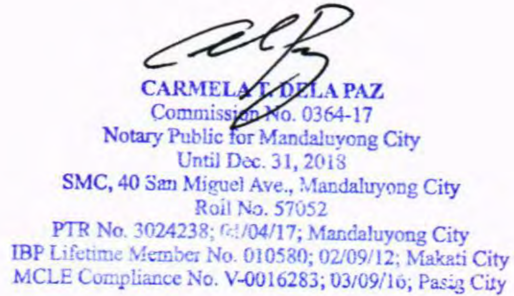
BEFORE ME, a Notary Public for and in the City of Mandaluyong, Philippines on this APR - 6 2017, personally appeared the following with his identification, to wit:

Name	Passport No.	Issue Date	Issued At
Iñigo Zobel	EC0686788	March 27, 2014	DFA NCR East
Ramon S. Ang	EC3542718	February 27, 2015	DFA Manila
Bella O. Navarra	P1969090A	February 18, 2017	DFA NCR East

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

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

Doc. No. 27;
Page No. 7;
Book No. I;
Series of 2017.



R.G. Manabat & Co.
The KPMG Center, 9/F
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Philippines 1226
Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
Email ph-inquiry@kpmg.com.ph

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Top Frontier Investment Holdings, Inc.
5th Floor, ENZO Building
399 Sen. Gil J. Puyat Avenue, Makati City

Opinion

We have audited the consolidated financial statements of Top Frontier Investment Holdings, Inc. 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.

R.G. Manabat & Co., a Philippine partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

PRC-BOA Registration No. 0003, with extended validity until 30 April 2017
pursuant to Board Resolution No. 37, s. of 2017
SEC Accreditation No. 0004-FR-4, Group A, valid until November 10, 2017
IC Accreditation No. F-2014/014-R, valid until August 26, 2017
BSP Accredited, Category A, valid until December 17, 2017

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. (P685,303 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 (P49,225 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 (P232,196 million).
Refer to Notes 4, 8, 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.

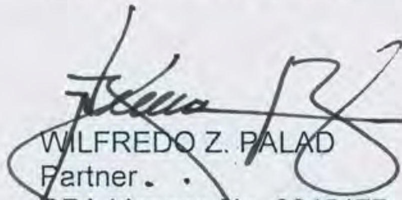
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

TOP FRONTIER INVESTMENT HOLDINGS, INC. 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*	P203,246	P181,134
Trade and other receivables - net	*4, 5, 7, 10, 34, 36, 41, 42*	110,966	97,984
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*	75,397	73,826
		475,972	420,411
Assets held for sale	*7*	184	-
Total Current Assets		476,156	420,411
Noncurrent Assets			
Investments and advances - net	*4, 5, 13*	32,740	27,154
Available-for-sale financial assets	*4, 14, 41, 42*	5,986	5,948
Property, plant and equipment - net	*4, 5, 15, 35*	565,882	561,107
Investment property - net	*4, 16*	9,271	6,810
Biological assets - net of current portion	*4, 17*	2,263	2,177
Goodwill	*4, 5, 6, 18, 39*	49,225	49,230
Other intangible assets - net	*4, 5, 18, 39*	232,196	246,999
Deferred tax assets	*4, 5, 24*	21,011	17,007
Other noncurrent assets - net	*4, 5, 19, 34, 35, 36, 41, 42*	32,256	32,822
Total Noncurrent Assets		950,830	949,254
		P1,426,986	P1,369,665
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	*5, 20, 31, 34, 41, 42*	P197,093	P148,026
Accounts payable and accrued expenses	*4, 5, 21, 34, 35, 36, 41, 42*	133,948	114,297
Finance lease liabilities - current portion	*4, 5, 31, 35, 41, 42*	19,084	16,339
Income and other taxes payable	*5*	16,990	13,992
Dividends payable	*5, 37*	3,442	1,446
Current maturities of long-term debt - net of debt issue costs	*5, 22, 31, 34, 41, 42*	31,814	69,394
Total Current Liabilities		402,371	363,494
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*5, 22, 31, 34, 41, 42*	297,617	332,436
Deferred tax liabilities	*5, 24*	59,027	56,785
Finance lease liabilities - net of current portion	*4, 5, 31, 35, 41, 42*	168,021	183,195
Other noncurrent liabilities	*4, 5, 23, 34, 35, 36, 41, 42*	35,973	45,167
Total Noncurrent Liabilities		560,638	617,583

Forward

Securities and Exchange Commission Electronic Records Management Division
APR 11 2017
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	Note	2016	2015
Equity	*25, 37, 38*		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - common		**P490**	P490
Capital stock - preferred		**260**	260
Additional paid-in capital		**120,501**	120,501
Convertible perpetual securities		**25,158**	-
Equity reserves	*6*	**(7,280)**	(3,716)
Retained earnings:			
Appropriated		**19,148**	13,874
Unappropriated		**40,908**	36,759
Treasury stock		**(76,780)**	(76,780)
		122,405	91,388
Non-controlling Interests	*2, 5, 6*	**341,572**	297,200
Total Equity		**463,977**	388,588
		P1,426,986	P1,369,665

See Notes to the Consolidated Financial Statements.

TOP FRONTIER INVESTMENT HOLDINGS, INC. 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*	**P685,303**	P672,231	P772,230
COST OF SALES	*27*	**515,912**	533,989	661,982
GROSS PROFIT		**169,391**	138,242	110,248
SELLING AND ADMINISTRATIVE EXPENSES	*28*	**(72,742)**	(60,776)	(57,015)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*12, 20, 22, 31, 34, 35*	**(32,417)**	(31,099)	(27,095)
INTEREST INCOME	*32, 34, 36*	**3,695**	4,290	3,981
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*	**155**	(79)	610
OTHER INCOME (CHARGES) - Net	*5, 22, 33, 41, 42*	**(14,158)**	(8,856)	6,048
INCOME BEFORE INCOME TAX		**54,127**	41,602	38,868
INCOME TAX EXPENSE	*24, 43*	**17,240**	17,087	11,017
INCOME FROM CONTINUING OPERATIONS		**36,887**	24,515	27,851
INCOME (LOSS) AFTER INCOME TAX FROM DISCONTINUED OPERATIONS	*7*	**12,248**	162	(869)
NET INCOME		**P49,135**	P24,677	P26,982
Attributable to:				
Equity holders of the Parent Company		**P11,413**	P172	P3,652
Non-controlling interests	*6*	**37,722**	24,505	23,330
		P49,135	P24,677	P26,982
Basic and Diluted Earnings Per Common Share from Continuing Operations Attributable to Equity Holders of the Parent Company	*38*	**P7.72**	P0.35	P12.93

See Notes to the Consolidated Financial Statements.

TOP FRONTIER INVESTMENT HOLDINGS, INC. 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		**P49,135**	P24,677	P26,982
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Equity reserve for retirement plan	*36*	**3,642**	(4,529)	(4,108)
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)	(2,323)
Items that may be reclassified to profit or loss				
Gain (loss) on exchange differences on translation of foreign operations		**(652)**	(3,335)	368
Net gain (loss) on available-for-sale financial assets	*14*	**(13)**	944	(777)
Income tax benefit (expense)		**1**	(95)	4
		(664)	(2,486)	(405)
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		**1,894**	(5,816)	(2,728)
TOTAL COMPREHENSIVE INCOME - Net of tax		**P51,029**	P18,861	P24,254
Attributable to:				
Equity holders of the Parent Company		**P11,264**	(P2,070)	P2,325
Non-controlling interests	*6*	**39,765**	20,931	21,929
		P51,029	P18,861	P24,254

See Notes to the Consolidated Financial Statements.

TOP FRONTIER INVESTMENT HOLDINGS, INC. 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										
		Capital Stock		Additional Paid-in	Convertible Perpetual	Reserve for Retirement	Fair Value	Translation	Other Equity	Retained Earnings		Treasury Stock			Non-controlling	Total
	Note	Common	Preferred	Capital	Securities	Plan	Reserve	Reserve	Reserve	Appro-priated	Unappro-priated	Common	Preferred	Total	Interests	Equity
As of January 1, 2016		**P490**	**P260**	**P120,501**	**P -**	**(P2,271)**	**P1,256**	**(P1,517)**	**(P1,184)**	**P13,874**	**P36,759**	**(P28,457)**	**(P48,323)**	**P91,388**	**P297,200**	**P388,588**
Gain (loss) on exchange differences on translation of foreign operations		**-**	**-**	**-**	**-**	**-**	**-**	**(1,322)**	**-**	**-**	**-**	**-**	**-**	**(1,322)**	**670**	**(652)**
Share in other comprehensive income (loss) of associates and joint ventures - net	*13*	**-**	**-**	**-**	**-**	**21**	**(48)**	**19**	**-**	**-**	**-**	**-**	**-**	**(8)**	**(10)**	**(18)**
Net gain (loss) on available-for-sale financial assets	*14*	**-**	**-**	**-**	**-**	**-**	**17**	**-**	**-**	**-**	**-**	**-**	**-**	**17**	**(29)**	**(12)**
Equity reserve for retirement plan	*36*	**-**	**-**	**-**	**-**	**1,164**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,164**	**1,412**	**2,576**
Other comprehensive income (loss)		**-**	**-**	**-**	**-**	**1,185**	**(31)**	**(1,303)**	**-**	**-**	**-**	**-**	**-**	**(149)**	**2,043**	**1,894**
Net income		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**11,413**	**-**	**-**	**11,413**	**37,722**	**49,135**
Total comprehensive income (loss)		-	-	-	-	**1,185**	**(31)**	**(1,303)**	**-**	**-**	**11,413**	**-**	**-**	**11,264**	**39,765**	**51,029**
Issuance of convertible perpetual securities	*25*	**-**	**-**	**-**	**25,158**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**25,158**	**-**	**25,158**
Net addition (reduction) to non-controlling interests and others	*5 ,6, 13*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,415)**	**-**	**(1,990)**	**-**	**-**	**(5,405)**	**28,739**	**23,334**
Appropriations - net	*25*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,274**	**(5,274)**	**-**	**-**	**-**	**-**	**-**
Cash dividends and distributions:	*37*															
Common		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(9,086)**	**(9,086)**
Preferred		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(8,334)**	**(8,334)**
Undated subordinated capital securities		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(6,712)**	**(6,712)**
As of December 31, 2016	*25*	**P490**	**P260**	**P120,501**	**P25,158**	**(P1,086)**	**P1,225**	**(P2,820)**	**(P4,599)**	**P19,148**	**P40,908**	**(P28,457)**	**(P48,323)**	**P122,405**	**P341,572**	**P463,977**

Forward

	Note	Capital Stock Common	Capital Stock Preferred	Additional Paid-in Capital	Equity Reserves: Reserve for Retirement Plan	Equity Reserves: Fair value Reserve	Equity Reserves: Translation Reserve	Equity Reserves: Other Equity Reserve	Retained Earnings Appro-priated	Retained Earnings Unappro-priated	Treasury Stock Common	Treasury Stock Preferred	Total	Non-controlling Interests	Total Equity
		Equity Attributable to Equity Holders of the Parent Company													
As of January 1, 2015		P490	P260	P120,501	(P714)	P776	(P352)	(P152)	P15,964	P34,497	(P28,457)	(P48,323)	P94,490	P299,988	P394,478
Loss on exchange differences on translation of foreign operations		-	-	-	-	-	(1,165)	-	-	-	-	-	(1,165)	(2,170)	(3,335)
Share in other comprehensive loss of associates and joint ventures - net	*13*	-	-	-	(40)	(30)	-	-	-	-	-	-	(70)	(51)	(121)
Net gain on available-for-sale financial assets	*14*	-	-	-	-	510	-	-	-	-	-	-	510	339	849
Equity reserve for retirement plan	*36*	-	-	-	(1,517)	-	-	-	-	-	-	-	(1,517)	(1,692)	(3,209)
Other comprehensive income (loss)		-	-	-	(1,557)	480	(1,165)	-	-	-	-	-	(2,242)	(3,574)	(5,816)
Net income		-	-	-	-	-	-	-	-	172	-	-	172	24,505	24,677
Total comprehensive income (loss)		-	-	-	(1,557)	480	(1,165)	-	-	172	-	-	(2,070)	20,931	18,861
Net reduction to non-controlling interests and others	*5 ,6, 13*	-	-	-	-	-	-	(1,032)	-	-	-	-	(1,032)	(3,412)	(4,444)
Reversal of appropriations - net	*25*	-	-	-	-	-	-	-	(2,090)	2,090	-	-	-	-	-
Cash dividends and distributions:	*37*														
Common		-	-	-	-	-	-	-	-	-	-	-	-	(8,672)	(8,672)
Preferred		-	-	-	-	-	-	-	-	-	-	-	-	(6,577)	(6,577)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	(5,058)	(5,058)
As of December 31, 2015	*25*	P490	P260	P120,501	(P2,271)	P1,256	(P1,517)	(P1,184)	P13,874	P36,759	(P28,457)	(P48,323)	P91,388	P297,200	P388,588

Forward

		Equity Attributable to Equity Holders of the Parent Company													
					Equity Reserves										
		Capital Stock		Additional Paid-in Capital	Reserve for Retirement Plan	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Retained Earnings		Treasury Stock			Non-controlling Interests	Total Equity
	Note	**Common**	**Preferred**						**Appro-priated**	**Unappro-priated**	**Common**	**Preferred**	**Total**		
As of January 1, 2014		P490	P260	P120,501	P921	P1,241	(P1,125)	(P228)	P276	P46,533	(P28,457)	(P48,323)	P92,089	P276,685	P368,774
Gain (loss) on exchange differences on translation of foreign operations		-	-	-	-	-	776	-	-	-	-	-	776	(408)	368
Share in other comprehensive income (loss) of associates and joint ventures - net	*13*	-	-	-	(19)	391	(3)	-	-	-	-	-	369	183	552
Net gain (loss) on available-for-sale financial assets	*14*	-	-	-	-	(856)	-	-	-	-	-	-	(856)	83	(773)
Equity reserve for retirement plan	*36*	-	-	-	(1,616)	-	-	-	-	-	-	-	(1,616)	(1,259)	(2,875)
Other comprehensive income (loss)		-	-	-	(1,635)	(465)	773	-	-	-	-	-	(1,327)	(1,401)	(2,728)
Net income		-	-	-	-	-	-	-	-	3,652	-	-	3,652	23,330	26,982
Total comprehensive income (loss)		-	-	-	(1,635)	(465)	773	-	-	3,652	-	-	2,325	21,929	24,254
Net addition to non-controlling interests and others	*5 ,6, 13*	-	-	-	-	-	-	76	-	-	-	-	76	23,034	23,110
Appropriations	*25*	-	-	-	-	-	-	-	15,688	(15,688)	-	-	-	-	-
Cash dividends and distributions:	*37*														
Common		-	-	-	-	-	-	-	-	-	-	-	-	(8,937)	(8,937)
Preferred		-	-	-	-	-	-	-	-	-	-	-	-	(8,420)	(8,420)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	(4,303)	(4,303)
As of December 31, 2014	*25*	P490	P260	P120,501	(P714)	P776	(P352)	(P152)	P15,964	P34,497	(P28,457)	(P48,323)	P94,490	P299,988	P394,478

See Notes to the Consolidated Financial Statements.

TOP FRONTIER INVESTMENT HOLDINGS, INC. 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		**P54,127**	P41,602	P38,868
Income (loss) before income tax from discontinued operations	*7*	**13,195**	325	(734)
Income before income tax		**67,322**	41,927	38,134
Adjustments for:				
Depreciation, amortization and others - net	*7, 29*	**54,486**	40,376	28,554
Interest expense and other financing charges	*7, 31*	**32,423**	31,102	27,097
Interest income	*7, 32*	**(3,709)**	(4,319)	(4,016)
Equity in net losses (earnings) of associates and joint ventures	*7, 13*	**(203)**	386	(1,701)
Gain from disposal of discontinued operations	*7*	**(14,002)**	-	-
Loss (gain) on sale of investments and property and equipment	*6, 7, 13, 14, 15, 16*	**(155)**	81	(610)
Operating income before working capital changes		**136,162**	109,553	87,458
Changes in noncash current assets, certain current liabilities and others	*39*	**(12,143)**	(5,221)	(15,226)
Cash generated from operations		**124,019**	104,332	72,232
Interest and other financing charges paid		**(26,398)**	(26,963)	(22,489)
Income taxes paid		**(19,461)**	(14,526)	(12,152)
Net cash flows provided by operating activities		**78,160**	62,843	37,591
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	*39*	**(1,905)**	(7,633)	(243)
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*	**(8,042)**	(3,549)	(6,313)
Additions to property, plant and equipment	*15*	**(40,692)**	(60,094)	(38,989)
Increase in other noncurrent assets and others		**(15,571)**	(8,610)	(7,822)

Forward

	Note	2016	2015 As restated	2014 As restated
Proceeds from sale of investments and property and equipment	*6, 13, 14, 15, 16, 19*	**P1,114**	P2,607	P66,945
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	*7*	**37,175**	-	-
Interest received		**3,482**	4,140	3,486
Dividends received from associates and available-for-sale financial assets	*13, 14*	**19**	96	102
Net cash flows provided by (used in) investing activities		**(24,420)**	(58,628)	17,166
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		**694,423**	763,119	831,178
Long-term borrowings		**98,130**	77,070	77,085
Payments of:				
Short-term borrowings		**(645,947)**	(796,741)	(793,213)
Long-term borrowings		**(182,221)**	(73,092)	(83,467)
Proceeds from reissuance of treasury shares of a subsidiary	*6*	**29,707**	54,201	-
Net proceeds from issuance of preferred shares and undated subordinated capital securities of subsidiaries	*6*	**-**	28,708	23,008
Net proceeds from issuance of convertible perpetual securities	*25*	**25,158**	-	-
Redemption of preferred shares of subsidiaries	*6*	**-**	(94,718)	-
Payments of finance lease liabilities		**(23,907)**	(22,296)	(20,152)
Cash dividends and distributions paid to non-controlling shareholders		**(22,135)**	(21,446)	(22,071)
Increase (decrease) in non-controlling interests		**(5,443)**	(342)	212
Net cash flows provided by (used in) financing activities		**(32,235)**	(85,537)	12,580
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**607**	3,693	(387)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**22,112**	(77,629)	66,950
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**181,134**	258,763	191,813
CASH AND CASH EQUIVALENTS AT END OF YEAR	*9*	**P203,246**	P181,134	P258,763

See Notes to the Consolidated Financial Statements.

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Millions, Except Per Share Data and Number of Shares)

1. Reporting Entity

Top Frontier Investment Holdings, Inc. (Top Frontier or the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on March 11, 2008. On December 18, 2013, The Philippine Stock Exchange, Inc. (PSE) approved the application for the listing by way of introduction of all the common shares of Top Frontier. The shares were listed on the PSE on January 13, 2014.

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

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

The registered office address of the Parent Company is 5th Floor, ENZO Building, 399 Sen. Gil J. Puyat Avenue, Makati 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 Board of Directors (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 Interest Held by the				
	Parent Company	**Subsidiaries**	Parent Company	Subsidiaries	Country of Incorporation
	2016		2015		
San Miguel Corporation (SMC) and subsidiaries, namely:	**66.09**		66.14		Philippines
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
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

Forward

	Percentage of Ownership Interest Held by the				
	Parent Company	**Subsidiaries**	Parent Company	Subsidiaries	Country of
	2016		2015		Incorporation
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) and San Miguel Consolidated Power Corporation (SMCPC)]	**100.00**		100.00		Philippines

Forward

	Percentage of Ownership Interest Held by the				
	Parent Company	**Subsidiaries**	Parent Company	Subsidiaries	Country of Incorporation
	2016		2015		
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 & Gas Mauritius Ltd. and subsidiary, Petron Oil & Gas International Sdn. Bhd. and subsidiaries including Petron Fuel International Sdn. Bhd., Petron Oil (M) Sdn. Bhd. and Petron Malaysia Refining & Marketing 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 Interest Held by the				
	Parent Company	**Subsidiaries**	Parent Company	Subsidiaries	Country of
	2016		2015		Incorporation
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:					
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

Forward

	Percentage of Ownership Interest Held by the				
	Parent Company	**Subsidiaries**	Parent Company	Subsidiaries	Country of
	2016		2015		Incorporation
Clariden Holdings, Inc. (Clariden) and subsidiaries, namely:	**100.00**		100.00		Philippines
Mining Business: V.I.L. Mines, Incorporated (VMI), Asia-Alliance Mining Resources Corp.(AAMRC), Prima Lumina Gold Mining Corp. (PLGMC), Excelon Asia Holding Corporation, New Manila Properties, Inc. and Philnico Holdings Limited [(a)] and subsidiaries [including Pacific Nickel Philippines, Inc. (PNPI), Philnico Industrial Corporation (PIC) and Philnico Processing Corp. (PPC) (collectively the Philnico Group)]					

(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 SMC and 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) and PPC and AAMRC in 2016 and 2015.

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 effective 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 the 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 consolidated statements of income. 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.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
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.

<u>Impairment of Financial Assets</u>
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.

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:

  - 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.

<u>Transactions under Common Control</u>
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.

<u>Non-controlling Interests</u>
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.

<u>Investments in Shares of Stock of Associates and Joint Ventures</u>
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 of material to be extracted in current and future periods based on proved and probable reserves.

The amortization of mining rights will commence upon commercial operations.

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

Deferred Exploration and Development Costs
Deferred exploration and development costs comprise 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 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.

Convertible Perpetual Securities (CPS)

CPS are classified as equity when there is no contractual obligation to deliver cash or other financial assets to another person or entity or to exchange financial assets or liabilities with another person or entity that is potentially unfavorable to the issuer.

Incremental costs directly attributable to the issuance of CPS are recognized as a deduction from equity, net of tax. The proceeds received, net of any directly attributable transaction costs, are credited to CPS.

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 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)” 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.

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

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

The cost of LTIP is measured by reference to the option fair value at the date when the options are granted. The fair value is determined using Black-Scholes option pricing model. In valuing LTIP transactions, any performance conditions are not taken into account, other than conditions linked to the price of the shares of SMC. 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 SMC'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 cost 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” 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 and distribution to holders of CPS, 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 effects 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 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 P187,105 and P199,534 as of December 31, 2016 and 2015, respectively (Note 35).

The combined carrying amounts of power plants and equipment under finance lease amounted to P203,803 and P209,660 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 P2,904, P3,601 and P3,494 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 ALECO; i.e., license to charge fees to users. 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 liabilites. 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 equity 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 P14,142 and P10,314 as of December 31, 2016 and 2015, respectively (Notes 10 and 19).

The carrying amounts of trade and other receivables, and noncurrent receivables and deposits amounted to P117,998 and P104,337 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 P1,928 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 P6,057 and P6,018 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 P576,631 and P573,101 as of December 31, 2016 and 2015, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P207,844 and P204,433 as of December 31, 2016 and 2015, respectively (Note 15).

Investment property, net of accumulated depreciation and amortization amounted to P9,279 and P6,818 as of December 31, 2016 and 2015, respectively. Accumulated depreciation and amortization of investment property amounted to P1,566 and P1,322 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 P138,015 and P129,244 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 P120,922 and P111,999 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 P49,225 and P49,230 as of December 31, 2016 and 2015, respectively (Note 18).

The combined carrying amounts of licenses and trademarks and brand names amounted to P94,181 and P117,755 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 Mineral Reserves and Resources. 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.

Mineral reserves and resources estimates for development projects are, to a large extent, based on the interpretation of geological data obtained from drill holders and other sampling techniques and feasibility studies which derive estimates of costs based upon anticipated tonnage and grades of ores to be mined and processed, the configuration of the ore body, expected recovery rates from the ore, estimated operating costs, estimated climatic conditions and other factors. Proven reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. All proven reserve estimates are subject to revision, either upward or downward, based on new information, such as from block grading and production activities or from changes in economic factors, including product prices, contract terms or development plans. Estimates of reserves for undeveloped or partially developed areas are subject to greater uncertainty over their future life than estimates of reserves for areas that are substantially developed and depleted. As an area goes into production, the amount of proven reserves will be subject to future revisions once additional information becomes available.

Pursuant to the Philippine Mineral Reporting Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves which was adopted by the PSE and SEC and Department of Environment and Natural Resources (DENR) Administrative Order No. 2010-09 (Providing for the Classification and Reporting Standards of Exploration Results, Mineral Resources and Ore Reserves), all mineral resource and mineral/ore reserves report shall be prepared and signed by a person accredited by the relevant professional organization as a Competent Person.

Exploration activities are currently on-going in different projects of Clariden. Exploration drilling planned in PNPI aims to upgrade the mineral resource and reserves previously identified, while in other areas, the objective to define the quality and quantity of the mineral deposits.

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 P950 and P867 as of December 31, 2016 and 2015, respectively (Notes 19 and 35).

Accrual for Mine Rehabilitation and Decommissioning. The cost of mine rehabilitation and decommissioning is based on the estimated costs of rehabilitating fully mined-out areas of the mine site. These costs are adjusted for inflation factor based on the average annual inflation rate as at adoption date or re-evaluation of the asset dismantlement, removal or restoration costs. Such adjusted costs are then measured at present value using the market interest rate for a comparable instrument adjusted for the Group's credit standing. While management believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in the assumptions may materially affect the Group's accretion and obligation for mine rehabilitation.

Accrual for mine rehabilitation and decommissioning costs amounted to P19 as of December 31, 2016 and 2015 (Note 23).

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 P21,011 and P17,007 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 P10,757 and P12,002 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 P757,112 and P735,567 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 P28,603 and P28,061 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 subsidiaries of SMC are as follows:

<u>Infrastructure</u>

- 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 assets 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 SMC 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, SMC 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:

- SMC

   a. *Issuance of 400,000,000 Series "2" Preferred Shares - Subseries G, H and I by SMC*

      On February 24, 2016, the BOD of PSE approved the listing application of SMC 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 registration of the Shelf Registered Shares and issued a permit to sell covering the same on March 8, 2016.

SMC offered the First Tranche of (i) up to 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 of SMC. 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 of SMC.

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 SMC’s follow-on offering of 280,000,000 Series “2” preferred shares, with an oversubscription option of 120,000,000 Series “2” preferred shares, SMC 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, SMC 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.

b. *Issuance of 446,667,000 Series “2” Preferred Shares - Subseries D, E and F*

On September 21, 2015, SMC issued and listed in the PSE 446,667,000 Series “2” preferred shares 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 proceeds from the issuance of the shares were used to redeem the Subseries “2-A” preferred shares.

c. *Redemption of Series “2” Preferred Shares - Subseries A*

On September 21, 2015, SMC 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. SMC 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.

d. Reissuance of Series "1" Preferred Shares

On April 14, 2015, SMC 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.

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 (PCORP) 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, SMC 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, SMC 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 SMC 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. SMC, 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, SMC 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, SMC 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 statement 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, SMC subscribed to 450,000,000 common shares for a total subscription price of P9,000. As of December 31, 2015, SMC 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, SMC 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.

<u>Others</u>

- SWCC

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

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

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

	December 31, 2016	December 31, 2015
Percentage of non-controlling interests	**33.91%**	33.86%
Carrying amount of non-controlling interests	**P342,270**	P297,891
Net income attributable to non-controlling interests	**P37,730**	P24,513
Other comprehensive income attributable to non-controlling interests	**P2,056**	P4,928
Dividends paid to non-controlling interests	**P24,131**	P20,306

The following are the audited condensed financial information of SMC:

	December 31, 2016	December 31, 2015
Current assets	**P479,427**	P422,611
Noncurrent assets	**827,397**	823,411
Current liabilities	**(379,608)**	(319,719)
Noncurrent liabilities	**(490,435)**	(541,426)
Net assets	**P436,781**	P384,877
Sales	**P685,314**	P672,243
Net income	**P52,240**	P28,993
Other comprehensive income (loss)	**2,950**	(8,152)
Total comprehensive income	**P55,190**	P20,841
Cash flows provided by operating activities	**P79,193**	P65,441
Cash flows used in investing activities	**(23,257)**	(58,729)
Cash flows used in financing activities	**(34,147)**	(88,253)
Effect of exchange rate changes on cash and cash equivalents	**606**	3,693
Net increase (decrease) in cash and cash equivalents	**P22,395**	(P77,848)

7. Discontinued Operations and Assets Held for Sale

a. Vega

On May 30, 2016, SMC entered into agreements with PLDT and Globe, for the sale of 100% ownership interest of SMC in Vega for total amount of P30,004. Vega, through its subsidiaries holds the telecommunications assets of SMC. In addition, advances by SMC to Vega was also assigned to PLDT and Globe in the total amount of P22,077. SMC 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, SMC, 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 SMC, 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 SMC, 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.

SMC 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		**13,230**	-	-
Net income (loss) from discontinued operations		**P12,248**	P162	(P869)
Attributable to:				
Equity holders of the Parent Company		**P8,054**	P55	(P617)
Non-controlling interests		**4,194**	107	(252)
		P12,248	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 used in financing activities	**(1,220)**	1,220	-
Net cash flows provided by (used in) discontinued operations	**P31,873**	(4,743)	(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	**13,208**
Goodwill - net	**7**
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	**(273)**
Other noncurrent liabilities	**(2,401)**
Reserve for retirement plan	**14**
Non-controlling interests	**(606)**
Net assets disposed of	**P38,070**

	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, infrastructure and mining.

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

The food segment includes, among others, feeds production and 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 stubs, 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 mining segment is engaged in exploration, development and commercial utilization of nickel, cobalt, chrome, iron, gold and other mineral deposits.

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:

	Beverage			Food			Packaging		
	2016	2015	2014	**2016**	2015	2014	**2016**	2015	2014
Sales									
External sales	**P115,609**	P98,386	P94,230	**P111,498**	P106,845	P102,976	**P19,990**	P19,751	P19,365
Inter-segment sales	**123**	616	286	**88**	15	23	**7,396**	5,299	4,861
Total sales	**P115,732**	P99,002	P94,516	**P111,586**	P106,860	P102,999	**P27,386**	P25,050	P24,226
Result									
Segment result	**P27,519**	P22,599	P21,784	**P8,632**	P7,345	P6,164	**P2,148**	P1,735	P1,615

	Energy			Fuel and Oil			Infrastructure		
	2016	2015	2014	**2016**	2015	2014	**2016**	2015	2014
Sales									
External sales	**P67,980**	P68,704	P77,586	**P337,651**	P356,801	P475,412	**P19,866**	P13,288	P922
Inter-segment sales	**9,992**	8,803	6,708	**6,189**	3,377	7,123	**-**	-	-
Total sales	**P77,972**	P77,507	P84,294	**P343,840**	P360,178	P482,535	**P19,866**	P13,288	P922
Result									
Segment result	**P25,985**	P22,958	P25,154	**P24,560**	P13,953	P2,179	**P9,849**	P7,272	(P373)

	Mining and Others			Eliminations			Consolidated		
	2016	2015	2014	**2016**	2015	2014	**2016**	2015	2014
Sales									
External sales	**P12,709**	P8,456	P1,739	**P -**	P -	P -	**P685,303**	P672,231	P772,230
Inter-segment sales	**10,552**	14,900	5,820	**(34,340)**	(33,010)	(24,821)	**-**	-	-
Total sales	**P23,261**	P23,356	P7,559	**(P34,340)**	(P33,010)	(P24,821)	**P685,303**	P672,231	P772,230
Result									
Segment result	**(P1,266)**	P1,019	(P3,770)	**(P778)**	P585	P480	**P96,649**	P77,466	P53,233
Interest expense and other financing charges							**(32,417)**	(31,099)	(27,095)
Interest income							**3,695**	4,290	3,981
Equity in net earnings (losses) of associates and joint ventures							**203**	(120)	2,091
Gain (loss) on sale of investments and property and equipment							**155**	(79)	610
Other income (charges) - net							**(14,158)**	(8,856)	6,048
Income tax expense							**(17,240)**	(17,087)	(11,017)
Net income from continuing operations							**36,887**	24,515	27,851
Income (loss) after income tax from discontinued operations							**12,248**	162	(869)
Net income							**P49,135**	P24,677	P26,982
Attributable to:									
Equity holders of the Parent Company							**P11,413**	P172	P3,652
Non-controlling interests							**37,722**	24,505	23,330
Net Income							**P49,135**	P24,677	P26,982

	Beverage			Food			Packaging			Energy			Fuel and Oil			Infrastructure			Mining and 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	**P93,028**	P88,682	P86,392	**P63,635**	P58,021	P64,449	**P37,349**	P36,975	P34,786	**P340,611**	P344,640	P327,883	**P312,303**	P287,561	P383,887	**P177,436**	P170,298	P62,825	**P319,243**	P311,576	P300,273	**(P116,691)**	(P118,324)	(P107,749)	**P1,226,914**	P1,179,429	P1,152,746
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	**11,803**	10,879	19,879	-	-	-	**32,740**	27,154	46,870
Goodwill and trademarks and brand names																									**139,915**	139,918	120,881
Other assets																									**6,222**	6,157	5,984
Assets held for sale																									**184**	-	554
Deferred tax assets																									**21,011**	17,007	14,982
Consolidated Total Assets																									**P1,426,986**	P1,369,665	P1,342,017
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	**P123,854**	P131,914	P129,498	**(P118,300)**	(P121,095)	(P123,850)	**P166,874**	P156,738	P153,924
Loans payable																									**197,093**	148,026	180,712
Long-term debt																									**329,431**	401,830	335,450
Finance lease liabilities																									**187,105**	199,534	210,092
Income and other taxes payable																									**16,990**	13,992	13,382
Dividends payable and others																									**6,489**	4,172	5,231
Deferred tax liabilities																									**59,027**	56,785	48,748
Consolidated Total Liabilities																									**P963,009**	P981,077	P947,539

	Beverage			Food			Packaging			Energy			Fuel and Oil			Infrastructure			Mining and 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	**P10,581**	P8,675	P4,593	**P -**	P -	P -	**P40,692**	P60,094	P38,989
Depreciation and amortization of property, plant and equipment (Note 15)	**2,503**	2,440	2,756	**1,281**	1,244	1,356	**2,130**	2,043	1,931	**7,318**	7,258	6,916	**8,277**	5,395	5,525	**208**	148	54	**2,132**	2,258	2,046	**-**	-	-	**23,849**	20,786	20,584
Noncash items other than depreciation and amortization of property, plant and equipment	**2,957**	1,742	1,781	**2,613**	2,171	2,089	**145**	218	299	**9,449**	7,895	1,992	**3,708**	2,955	626	**3,376**	3,621	366	**7,894**	(1,605)	(118)	**-**	-	-	**30,142**	16,997	7,035
Loss on impairment of goodwill, property, plant and equipment, and other noncurrent assets	**-**	998	-	**109**	-	118	**67**	-	19	**272**	-	-	**35**	262	798	**-**	-	-	**12**	1,333	-	**-**	-	-	**495**	2,593	935

9. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	2016	2015
Cash in banks and on hand		**P29,651**	P33,185
Short-term investments		**173,595**	147,949
	41, 42	**P203,246**	P181,134

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		**P55,014**	P55,596
Non-trade		**56,552**	40,536
Amounts owed by related parties	*34, 36*	**13,082**	11,794
		124,648	107,926
Less allowance for impairment losses	*4, 5*	**13,682**	9,942
	4, 41, 42	**P110,966**	P97,984

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		**P9,942**	P8,270
Charges for the year	*28, 33*	**4,892**	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		**P13,682**	P9,942

The aging of receivables is as follows:

December 31, 2016	**Trade**	**Non-trade**	**Amounts Owed by Related Parties**	**Total**
Current	**P37,636**	**P35,826**	**P12,213**	**P85,675**
Past due:				
1 - 30 days	**5,560**	**1,289**	**64**	**6,913**
31 - 60 days	**1,802**	**1,601**	**19**	**3,422**
61 - 90 days	**774**	**489**	**47**	**1,310**
Over 90 days	**9,242**	**17,347**	**739**	**27,328**
	P55,014	**P56,552**	**P13,082**	**P124,648**

December 31, 2015	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P35,774	P24,154	P11,705	P71,633
Past due:				
1 - 30 days	6,175	3,687	-	9,862
31 - 60 days	1,813	639	1	2,453
61 - 90 days	1,091	4,065	-	5,156
Over 90 days	10,743	7,991	88	18,822
	P55,596	P40,536	P11,794	P107,926

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

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality (Note 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 P26,042 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		**P61,753**	P60,341
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*	**3,639**	4,470
		P75,397	P73,826

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 of subsidiaries	*5*	**-**	(695)
Dividends		**(7)**	(7)
Balance at end of year		**678**	500
		21,920	15,233
Advances		**10,820**	11,921
	4	**P32,740**	P27,154

Investments in Shares of Stock of Associates

a. Investment in Bank of Commerce (BOC)

In 2012, SMC 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 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

SMC 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

SMC through GSMI's subsidiary, GSMIHL, also has an existing 40% ownership interest in TGT, which was formed as another JV 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 and 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. 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)	P530	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		**P5,331**	P5,335
Government and other debt securities		**479**	457
Proprietary membership shares and others		**247**	226
	4, 41, 42	**6,057**	6,018
Less current portion	*12*	**71**	70
		P5,986	P5,948

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% and 4.47% to 8.88% in 2016 and 2015, respectively (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		**P6,018**	P6,148
Additions		**91**	163
Disposals		**(72)**	(438)
Amortization of premium		**(7)**	(15)
Fair value gain		**13**	142
Currency translation adjustments and others		**14**	18
Balance at end of the year	*4, 12, 41, 42*	**P6,057**	P6,018

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	Mine and Mining Property	Capital Projects in Progress	Total
Cost											
January 1, 2015		P59,818	P54,245	P255,082	P50,532	P16,142	P134,677	P2,350	P5,530	P135,986	P714,362
Additions		869	3,743	-	1,177	1,191	9,122	115	47	43,830	60,094
Disposals/reclassifications/acquisition of subsidiaries		3,036	(1,770)	-	(362)	(74)	5,125	(147)	7	2,938	8,753
Currency translation adjustments		(1,158)	(1,263)	-	(1,562)	(1,029)	(317)	-	-	(346)	(5,675)
December 31, 2015		62,565	54,955	255,082	49,785	16,230	148,607	2,318	5,584	182,408	777,534
Additions		1,151	1,403	10,654	871	364	9,117	1,277	-	15,855	40,692
Disposals/reclassifications/acquisition of subsidiaries		(65)	(5,011)	4,611	94,310	(494)	(22,882)	(512)	10	(104,949)	(34,982)
Currency translation adjustments		135	179	-	101	73	714	3	-	26	1,231
December 31, 2016		**63,786**	**51,526**	**270,347**	**145,067**	**16,173**	**135,556**	**3,086**	**5,594**	**93,340**	**784,475**
Accumulated Depreciation and Amortization											
January 1, 2015		3,973	20,616	27,859	32,218	10,471	81,994	1,324	4,652	-	183,107
Depreciation and amortization	*8, 29*	224	2,301	6,776	1,730	1,287	8,149	206	113	-	20,786
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		4,183	21,418	34,635	33,088	11,140	93,958	1,246	4,765	-	204,433
Depreciation and amortization	*8, 29*	271	2,382	6,793	5,008	1,193	7,887	228	87	-	23,849
Disposals/reclassifications/acquisition of subsidiaries		(97)	(1,408)	(2,444)	(18)	(370)	(16,519)	(290)	17	-	(21,129)
Currency translation adjustments		12	133	-	171	26	348	1	-	-	691
December 31, 2016		**4,369**	**22,525**	**38,984**	**38,249**	**11,989**	**85,674**	**1,185**	**4,869**	-	**207,844**
Accumulated Impairment Losses											
January 1, 2015		266	1,882	-	-	-	6,886	-	573	-	9,607
Impairment	*29*	-	202	-	-	-	2,129	-	-	-	2,331
Disposals and reclassifications		-	-	-	-	-	(9)	-	-	-	(9)
Currency translation adjustments		-	(22)	-	-	-	87	-	-	-	65
December 31, 2015		266	2,062	-	-	-	9,093	-	573	-	11,994
Disposals and reclassifications		-	(6)	-	-	-	(1,308)	25	-	-	(1,289)
Currency translation adjustments		-	(32)	-	-	-	77	(1)	-	-	44
December 31, 2016		**266**	**2,024**	**-**	**-**	**-**	**7,862**	**24**	**573**	**-**	**10,749**
Carrying Amount											
December 31, 2015		P58,116	P31,475	P220,447	P16,697	P5,090	P45,556	P1,072	P246	P182,408	P561,107
December 31, 2016		**P59,151**	**P26,977**	**P231,363**	**P106,818**	**P4,184**	**P42,020**	**P1,877**	**P152**	**P93,340**	**P565,882**

“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 P23,849, P23,117 and P20,603 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 P203,803 and P209,660 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	P4,939	P1,109	P628	P19	P6,695
Additions	1,189	-	1	77	1,267
Reclassifications	(272)	412	-	5	145
Disposals	(4)	-	-	-	(4)
Currency translation adjustments	18	19	-	-	37
December 31, 2015	5,870	1,540	629	101	8,140
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	**8,283**	**1,778**	**581**	**203**	**10,845**
Accumulated Depreciation and Amortization					
January 1, 2015	110	290	491	-	891
Depreciation and amortization	10	71	37	-	118
Disposals and reclassifications	16	284	-	-	300
Currency translation adjustments	5	8	-	-	13
December 31, 2015	141	653	528	-	1,322
Depreciation and amortization	15	110	1	-	126
Reclassifications	49	87	(37)	-	99
Currency translation adjustments	7	12	-	-	19
December 31, 2016	**212**	**862**	**492**	**-**	**1,566**
Accumulated Impairment Losses December 31, 2015 and 2016	**8**	**-**	**-**	**-**	**8**
Carrying Amount					
December 31, 2015	P5,721	P887	P101	P101	P6,810
December 31, 2016	**P8,063**	**P916**	**P89**	**P203**	**P9,271**

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	**P49,225**	P49,230
Other intangible assets	**232,196**	246,999
	P281,421	P296,229

The movements in goodwill are as follows:

	Note	2016	2015
Balance at beginning of year		**P49,230**	P30,626
Additions	*4, 5, 39*	**4**	18,918
Disposals	*7*	**(7)**	-
Cumulative translation adjustments and others		**(2)**	(314)
Balance at end of year	*4*	**P49,225**	P49,230

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

	Note	Licenses	Trademarks and Brand Names	Total
Cost				
January 1, 2015		P8,671	P90,449	P99,120
Additions		-	446	446
Acquisition of subsidiaries	*5, 39*	18,465	-	18,465
Currency translation adjustments		(69)	12	(57)
December 31, 2015		27,067	90,907	117,974
Disposals		(23,686)	-	(23,686)
Currency translation adjustments		110	14	124
December 31, 2016		**3,491**	**90,921**	**94,412**
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		P27,067	P90,688	P117,755
December 31, 2016		**P3,491**	**P90,690**	**P94,181**

In February 2015, the acquisition by SMC 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		P33,266	P2,816	P496	P -	P -	P1,493	P15,370	P2,562	P56,003
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		116,690	3,872	543	10,974	-	1,509	15,370	2,959	151,917
Additions		9,318	2,178	228	1,131	756	172	-	229	14,012
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		**124,792**	**6,071**	**770**	**12,061**	**824**	**1,828**	**15,219**	**2,808**	**164,373**
Accumulated Amortization and Impairment Losses										
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		P97,287	P3,794	P507	P10,411	P -	P952	P15,370	P923	P129,244
December 31, 2016		**P102,333**	**P5,986**	**P689**	**P11,090**	**P824**	**P1,206**	**P15,219**	**P668**	**P138,015**

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
Infrastructure	**P18,755**	**P -**	P18,751	P -
Energy	**9,600**	**-**	9,600	-
Fuel and oil	**8,777**	**38,300**	8,777	38,300
Beverage	**2,189**	**50,006**	2,189	49,897
Food	**1,733**	**5,875**	1,733	5,872
Mining	**1,280**	**-**	1,280	-
Packaging	**1,185**	**-**	1,187	-
Telecommunications	**-**	**-**	7	23,686
Others	**5,706**	**-**	5,706	-
Total	**P49,225**	**P94,181**	P49,230	P117,755

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).

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

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
Deferred containers - net	*4, 29*	**P7,141**	P7,014
Noncurrent receivables and deposits - net	*4, 34, 41, 42*	**7,032**	6,353
Retirement assets	*36*	**3,487**	3,175
Noncurrent prepaid input tax		**2,977**	1,425
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
Deferred exploration and development costs	*4, 35*	**950**	867
Idle assets	*4*	**850**	1,194
Catalyst		**833**	947
Restricted cash	*41, 42*	**825**	1,457
Others		**1,035**	2,677
		P32,256	P32,822

Noncurrent receivables and deposits include amounts owed by related parties amounting to P228 and P2,734 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;

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); and

v. accounts of PNPI with local banks to establish a Mining Rehabilitation Fund (MRF) in compliance with the requirements of the Philippine Mining Act of 1995 and a deposit on a trust account with a bank, as required by the insurance company to serve as a guarantee for the surety bond required by the Bureau of Internal Revenue (BIR) for the payment of PNPI's excise taxes on nickel ore sales. The MRF will be used for physical and social rehabilitation of areas and communities affected by mining activities and for research on social, technical and preventive aspects of rehabilitation. The MRF and the deposit earn interest at the respective bank deposits rates.

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		**P571**	P571
Foreign currency-denominated		**6,215**	-
Subsidiaries			
Peso-denominated		**165,897**	130,681
Foreign currency-denominated	*22*	**24,410**	16,774
	41, 42	**P197,093**	P148,026

Loans payable mainly represent unsecured peso and foreign currency-denominated amounts obtained from local and foreign banks, and financial institution. Interest rates for peso-denominated loans ranged from 2.00% to 5.75% and 2.00% to 5.50% in 2016 and 2015, respectively. Interest rates for foreign currency-denominated loans ranged from 1.51% to 11.10% and from 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 P5,372 and P4,584 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		**P59,293**	P47,199
Non-trade		**48,366**	41,510
Amounts owed to related parties	*34*	**13,870**	13,262
Accrued payroll		**5,247**	4,777
Accrued interest payable		**3,048**	2,715
Derivative liabilities	*41, 42*	**2,475**	2,581
Deferred income		**804**	444
Current portion of IRO	*4*	**230**	370
Retention payable		**185**	1,213
Retirement liabilities	*36*	**87**	91
Others		**343**	135
	41, 42	**P133,948**	P114,297

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, maturing in 2015 and 2016 (a)	**P -**	P31,664
Subsidiaries		
Bonds:		
Peso-denominated:		
Fixed interest rate of 6.05%, 5.93% and 6.60% maturing in 2017, 2019 and 2022, respectively (b)	**19,917**	19,889
Fixed interest rate of 5.50% and 6.00% maturing in 2021 and 2024, respectively (c)	**14,900**	14,881
Fixed interest rate of 4.3458%, 4.7575%, and 5.1792% maturing in 2021, 2023 and 2026, respectively (d)	**14,843**	-
Fixed interest rate of 4.9925%, 5.5796% and 6.4872% maturing in 2020, 2022 and 2025, respectively (e)	**7,223**	7,217
Fixed interest rate of 10.50% maturing in 2019 (f)	**2,800**	2,796
Foreign currency-denominated:		
Fixed interest rate of 7.00% matured in 2016 (g)	**-**	13,952
Term notes:		
Foreign currency-denominated:		
Fixed interest rate of 4.875% with maturing in 2023 (h)	**25,447**	24,044
Fixed interest rate of 12.85%, 12.45% and 13.27% maturing in 2016 (i)	**-**	65
Peso-denominated:		
Fixed interest rate of 6.52% and 6.7394% maturing in 2021 and 2026, respectively (j)	**21,340**	9,163
Fixed interest rate of 7.00% maturing in 2017 (k)	**19,964**	19,926
Fixed interest rate of 4.0032% and 4.5219% maturing in 2021 and 2023, respectively (l)	**19,801**	-
Fixed interest rate of 6.50% with maturities up to 2021 (m)	**14,097**	14,824
Fixed interest rate of 6.865%, 6.9283% and 7.4817% with maturities up to 2027 (n)	**8,594**	8,579
Fixed interest rate of 6.7495%, 6.7701% and 7.165%, 7.5933% and 7.6567% with maturities up to 2025 (o)	**7,419**	6,321
Fixed interest rate of 8.74899% with maturities up to 2022 (p)	**5,843**	8,676
Fixed interest rate of 5.4583% with maturities up to 2022 (q)	**4,981**	4,976
Fixed interest rate of 6.3212% and 7.1827% maturities up to 2018 and 2021, respectively (r)	**3,401**	3,433
Fixed interest rate of 6.6583% with maturities up to 2023 (s)	**3,042**	3,384
Fixed interest rate of 5.65% with maturities up to 2019 (t)	**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 (u)	**1,493**	1,500
Fixed interest rate of 12.00% (v)	**52**	52
Fixed interest rate of 6.2921% and 6.0606% with maturities up to 2023 (w)	**-**	12,056

Forward

	Note	2016	2015
Floating interest rate based on PDST-R2 plus margin, with maturities up to 2022 (x)		**P3,123**	P3,177
Floating interest rate based on PDST-R2 plus margin, or Banko Sentral ng Pilipinas (BSP) overnight rate plus margin, whichever is higher, with maturities up to 2019 (y)		**2,371**	3,243
Floating interest rate based on PDST-R2 plus margin, or 5.75%, whichever is higher with maturities up to 2021 (z)		**299**	349
Floating interest rate based on PDST-R2 plus margin or BSP overnight rate, whichever is higher, with maturities up to 2018 (aa)		**229**	343
Foreign currency-denominated:			
Floating interest rate based on LIBOR plus margin, maturing in 2018 (bb)		**34,482**	32,439
Floating interest rate based on LIBOR plus margin, with maturities in various dates through 2018 (cc)		**28,603**	-
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 in various dates through 2020 (ff)		**14,034**	13,210
Floating interest rate LIBOR plus margin, with maturities up to 2019 (gg)		**6,556**	15,639
Floating interest rate based on Cost of Fund (COF) plus margin, with maturities up to 2019 (hh)		**2,258**	3,269
Floating interest rate based on LIBOR plus margin (ii)		**-**	77,749
Floating interest rate based on LIBOR plus margin, maturing in 2016 (jj)		**-**	15,850
		328,652	368,429
		328,652	400,093
Net adjustment due to purchase price allocation - noncurrent		**779**	1,737
	41, 42	**329,431**	401,830
Less: Current maturities		**31,430**	69,270
Net adjustment due to purchase price allocation - current		**384**	124
Net current maturities		**31,814**	69,394
		P297,617	P332,436

a. The amount represents drawdowns from the Parent Company's loan facility of up to US$700 for the refinancing of maturing loan. The Parent Company obtained US$125, US$200 and US$350 loans on March 27, 28 and 31, 2014, respectively, from three financial institutions. Interest rates range from 3.00% to 5.61% per annum, payable on a quarterly basis.

   In March 2016, the Parent Company paid its US$125 loan from a financial institution. On the same date, the loan was reavailed by the Parent Company and is currently presented as part of "Loans payable" account in the 2016 consolidated statement of financial position (Note 20).

   On June 30, 2016, the Parent Company paid its US$550 long-term debt obtained in March 2014. The payment was funded by the proceeds from the issuance of the CPS.

Unamortized debt issue costs amounted to P101 as of December 31, 2015 which was fully amortized in March 2016.

b. 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.

c. 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.

d. 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.

e. 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.

f. 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.

g. 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 P5 as of December 31, 2015.

h. The amount represents the drawdown of US$800 Notes (the "Notes") issued on April 19, 2013, from SMC'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, SMC 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, SMC purchased US$284 of the US$400 Notes offered for purchase in the tender offer. The aggregate cash amount paid by SMC based on the aggregate principal amount of the Notes repurchased is US$278. SMC 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.

i. 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.

j. 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.

k. 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.

l. 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

m. 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.

n. 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.

o. 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.

p. 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.

q. 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.

r. 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.

s. 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.

t. 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).

u. 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.

v. The amount represents the outstanding loan of PPC with a local bank payable in 16 semi-annual installments over a period of 10 years, inclusive of a two-year grace period, starting from December 1997. PPC was unable to pay the installments. Management is currently developing and discussing a plan with the creditor to amend the loan repayment terms and provisions to enable PPC to continue to meet its obligations from cash generated by operations.

w. 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.

x. 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.

y. 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.

z. 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.

aa. 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).

bb. 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.

cc. The amount represents the drawdown by SMC 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.

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 drawdown of US$287 on September 8, 2015 from SMC's US$800-Term Facility signed in March 2015. Proceeds from the five-year floating rate loan were used to fund 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.

gg. 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.

hh. 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.

ii. The amount represents the drawdown by SMC 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, SMC 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 SMC (Note 25).

    On various dates in 2016, SMC 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.

jj. 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 P16,541 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		**P4,501**	P4,295
Additions		**1,835**	1,341
Amortization	*31*	**(2,275)**	(1,544)
Reclassification, capitalized and others		**(136)**	409
Balance at end of year		**P3,925**	P4,501

Repayment Schedule

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

Year	**Gross Amount**	**Debt Issue Costs**	**Net**
2017	P31,794	P364	P31,430
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	**P332,577**	**P3,925**	**P328,652**

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
Payables on the purchase of shares of stock		**P13,761**	P12,536
Retirement liabilities	*36*	**7,161**	11,673
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
Accrual for mine rehabilitation and decommissioning	*4*	**19**	19
Redeemable preferred shares	*4*	**16**	15
Subscription deposit		**-**	6,910
Others		**1,728**	1,873
	41, 42	**P35,973**	P45,167

Payables on the Purchase of Shares of Stock. These amounts include: (a) the unpaid balance of the purchase price of PPC shares and the Tranche B receivables in accordance with the terms of the Amended and Restated Definitive Agreement (ARDA); and (b) advances made by Privatization Management Office (PMO) for the settlement of the liabilities of PPC.

a. The ARDA and Supplemental ARDA were executed on May 10, 1996 and May 2, 1997, respectively, and amended on September 27, 1999, for PIC's acquisition from PMO of the PPC Shares and the Tranche B receivables for a total purchase price of US$334 less US$70, representing the stipulated amount of PPC's liabilities to its creditors excluding the National Government. The said purchase price is payable subject to various provisions of the ARDA as follows: (1) US$260 payable in 23 successive semi-annual installments, no payments were made as of December 31, 2016; and (2) US$4 payable in 171 monthly installments, the amortization payments started in August 1996 to April 2001 for a total of US$1.

   Among others, the payment of the purchase price is subject to the following provisions:

   i. PIC shall pay an installment only if, during the six-month period ending one month prior to an installment payment date (or such applicable date), the average London Metal Exchange (LME) price for nickel shall be higher than PIC's cash break-even price for such period. Notwithstanding the foregoing provision, if PPC's cash available for payments to PMO (as defined in the ARDA) shall not be sufficient to pay the whole installment, then PIC shall pay only such portion of the installment as shall be equal to PPC's cash available for payments to PMO and the unpaid portion shall be deferred to the next succeeding installment payment date.

ii. In the event that the payment of an installment, or a portion thereof, is deferred pursuant to the above provisions, PIC shall accrue interest thereon beginning on the date the installment was originally due until paid in full at an interest rate equivalent to the six-month London Interbank Offered Rate for dollar deposits. All interest accrued on this provision shall be paid by PIC to PMO on the installment payment date immediately following the six months period during which the average LME price for nickel is higher than PPC's cash break-even price.

iii. At least fifty percent of the portion of the purchase price shall be paid by PIC at the end of the ninth year after Final Notice (as defined in the ARDA) and the balance at the end of the 15th year after Final Notice, even if the average LME price for nickel shall be equal or lower than PIC's cash break-even price for such period.

As security for the payment of the said purchase price in accordance with the terms of the ARDA, PIC pledged the shares of PPC to PMO on May 2, 1997. PIC shall also pledge to PMO the preferred shares to be received from PPC upon the conversion of the Tranche B receivables to equity.

On September 27, 1999, through an Amendment Agreement of the ARDA, the entire obligation of PIC under the ARDA was restructured and the cash break-even price formulated on May 2, 1997 was deleted as PIC and PMO shall establish a new cash break-even price formula which reflects the appropriate cost centers for a nickel refinery based on a pressure acid leach technology. As of December 31, 2016, the cash break-even price formula has not yet been established because the said formula may be established only upon commercial operations of the proposed new nickel refinery which has yet to be established.

b. The amounts owed to PMO also consist of the advances made by PMO for the settlement of the liabilities of PPC amounting to P1,289 as of December 31, 2016. The advances will be paid by PIC in behalf of PPC and will be payable, without interest, in 23 successive semi-annual installments with a three and a half year grace period, from the date of the Amendment Agreement to the ARDA or over a total period of 15 years inclusive of the grace period.

   PIC has not accrued any interest on the unpaid monthly installments as management believes that interest is not due to PMO, since the cash break-even price has not yet been established, and PIC has no cash available for payment to PMO as defined in the ARDA.

   In 2003, PIC filed a case with the Regional Trial Court of Makati (Court) for the: (i) suspension of payments under the ARDA; (ii) to stop PMO from enforcing the provisions under the ARDA providing for automatic reversion of PPC shares to PMO; and (iii) for the court to fix a period of payment. The court granted PIC's application and issued a Writ of Preliminary Injunction to enjoin PMO from enforcing the said automatic reversion of clause. The issues relating to the injunction orders and the validity of the automatic reversion clause were subsequently appealed to the Supreme Court, which, in a Decision dated August 27, 2014, declared that the automatic reversion clause constituted pactum commisorium and, thus, null and void. Accordingly, the Writ of Preliminary Injunction issued by the Court against the enforcement of the automatic reversion clause was made final and permanent. In the meantime, in the course of the proceedings before the trial court, PIC filed a Motion for Summary Judgment in December 2015 praying for the trial court to resolve the only remaining issue of fixing the period for payment and performance by PIC of its obligations to PMO under the ARDA. Through an order dated September 14,

2016, the RTC of Makati City granted PIC's Motion for Summary Judgment and fixed the period for PIC to pay its obligations to PMO.

Thereafter, PMO filed an appeal with the Court of Appeals challenging the Order of the Makati RTC. PIC has not received any order from the Court of Appeals in connection with PMO's appeal as of December 31, 2016.

Accrual for Mine Rehabilitation and Decommissioning. The Group accrues for the future cost of rehabilitating the nickel refinery located in Nonoc Island, Surigao City and the related production facilities for the development of mines or installation of those facilities. The rehabilitation provision represents the present value of rehabilitation costs to be incurred by 2022. The accrual has been created based on the Group's internal estimates and assumptions, based on current economic environment. Management believes that the estimates and assumptions used provide a reasonable basis upon which to estimate the future liability. The estimates and assumptions used are reviewed regularly to take into account any material changes. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mine ceases to produce at economically viable rates. This, in turn, will depend upon future ore prices, which are inherently uncertain.

The Contingent Liability and Rehabilitation Fund Steering Committee, having approved the Final Mine Rehabilitation and/or Decommissioning Plan (FMR/DP) of the Group's nickel refinery, granted the Certificate of Approval dated February 24, 2010 to the Group, after the Group has substantially complied with the FMR/DP requirements.

Redeemable Preferred Shares. These represent the preferred shares of TADHC issued in 2010. The preferred shares are cumulative, non-voting, redeemable and with liquidation preference. The shares are preferred as to dividends, which are given in the form of coupons, at the rate of 90% of the applicable base rate (i.e., one year PDST-R2). The dividends are cumulative from and after the date of issue of the preferred shares, whether or not in any period the amount is covered by available unrestricted retained earnings.

The preferred shares will be mandatorily redeemed at the end of the 10-year period from and after the issuance of the preferred shares by paying the principal amount, plus all unpaid coupons (at the sole option of TADHC, the preferred shares may be redeemed earlier in whole or in part).

In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of TADHC, the holders of the preferred shares are entitled to be paid in full, an amount equivalent to the issue price of such preferred shares plus all accumulated and unpaid dividends up to the current dividend period or proportionately to the extent of the remaining assets of TADHC, before any assets of TADHC will be paid or distributed to the holders of the common shares.

Subscription Deposit. 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 by PPC to creditors conforming to debt restructuring and other noncurrent payables. These creditors have agreed to the settlement proposal of PIC which provides for the deferral of payment of the principal obligations over a number of years. These amounts are payable, without interest, over 10 years in 17 semi-annual installments commencing two years after the resumption of commercial operations.

"Others" also 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	**P4,760**	P3,619
MCIT	**227**	747
NOLCO	**2,159**	487
Fair market value adjustments on business combination	**-**	(28)
Undistributed net earnings of foreign subsidiaries	**(898)**	(828)
Unrealized intercompany charges and others	**(44,264)**	(43,775)
	(P38,016)	(P39,778)

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

	Note	**2016**	2015
Deferred tax assets	*4*	**P21,011**	P17,007
Deferred tax liabilities		**(59,027)**	(56,785)
		(P38,016)	(P39,778)

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	6,607	2
		P7,197	**P227**

The components of income tax expense are shown below:

	2016	2015 As Restated	2014 As Restated
Current	**P19,529**	P14,828	P10,803
Deferred	**(2,289)**	2,259	214
	P17,240	P17,087	P11,017

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	**(2.05%)**	(3.09%)	(3.07%)
Equity in net losses (earnings) of associates and joint ventures	**(0.11%)**	0.09%	(1.61%)
Loss (gain) on sale of investments subject to final or capital gains tax	**(0.09%)**	0.06%	(0.47%)
Others, mainly income subject to different tax rates - net	**4.10%**	14.01%	3.49%
Effective income tax rate	**31.85%**	41.07%	28.34%

25. Equity

a. *Capital Stock*

Common Shares

On January 6, 2010, SMC acquired a 49% stake via equity infusion in the Parent Company consisting of its subscription to 2,401,960 common shares of the Parent Company's unissued capital stock. On January 7, 2010, the Parent Company issued 2,401,960 common shares to SMC at a price of P18,600.00 per share, resulting in additional paid-in capital of P44,436.

On July 16, 2013, the BOD and stockholders of the Parent Company approved the stock split of the Parent Company's common shares via change of the par value from P100.00 per share to P1.00 per share. As a result of such stock split, the issued and outstanding common shares increased from 4,901,960 to 490,196,000. The new authorized capital stock of the Parent Company amounted to P1,000 divided into 740,000,000 common shares with P1.00 par value per share and 2,600,000 preferred shares with P100.00 par value per share. The SEC approved such corporate action on August 16, 2013.

On December 18, 2013, the PSE approved the application of the Parent Company for the listing by way of introduction of all its common shares. The SEC approved and issued an order of registration on January 6, 2014. The shares were listed on the PSE on January 13, 2014.

The Parent Company has 330,325,136 issued and outstanding common shares as of December 31, 2016, 2015 and 2014, and has 22,411 and 519 common shareholders as of December 31, 2016 and 2015, respectively.

Preferred Shares

On October 22, 2010, the Parent Company issued the stock certificates covering SMC's investment in 2,598,040 preferred shares at a price of P18,600.00 per share, resulting to additional paid-in capital of P48,064.

The preferred shares have a par value of P100.00 per share and are entitled to preferential dividends at a fixed rate per annum of 3% of the issue price which shall be payable quarterly in arrears and in cash. The dividends on the preferred shares shall be cumulative from and after the issue date of the preferred shares, whether or not in any period the amount thereof is covered by available unrestricted retained earnings.

The preferred shares do not carry the right to vote. These are redeemable in whole or in part, at the sole option of the Parent Company, equal to its issue price plus any accrued and unpaid preferential dividends, upon notice to the holders.

The preferred shares are entitled to participate and share in the retained earnings remaining after payment of the preferential dividends at the same rate as the common shares and shall have pre-emptive right to issues or dispositions of any share of any class of the Parent Company.

On June 18, 2012, the Parent Company partially redeemed a total of 693,500 preferred shares out of the 2,598,040 preferred shares issued to SMC, at the total redemption price of P12,899, corresponding to the original issue price of the said preferred shares. The redeemed preferred shares are presented as part of "Treasury stock" account in the consolidated statements of financial position as of December 31, 2016 and 2015.

There were no movements in the number of issued and outstanding preferred shares of stock in 2016 and 2015.

b. *CPS*

On June 30, 2016, the Parent Company issued Philippine Peso-denominated CPS with an aggregate face value of P25,883 in favor of Bryce Canyon Investments Limited, a British Virgin Island business company. The CPS shall entitle the security holder to a cumulative preferential distribution at 6.25% per annum on their face value amount, payable semi-annually in arrears on June 30 and December 31 in each year, commencing on December 31, 2016. The security holders shall have the option to convert the CPS into preferred shares of the Parent Company at any time on or after July 31, 2019.

Proceeds from the sale of the securities were used by the Parent Company for payment of the US$550 long-term debt (Note 22).

As of December 31, 2016, dividends in arrears on CPS amounted to P809.

c. *Treasury Shares*

As of December 31, 2016 and 2015, treasury stock consist of:

Common:	
Receipt of own shares as property dividends	P28,001
Common shares of the Parent Company held by SMC	456
	28,457
Preferred:	
Redemption of preferred shares	12,899
Preferred shares of the Parent Company held by SMC	35,424
	48,323
	P76,780

There were no movements in the treasury shares of the Parent Company in 2016, 2015 and 2014.

On October 17, 2013, the BOD of SMC approved the declaration, by way of property dividends, of 240,196,000 common shares of stock of the Parent Company to SMC common shareholders of record as of November 5, 2013, distributed on December 26, 2013.

The declaration of the property dividends eliminated the cross ownership between the Parent Company and SMC, which resulted in the consolidation of SMC effective October 17, 2013. The Parent Company, being a shareholder of SMC, received 157,310,033 of its own common shares equivalent to P28,001 recognized as "Treasury stock - common" and "Additional paid-in capital" accounts in the consolidated statements of changes in equity as of December 31, 2016 and 2015.

The remaining investments in the Parent Company held by SMC consisting of 2,561,031 common shares amounting to P456 and 1,904,540 preferred shares amounting to P35,424 recognized by SMC as AFS financial assets were recognized as "Treasury stock" account in the consolidated statements of financial position as of December 31, 2016 and 2015.

d. *Unappropriated Retained Earnings*

The unappropriated retained earnings is restricted in the amount of P456 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 P16,014, P13,733 and P15,688 in 2016, 2015 and 2014, respectively, to finance future capital expenditure projects. Reversal of appropriations amounted to P10,740 and P15,823 in 2016 and 2015, respectively.

26. Sales

Sales consist of:

	2016	2015 As restated	2014 As restated
Goods	**P662,460**	P656,862	P770,271
Services	**22,131**	15,091	1,934
Others	**712**	278	25
	P685,303	P672,231	P772,230

27. Cost of Sales

Cost of sales consist of:

	Note	**2016**	2015 As restated	2014 As restated
Inventories		**P343,158**	P372,878	P515,185
Taxes and licenses		**46,576**	44,768	40,065
Depreciation, amortization and impairment	*29*	**24,800**	19,649	17,114
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
		P515,912	P533,989	P661,982

28. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	2016	2015 As restated	2014 As restated
Selling	**P30,899**	P29,870	P28,823
Administrative	**41,843**	30,906	28,192
	P72,742	P60,776	P57,015

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	2,807
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	P28,823

Administrative expenses consist of:

	Note	**2016**	2015 As restated	2014 As restated
Personnel	*30, 40*	**P15,104**	P14,188	P13,642
Depreciation, amortization and impairment	*29*	**5,633**	5,184	5,275
Impairment loss	*10*	**4,712**	970	1,063
Taxes and licenses		**2,957**	2,678	1,962
Professional fees		**2,659**	2,055	2,298
Advertising and promotion		**2,073**	1,632	1,149
Repairs and maintenance		**1,122**	915	728
Supplies		**792**	515	645
Communications, light and water		**698**	644	779
Rent	*4, 35*	**435**	241	99
Freight, trucking and handling		**161**	264	265
Research and development		**103**	144	94
Others		**5,394**	1,476	193
		P41,843	P30,906	P28,192

“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*	**P18,330**	P14,860	P14,783
Deferred containers, biological assets and others	*17, 19*	**6,470**	4,789	2,331
	27	**24,800**	19,649	17,114
Selling and administrative expenses:				
Property, plant and equipment	*15*	**5,185**	5,404	5,423
Deferred containers and others	*19*	**3,845**	3,085	2,928
	28	**9,030**	8,489	8,351
		P33,830	P28,138	P25,465

Depreciation expense from discontinued operations amounted to P334, 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		**P15,595**	P14,263	P13,109
Retirement costs - net	*36*	**1,745**	1,557	1,187
Other employee benefits	*40*	**13,055**	13,163	12,951
		P30,395	P28,983	P27,247

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*	**15,104**	14,188	13,642
		P30,395	P28,983	P27,247

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		**P28,048**	P27,868	P24,270
Other financing charges	*12, 22*	**4,369**	3,231	2,825
		P32,417	P31,099	P27,095

Amortization of debt issue costs included in "Other financing charges" amounted to P2,275, P1,544 and P1,253 in 2016, 2015 and 2014, respectively (Note 22).

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

	Note	**2016**	2015	2014
Loans payable	*20*	**P4,392**	P8,952	P5,046
Long-term debt	*22*	**16,700**	11,486	10,857
Finance lease liabilities	*35*	**6,103**	6,499	6,905
Other liabilities	*34*	**853**	931	1,462
		P28,048	P27,868	P24,270

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*	**P3,211**	P3,729	P3,056
Interest on amounts owed by related parties	*34, 36*	**484**	561	925
		P3,695	P4,290	P3,981

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		**12**	24	10
Gain on return of donated property (a)		**-**	495	-
Additional provision on impairment (b)	*15, 18, 19*	**(495)**	(1,500)	-
Gain (loss) on derivatives - net	*42*	**(616)**	3,971	7,513
Construction costs	*12, 18, 35*	**(12,623)**	(11,003)	(8,735)
Loss on foreign exchange - net	*41*	**(14,011)**	(15,247)	(2,853)
Others (c)	*22*	**(557)**	1,542	563
		(P14,158)	(P8,856)	P6,048

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, 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
Shareholders of the Parent Company	*21, 31*	**2016**	**P -**	**P278**	**P -**	**P10,953**	On demand; interest bearing	Unsecured; no impairment
		2015	-	266	-	10,077		
		2016	**-**	**-**	**-**	**221**	On demand; non-interest bearing	Unsecured; no impairment
		2015	-	-	-	221		
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**	**-**	**-**	**-**	**27,233**	Less than 1 to 10 years; interest bearing	Unsecured and secured
		2015	-	-	-	27,243		
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**	**264**	**2,596**	On demand; non-interest bearing	Unsecured; no impairment
		2015	222	381	177	2,765		
Others	*10, 12, 21, 23*	**2016**	**216**	**-**	**113**	**6,795**	On demand; non-interest bearing	Unsecured; no impairment
		2015	92	-	40	6,231		
Total		**2016**	**P3,122**	**P1,558**	**P13,354**	**P47,862**		
Total		2015	P2,742	P1,182	P14,528	P46,727		

a. Interest-bearing payable and related financing charges owed to a shareholder of the Parent Company were used for working capital purposes. This payable bears interest of 3.00% per annum, have no definite payment terms and considered payable upon demand.

b. Amounts owed by related parties consist of current and noncurrent receivables and deposits, and share in expenses.

c. Amounts owed to related parties consist of trade payables and professional fees.

d. 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.

e. The compensation of key management personnel of the Group, by benefit type, follows:

	Note	**2016**	2015	2014
Short-term employee benefits		**P630**	P552	P606
Retirement cost (benefits)	*36*	**22**	1	(2)
		P652	P553	P604

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 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 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 included 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 Right 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 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 the 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 the CCEC and CMMSC under the Stage 3 STOA. The legal transfer of ownership of the Skyway Stage 3 Project to the ROP shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction thereof.

The franchise period for the Skyway Stage 3 Project is 30 consecutive years commencing from the issuance of the Toll Operation Certificate (TOC) for the entire Skyway Stage 3 Project to CCEC and/or the CMMSC.

As of December 31, 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. Segment 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.

- **Mining**

a. *MPSA*

PNPI, PPC and PIC

The MPSA provides for the exclusive possession of and the privilege and right to exploit, utilize, process and dispose of all minerals, mineral products and by-products that may be derived from the total contract area of 23,877 hectares in Parcels II and III of the Surigao Mineral Reservation (SMR) in the Province of Surigao del Norte and Dinagat Islands.

In May 1997, PIC assigned its rights and obligations under the MPSA to PNPI. As a result of the assignment, PNPI holds exclusive rights to explore, develop, mine, and commercially utilize nickel, cobalt, chrome, iron and other mineral deposits within the contract area for a period of 25 years. On the other hand, PPC holds exclusive rights with respect to the processing of minerals and resources under the MPSA.

As part of the consideration for the assignment of the MPSA, PNPI assigned to PPC the exclusive Mineral Processing Rights (MPR) granted under the MPSA. The assignment of the MPSA by PIC to PNPI and the assignment of the MPR by PNPI to PPC were approved by the DENR on August 7, 1997.

The assignment of the MPSA was subject to the following conditions:

a. PNPI shall enter into an exclusive 25 year ore supply contract with PPC, to provide PPC with its nickel ore requirements;

b. The MPSA shall be deemed automatically assigned to PPC in the event that PIC shall be in default under the ARDA and the ARDA is terminated in accordance with its terms;

c. PNPI shall be jointly and severally liable for the payments due to the PMO under the ARDA and all profits earned by PNPI will be used to pay PIC's obligations to PMO under the ARDA as and when necessary; and

d. All of the outstanding capital stock of PNPI shall be pledged to PMO as security for the obligations of PNPI to PMO as well as the obligations of PIC to PMO under the ARDA.

On August 7, 1997, MPSA No. 072-97-XIII (SMR) was reinstated in favor of PNPI. The term of the MPSA is for a period of 25 years until 2022.

The request for an additional two year exploration period filed by PNPI was approved by the MGB on February 25, 2015. Activities covered by the said additional two year exploration period include exploration drilling, metallurgical testing, conduct of environmental and social studies and preparation of a feasibility study. In-house exploration/in-fill drilling activities in Nonoc Island are continuing. This will be followed by drilling activities in the north and south Dinagat areas of the MPSA. Rehabilitation of some mine site facilities such as the geochemical laboratory, main warehouse and staff houses have been completed while others are being scheduled for rehabilitation. Certain continuing activities in compliance with mandatory requirements under the MPSA and mining regulations such as the Environmental Protection and Enhancement Program and Social Development and Management Program are also being implemented.

On September 21, 2015, PNPI entered into two Deeds of Partial Assignment and Transfer with VMI and PLGMC covering certain areas of MPSA No. 072-97-XIII (SMR). An area of 7,035 hectares was assigned to PLGMC while an area of 6,264 hectares was assigned to VMI. The Deeds were filed at DENR's Mines and Geosciences Bureau (MGB) Regional Office No. XIII (CARAGA) on December 11, 2015 for initial review and evaluation. On November 10, 2016, the Deeds were forwarded by MGB XIII to MGB Central Office for final review and evaluation prior to the endorsement to the Office of the DENR Secretary for approval.

b. VMI

VMI has mining rights under MPSA No. 346-2010-IVA issued by the DENR on June 25, 2010. The MPSA covers a total area of 11,126 hectares located in Quezon and Camarines Norte. The term of the MPSA is for a period of 25 years until 2035. In December 2015, the exploration permit of VMI expired and the exploratory core drilling activities were put on hold. A letter of request for the renewal of exploration permit was sent by VMI to MGB. As of December 31, 2016, the request is still under approval of MGB.

Joint Operating Agreement
On June 21, 2007, PPC and PNPI executed a Deed of Assignment to assign the rights and obligations of the Joint Operating Agreement entered by Philippine Mining Development Corporation (PMDC) and PPC to PNPI. The assignment was approved by PMDC on January 11, 2008.

On July 27, 2009, DENR approved the Mines Operating Agreement between PNPI and Shuley Mines, Incorporated (SMI) pursuant to which SMI will undertake mining operations in certain portions of the Mining Property. In consideration, SMI will pay PNPI a fixed fee per wet metric tonne based on the grade of the nickel ore as stated in the Mines Operating Agreement. The Mines Operating Agreement is effective for a period of 48 months subject to renewal for the same period upon mutual agreement of both parties.

Under the supplemental agreement to the Mines Operating Agreement dated September 29, 2009, the effectivity of the Mines Operating Agreement will start on the date of approval of the partial declaration of the Mining Project Feasibility by MGB. On April 8, 2010, the MGB approved the Second Partial Declaration of PNPI's mining project.

In April 2013, SMI filed an injunction case with the Regional Trial Court of Surigao City against PNPI so that SMI could continue its mining operations under the Mines Operating Agreement. The case has been dismissed after the parties executed a compromise agreement. SMI is no longer in the contract area as its Mines Operating Agreement has already expired in July 2014.

Special Economic Zone
On May 1, 1999, PIC and the City of Surigao entered into a Memorandum of Agreement in relation to a proposed plan of establishing, developing, and operating a Special Economic Zone in a 106-hectare portion of Nonoc Island, Surigao City, which area is covered by the MPSA.

Pursuant to the Memorandum of Agreement, the lease contract between the City of Surigao and PIC was executed on September 21, 1999 and took effect on December 10, 1999, for an initial period of 25 years, renewable for another 25 years at the option of PIC. The lease contract provides that the payment of the stipulated rental shall only start after two years from the execution of the contract or after the commissioning of the Nonoc Nickel Refinery, whichever comes later.

As of December 31, 2016, Clariden is currently conducting metallurgical tests and additional technical studies to determine the optimal processing option for the nickel deposits.

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 P203,633 and P186,954 as of December 31, 2016 and P209,564 and P199,447 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 P6,094, P6,499 and P6,905 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	**243**	**12,084**	**14,828**	**26,912**
Present values of finance lease liabilities	**US$1,947**	**P96,832**	**P90,122**	**P186,954**

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	300	14,108	18,240	32,348
Present values of finance lease liabilities	US$2,141	P100,755	P98,692	P199,447

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$201**	**P10,022**	**P9,014**	**P19,036**
More than one year and not later than five years	**973**	**48,369**	**44,729**	**93,098**
Later than five years	**773**	**38,441**	**36,379**	**74,820**
	US$1,947	**P96,832**	**P90,122**	**P186,954**

2015

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US$193	P9,104	P8,570	P17,674
More than one year and not later than five years	902	42,442	41,029	83,471
Later than five years	1,046	49,209	49,093	98,302
	US$2,141	P100,755	P98,692	P199,447

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 (Notes 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 P2,904, P3,601 and P3,494 in 2016, 2015 and 2014, respectively (Notes 4, 27 and 28).

36. Retirement Plans

SMC 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 SMC 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. SMC and majority of its subsidiaries' latest actuarial valuation date is December 31, 2016. Valuations are obtained on a periodic basis.

Majority of the Retirement Plans are registered with the 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 SMC and its subsidiaries. The Retirement Plans' accounting and administrative functions are undertaken by the Retirement Funds Office of SMC.

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	**(P28,061)**	(P26,929)	**(P1,938)**	(P2,786)	**(P8,589)**	(P4,271)
Benefit asset (obligation) of newly-acquired and disposed subsidiaries	**(296)**	20	**184**	(312)	**26**	-	**(86)**	(292)
Recognized in profit or loss								
Service costs	**-**	-	**(1,314)**	(1,334)	**-**	-	**(1,314)**	(1,334)
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	**(2,652)**	(2,553)	**(82)**	(114)	**(1,745)**	(1,565)
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 assets 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	**(P28,603)**	(P28,061)	**(P2,957)**	(P1,938)	**(P3,761)**	(P8,589)

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 recognized in the consolidated statements of income by the Group amounted to P1,745, P1,565 and P1,192 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 P7,161, 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 P11,673, 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 SMC 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 the Parent Company 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 SMC 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 the Parent Company 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 the Parent Company, SMC 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 SMC 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 P10,618 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 a 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 SMC 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 SMC 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	**3.88 - 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. SMC 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 preferred stockholder as follows:

Date of Declaration	Date of Record	Date of Payment	Dividend per Share
August 10, 2016	August 10, 2016	August 12, 2016	P279.00
November 10, 2016	November 10, 2016	November 11, 2016	279.00

The Parent Company has no dividend declaration in 2015.

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		**P3,359**	P117	P4,269
Dividends on CPS	*25*	**(809)**	-	-
Net income from continuing operations attributable to common shareholders of the Parent Company (a)		**2,550**	117	4,269
Net income (loss) from discontinued operations attributable to common shareholders of the Parent Company (b)		**8,054**	55	(617)
Net income from attributable to common shareholders of the Parent Company		**P10,604**	P172	P3,652
Weighted average number of common shares outstanding (in millions) (c)		**330**	330	330
Basic/diluted earnings (losses) per common share attributable to equity holders of the Parent Company				
Continuing operations (a/c)		**P7.72**	P0.35	P12.93
Discontinued operations (b/c)		**24.38**	0.17	(1.87)
		P32.10	P0.52	P11.06

**Earnings per share are computed based on amounts in nearest peso.*

As of December 31, 2016, 2015 and 2014, the Group has no dilutive debt or equity instruments.

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	**(P2,397)**	P24,306	(P432)
Inventories	**(19,236)**	21,854	(3,757)
Prepaid expenses and other current assets	**(5,525)**	(14,055)	(8,121)
Loans payable	**(206)**	(2,253)	(1,021)
Accounts payable and accrued expenses	**16,595**	(31,177)	274
Income and other taxes payable and others	**(1,374)**	(3,896)	(2,169)
Changes in noncash current assets, certain current liabilities and others	**(P12,143)**	(P5,221)	(P15,226)

b. Acquisition of subsidiaries (Note 5)

	Note	**2016**	2015	2014
Cash and cash equivalents		**P37**	P23,183	P1,021
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	1,080
Other intangible assets - net		**-**	83,886	-
Deferred tax assets		**-**	160	8
Other noncurrent assets - net		**-**	813	1
Loans payable		**-**	(2,345)	-
Accounts payable and accrued expenses		**(89)**	(21,093)	(1,097)
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	1,278
Cash and cash equivalents		**(37)**	(23,183)	(1,021)
Goodwill in subsidiaries	*4, 5, 18*	**4**	18,918	7
Investments 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)	P243

40. Share-Based Transactions

ESPP

Under the ESPP, 80,396,659 shares (inclusive of stock dividends declared) of SMC'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 SMC 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 of SMC under the ESPP, were cancelled and held in treasury.

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

LTIP
SMC also maintains LTIP for the executives of the Group. The options are exercisable at the fair market value of SMC 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 of SMC, 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 SMC'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 of SMC 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 of SMC 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.

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, P2,251 and P1,957 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	**P28,440**	**P8,654**	**P22,539**	**P13,235**	**P44,511**	**P55,361**	**P172,740**
Interest rate	**5.65% - 12%**	**5.4583% - 8.74899%**	**5.4583% - 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**	
	P31,794	**P87,188**	**P36,892**	**P37,633**	**P46,938**	**P92,132**	**P332,577**

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	P6,112	P29,399	P9,643	P23,426	P13,730	P58,854	P141,164
Interest rate	5.65% - 12.00%	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)	48,437	11,181	126,410	11,046	20,901	-	217,975
Interest rate	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin, COF + margin	LIBOR + margin		
	P69,666	P41,795	P137,356	P35,531	P35,176	P85,070	P404,594

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**	**P99,963**	US$1,766	P83,084
Trade and other receivables	**482**	**24,069**	807	37,320
Prepaid expenses and other current assets	**5**	**241**	56	2,578
Noncurrent receivables	**50**	**2,496**	43	2,007
	2,548	**126,769**	2,672	124,989
Liabilities				
Loans payable	**616**	**30,625**	356	16,774
Accounts payable and accrued expenses	**1,422**	**70,769**	1,073	50,511
Long-term debt (including current maturities)	**3,093**	**153,800**	5,445	256,298
Finance lease liabilities (including current portion)	**1,880**	**93,499**	2,058	96,843
Other noncurrent liabilities	**426**	**21,160**	297	13,963
	7,437	**369,853**	9,229	434,389
Net foreign currency-denominated monetary liabilities	**(US$4,889)**	**(P243,084)**	(US$6,557)	(P309,400)

The Group reported losses on foreign exchange - net amounting to P14,011, P15,247, and P2,853 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	**545**	**453**	**(545)**	**(453)**
Accounts payable and accrued expenses	**974**	**1,046**	**(974)**	**(1,046)**
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	**283**	**339**	**(283)**	**(339)**
	6,729	**5,333**	**(6,729)**	**(5,333)**
	P4,785	**P3,366**	**(P4,785)**	**(P3,366)**

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
December 31, 2015	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	(630)	(621)	630	621
Prepaid expenses and other current assets	(47)	(42)	47	42
Noncurrent receivables	(34)	(36)	34	36
	(2,168)	(2,028)	2,168	2,028
Loans payable	240	284	(240)	(284)
Accounts payable and accrued expenses	751	848	(751)	(848)
Long-term debt (including current maturities)	5,035	3,935	(5,035)	(3,935)
Finance lease liabilities (including current portion)	2,058	1,441	(2,058)	(1,441)
Other noncurrent liabilities	297	208	(297)	(208)
	8,381	6,716	(8,381)	(6,716)
	P6,213	P4,688	(P6,213)	(P4,688)

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.

SMC 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	**P203,246**	**P203,246**	**P203,246**	**P -**	**P -**	**P -**
Trade and other receivables - net	**110,966**	**110,966**	**110,966**	**-**	**-**	**-**
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)	**6,057**	**6,100**	**96**	**5,728**	**172**	**104**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**7,032**	**7,086**	**-**	**1,549**	**536**	**5,001**
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**3,884**	**3,884**	**3,059**	**825**	**-**	**-**
Financial Liabilities						
Loans payable	**197,093**	**197,648**	**197,648**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO and deferred income)	**130,352**	**145,423**	**145,423**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**2,475**	**2,475**	**2,475**	**-**	**-**	**-**
Long-term debt (including current maturities)	**329,431**	**396,740**	**47,439**	**100,172**	**146,987**	**102,142**
Finance lease liabilities (including current portion)	**187,105**	**214,018**	**24,737**	**25,011**	**84,160**	**80,110**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and accrual for mine rehabilitation and decommissioning)	**25,680**	**25,784**	**-**	**22,759**	**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	P181,134	P181,134	P181,134	P -	P -	P -
Trade and other receivables - net	97,984	97,984	97,984	-	-	-
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)	6,018	6,049	85	5,574	213	177
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	6,353	6,437	-	2,587	1,089	2,761
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	5,687	5,687	4,230	1,457	-	-
Financial Liabilities						
Loans payable	148,026	148,809	148,809	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO and deferred income)	110,811	111,080	111,080	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	2,581	2,581	2,581	-	-	-
Long-term debt (including current maturities)	401,830	471,811	86,864	56,767	232,745	95,435
Finance lease liabilities (including current portion)	199,534	231,882	23,776	24,040	77,806	106,260
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and accrual for mine rehabilitation and decommissioning)	30,953	30,958	-	30,413	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*	**P201,342**	P178,958
Trade and other receivables - net	*10*	**110,966**	97,984
Derivative assets	*12*	**84**	391
Financial assets at FVPL	*12*	**157**	147
AFS financial assets	*12, 14*	**6,057**	6,018
Noncurrent receivables and deposits - net	*19*	**7,032**	6,353
Restricted cash	*12, 19*	**3,884**	5,687
		P329,522	P295,538

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 reserve 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	**P203,246**	**P203,246**	P181,134	P181,134
Trade and other receivables - net	**110,966**	**110,966**	97,984	97,984
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)	**6,057**	**6,057**	6,018	6,018
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**7,032**	**7,032**	6,353	6,353
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**3,884**	**3,884**	5,687	5,687
Financial Liabilities				
Loans payable	**197,093**	**197,093**	148,026	148,026
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO and deferred income)	**130,352**	**130,352**	110,811	110,811
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**2,475**	**2,475**	2,581	2,581
Long-term debt (including current maturities)	**329,431**	**347,354**	401,830	426,143
Finance lease liabilities (including current portion)	**187,105**	**187,105**	199,534	199,534
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and accrual for mine rehabilitation and decommissioning)	**25,680**	**25,680**	30,953	30,953

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Trade and Other Receivables, Noncurrent Receivables and Deposits and Restricted Cash. The carrying amount of cash and cash equivalents and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent receivables and deposits and restricted cash, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

Financial Assets at FVPL and AFS Financial Assets. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets. Unquoted equity securities are carried at cost less impairment.

Loans Payable and Accounts Payable and Accrued Expenses. The carrying amount of loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 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, respectively. 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	**253**	**5,804**	**6,057**	233	5,785	6,018
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 faregistered 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 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 SMC, 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.

SMC listed the Bonds in the PDEx on the issue date, March 1, 2017.

On March 13, 2017, SMC 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.

- Treasury Shares of SMC

A portion of the total treasury shares of SMC 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 SMC 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 SMC 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 SMC 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, SMC 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 SMC, 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 SMC to deliver to the PCGG the stock certificates and cash and stock dividends under the Sandiganbayan Resolution upheld by the Supreme Court. SMC 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 of SMC 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 SMC. The financial advisor stated that if SMC 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 of SMC 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 SMC to deliver what it acquired from the sellers without a substantive ground to justify it, and a direct action in which SMC 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 SMC 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 SMC 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 SMC 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 SMC shares of stock should exclude the treasury shares.

At its January 29, 2004 meeting, the BOD of SMC 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 SMC 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 SMC’s intervention, the Sandiganbayan’s disposition of the so-called CIIF block of SMC shares in favor of the Government cannot bind SMC, and that SMC 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 SMC’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 SMC 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 SMC approved the recommendation of external legal counsel on January 18, 2008 which was ratified by the BOD of SMC on March 6, 2008.

On July 23, 2009, the stockholders of SMC 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 SMC 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 SMC, 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, SMC 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 SMC.

On June 30, 2011, the PCGG filed with the Supreme Court an Urgent Motion to Direct SMC to comply with the Sandiganbayan Resolution (the “Urgent Motion”). On March 30, 2012, SMC 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 SMC on February 22, 2012, directing SMC to file its Comment on the Urgent Motion. The Supreme Court, in the Resolution of April 24, 2012 noted the comment of SMC.

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 SMC Shares of 1983 Decreed by the Sandiganbayan, and Sustained by the Honorable Court, as Owned by the Government; and 2) To Direct SMC to Comply with the Final and Executory Resolutions Dated October 24, 1991 and March 18, 1992 of the Sandiganbayan Which Were Affirmed by the Honorable Court in G.R. Nos. 104637-38” (“Manifestation and Omnibus Motion”).

The Supreme Court, in the Resolution of November 20, 2012 in G.R. Nos. 177857-58 and 178193, required SMC 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) SMC is likewise not a party in those cases, and if SMC is indeed being required to comment on the pleadings in the Resolution of November 20, 2012, a copy of the Resolution be furnished SMC; 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 SMC 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 SMC, 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 SMC'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.

SMC, 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 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, SMC 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 SMC to the 25,450,000 treasury shares of SMC. On November 29, 2016, the Supreme Court denied with finality the motion for reconsideration of the Republic of the Philippines.

- Deficiency Excise Tax

On April 12, 2004 and May 26, 2004, SMC was assessed by the BIR for deficiency excise tax on "San Mig Light", one of its beer products. SMC 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, SMC, 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, SMC 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 SMC, appealing to SMC 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". SMC'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 SMC, especially in view of SMC's pending claims for refund.

As of December 31, 2016, the BIR has taken no further action on the matter.

On July 24, 2009, SMC 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 SMC'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 SMC 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 SMC, 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 SMC's counsel on August 27, 2014, the Third Division of the Supreme Court required the parties to submit memoranda. Both SMC'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, SMC 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 the SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain that it has fully paid all of its obligations to PSALM. Notwithstanding the bona fide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the Performance Bond posted by SPPC pursuant 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 prelimary 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 which was 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.

- 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.

b. *Commitments*

The outstanding purchase commitments of the Group amounted to P86,188 as of December 31, 2016.

Amount authorized but not yet disbursed for capital projects is approximately P115,433 as of December 31, 2016.

c. *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.

d. 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.

Annex "B-2"

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2017 AND DECEMBER 31, 2016
(In Millions)

ASSETS

	2017 Unaudited	2016 Audited
Current Assets		
Cash and cash equivalents (Notes 8 and 9)	P 201,324	P 203,246
Trade and other receivables - net (Notes 4, 8 and 9)	110,711	110,966
Inventories	86,181	83,241
Current portion of biological assets - net	3,333	3,122
Prepaid expenses and other current assets (Notes 8 and 9)	77,204	75,397
	478,753	475,972
Assets held for sale	184	184
Total Current Assets	478,937	476,156
Noncurrent Assets		
Investments and advances - net	33,551	32,740
Available-for-sale financial assets (Notes 8 and 9)	5,995	5,986
Property, plant and equipment - net (Note 5)	570,086	565,882
Investment property - net	9,271	9,271
Biological assets - net of current portion	2,360	2,263
Goodwill	49,280	49,225
Other intangible assets - net	232,071	232,196
Deferred tax assets	21,248	21,011
Other noncurrent assets - net (Notes 4, 8 and 9)	32,532	32,256
Total Noncurrent Assets	956,394	950,830
	P 1,435,331	P 1,426,986

LIABILITIES AND EQUITY

	2017 Unaudited	2016 Audited
Current Liabilities		
Loans payable (Notes 4, 8 and 9)	P 193,069	P 197,093
Accounts payable and accrued expenses (Notes 4, 8 and 9)	133,959	133,948
Finance lease liabilities - current portion (Notes 8 and 9)	19,392	19,084
Income and other taxes payable	16,751	16,990
Dividends payable	4,695	3,442
Current maturities of long-term debt - net of debt issue costs (Notes 4, 8 and 9)	36,665	31,814
Total Current Liabilities	404,531	402,371
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 4, 8 and 9)	299,160	297,617
Deferred tax liabilities	60,062	59,027
Finance lease liabilities - net of current portion (Notes 8 and 9)	163,860	168,021
Other noncurrent liabilities (Notes 4, 8 and 9)	36,595	35,973
Total Noncurrent Liabilities	559,677	560,638
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common	490	490
Capital stock - preferred	260	260
Additional paid-in capital	120,501	120,501
Convertible perpetual securities	25,158	25,158
Equity reserves	(7,080)	(7,280)
Retained earnings:		
Appropriated	19,198	19,148
Unappropriated	43,462	40,908
Treasury stock	(76,780)	(76,780)
	125,209	122,405
Non-controlling Interests	345,914	341,572
Total Equity	471,123	463,977
	P 1,435,331	P 1,426,986

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED MARCH 31, 2017 AND 2016
(In Millions, Except Per Share Data)

	2017 Unaudited	2016 Unaudited
SALES (Note 2)	P 195,756	P 159,621
COST OF SALES	151,801	120,428
GROSS PROFIT	43,955	39,193
SELLING AND ADMINISTRATIVE EXPENSES	(17,074)	(17,138)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(7,386)	(8,471)
INTEREST INCOME	996	962
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	144	179
LOSS ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	(28)	(3)
OTHER INCOME (CHARGES) - Net (Note 3)	(1,459)	5,952
INCOME BEFORE INCOME TAX	19,148	20,674
INCOME TAX EXPENSE	5,535	6,073
NET INCOME	P 13,613	P 14,601
Attributable to:		
Equity holders of the Parent Company	P 2,604	P 4,975
Non-controlling interests	11,009	9,626
	P 13,613	P 14,601
Basic/Diluted Earnings Per Common Share, Attributable to Equity Holders of the Parent Company (Note 6):	P 6.66	P 15.06

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED MARCH 31, 2017 AND 2016
(In Millions)

		2017 Unaudited		2016 Unaudited
NET INCOME	₱	**13,613**	₱	14,601
OTHER COMPREHENSIVE INCOME (LOSS)				
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
EQUITY RESERVE FOR RETIREMENT PLAN		**(4)**		13
INCOME TAX EXPENSE		**-**		(4)
SHARE IN OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES - Net		**2**		-
		(2)		9
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS				
GAIN ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS		**917**		1,337
NET LOSS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS		**(4)**		(211)
INCOME TAX BENEFIT		**-**		21
		913		1,147
OTHER COMPREHENSIVE INCOME - Net of tax		**911**		1,156
TOTAL COMPREHENSIVE INCOME - Net of tax	₱	**14,524**	₱	15,757
Attributable to:				
Equity holders of the Parent Company	₱	**2,805**	₱	4,767
Non-controlling interests		**11,719**		10,990
	₱	**14,524**	₱	15,757

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED MARCH 31, 2017 AND 2016
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company													Non-controlling Interests	Total Equity
	Capital Stock		Additional Paid-in Capital	Convertible Perpetual Securities	Equity Reserves				Retained Earnings		Treasury Stock		Total		
	Common	Preferred			Reserve for Retirement Plan	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appropriated	Unappropriated	Common	Preferred			
As of January 1, 2017 (Audited)	P 490	P 260	P 120,501	P 25,158	P (1,086)	P 1,225	P (2,820)	P (4,599)	P 19,148	P 40,908	P (28,457)	P (48,323)	P 122,405	P 341,572	P 463,977
Gain on exchange differences on translation of foreign operations	-	-	-	-	-	-	200	-	-	-	-	-	200	717	917
Share in other comprehensive income (loss) of associates and joint ventures - net	-	-	-	-	-	(18)	15	-	-	-	-	-	(3)	5	2
Net gain (loss) on available-for-sale financial assets	-	-	-	-	-	3	-	-	-	-	-	-	3	(7)	(4)
Equity reserve for retirement plan	-	-	-	-	1	-	-	-	-	-	-	-	1	(5)	(4)
Other comprehensive income (loss)	-	-	-	-	1	(15)	215	-	-	-	-	-	201	710	911
Net income	-	-	-	-	-	-	-	-	-	2,604	-	-	2,604	11,009	13,613
Total comprehensive income	-	-	-	-	1	(15)	215	-	-	2,604	-	-	2,805	11,719	14,524
Net addition to non-controlling interests and others	-	-	-	-	-	-	-	(1)	-	-	-	-	(1)	17	16
Appropriations - net	-	-	-	-	-	-	-	-	50	(50)	-	-	-	-	-
Cash dividends and distributions:															
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,309)	(2,309)
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,364)	(2,364)
Undated subordinated capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,721)	(2,721)
As of March 31, 2017 (Unaudited)	P 490	P 260	P 120,501	P 25,158	P (1,085)	P 1,210	P (2,605)	P (4,600)	P 19,198	P 43,462	P (28,457)	P (48,323)	P 125,209	P 345,914	P 471,123
As of January 1, 2016 (Audited)	P 490	P 260	P 120,501	P -	P (2,271)	P 1,256	P (1,517)	P (1,184)	P 13,874	P 36,759	P (28,457)	P (48,323)	P 91,388	P 297,200	P 388,588
Gain (loss) on exchange differences on translation of foreign operations	-	-	-	-	-	-	(106)	-	-	-	-	-	(106)	1,443	1,337
Net loss on available-for-sale financial assets	-	-	-	-	-	(103)	-	-	-	-	-	-	(103)	(87)	(190)
Equity reserve for retirement plan	-	-	-	-	1	-	-	-	-	-	-	-	1	8	9
Other comprehensive income (loss)	-	-	-	-	1	(103)	(106)	-	-	-	-	-	(208)	1,364	1,156
Net income	-	-	-	-	-	-	-	-	-	4,975	-	-	4,975	9,626	14,601
Total comprehensive income (loss)	-	-	-	-	1	(103)	(106)	-	-	4,975	-	-	4,767	10,990	15,757
Net addition to non-controlling interests and others	-	-	-	-	-	-	-	(273)	-	-	-	-	(273)	30,352	30,079
Reversal of appropriations - net	-	-	-	-	-	-	-	-	(1,011)	1,011	-	-	-	-	-
Cash dividends and distributions:															
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,442)	(2,442)
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,886)	(1,886)
Undated subordinated capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,608)	(2,608)
As of March 31, 2016 (Unaudited)	P 490	P 260	P 120,501	P -	P (2,270)	P 1,153	P (1,623)	P (1,457)	P 12,863	P 42,745	P (28,457)	P (48,323)	P 95,882	P 331,606	P 427,488

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED MARCH 31, 2017 AND 2016
(In Millions)

	2017 Unaudited	2016 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱ 19,148	20,674
Adjustments for:		
Depreciation, amortization and others - net	10,871	1,303
Interest expense and other financing charges	7,386	8,471
Interest income	(996)	(962)
Equity in net earnings of associates and joint ventures	(144)	(179)
Loss on sale of investments and property and equipment	28	3
Operating income before working capital changes	36,293	29,310
Changes in noncash current assets, certain current liabilities and others	(7,856)	3,300
Cash generated from operations	28,437	32,610
Interest and other financing charges paid	(4,957)	(6,038)
Income taxes paid	(2,088)	(1,753)
Net cash flows provided by operating activities	21,392	24,819
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(770)	-
Additions to investments and advances	(665)	(1,712)
Additions to property, plant and equipment	(8,783)	(9,180)
Increase in other noncurrent assets and others	(2,200)	(2,379)
Proceeds from sale of investments and property and equipment	26	10
Interest received	938	940
Dividend received from an associate and available-for-sale financial assets	8	175
Net cash flows used in investing activities	(11,446)	(12,146)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	206,608	164,792
Long-term borrowings	19,795	28,760
Payments of:		
Short-term borrowings	(211,018)	(163,143)
Long-term borrowings	(14,999)	(41,590)
Payments of finance lease liabilities	(6,174)	(5,935)
Cash dividends and distributions paid to non-controlling shareholders	(6,141)	(4,346)
Net proceeds from issuance of preferred shares of a subsidiary	-	29,962
Increase in non-controlling interests	11	6
Net cash flows provided by (used in) financing activities	(11,918)	8,506
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	50	(817)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,922)	20,362
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	203,246	181,134
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	₱ 201,324	₱ 201,496

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
MARCH 31, 2017
(In Millions)

	Total	Current	Past Due		
			1 - 30 Days	31 - 60 Days	Over 60 Days
Trade	P 55,187	P 39,238	P 3,712	P 1,596	P 10,641
Non-trade	54,482	35,508	541	1,088	17,345
Others	14,899	13,988	110	13	788
Total	124,568	P 88,734	P 4,363	P 2,697	P 28,774
Less allowance for impairment losses	13,857				
Net	P **110,711**				

1. **Summary of Significant Accounting and Financial Reporting Policies**

The Group prepared its interim consolidated financial statements as of and for the period ended March 31, 2017 and comparative financial statements for the same period in 2016 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements are presented in Philippine peso and all financial information are rounded off to the nearest million (000,000), except when otherwise indicated.

The principal accounting policies and methods adopted in preparing the interim consolidated financial statements of the Group are the same as those followed in the most recent annual audited consolidated financial statements.

Adoption of New and Amended Standards
The Financial Reporting Standards Council (FRSC) approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

Amendments to Standards Adopted in 2017

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

- Disclosure Initiative *(Amendments to PAS 7, Statement of Cash Flows)*. The amendments 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.

- Recognition of Deferred Tax Assets for Unrealized Losses (*Amendments to PAS 12, Income Taxes*). The amendments clarify that: (a) the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset; (b) the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences; (c) the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and (d) an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax

law restricts the utilization of losses to deduction against income of a specific type.

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the following may be applicable to the Group in 2017:

  - 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.

Except as otherwise indicated, the adoption of these foregoing amended standards did not have a material effect on the interim 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, 2017 and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

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

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the following may be applicable to the Group after January 1, 2017:

  - 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 fair value through profit or loss (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 effective for annual periods beginning on or after January 1, 2018, with early application permitted. Amendments can be applied retrospectively or prospectively. 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*). 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.

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2. **Segment Information**

<u>Operating Segments</u>
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, infrastructure and mining.

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

The food segment includes, among others, feeds production and 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 stubs, 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, electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market.

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

The infrastructure segment is engaged in the business of construction and development of various infrastructure projects such as airports, roads, highways, toll roads, freeways, skyways, flyovers, viaducts, interchanges, port facilities and water ultilities and systems.

The mining segment is engaged in exploration, development and commercial utilization of nickel, cobalt, chrome, iron, gold and other mineral deposits.

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.

Financial information about reportable segments follows:

	Beverage		Food		Packaging		Energy		Fuel and Oil		Infrastructure		Mining and Others		Eliminations		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Sales																		
External sales	**P30,492**	P27,167	**P26,658**	P25,953	**P5,537**	P4,830	**P18,930**	P17,449	**P105,476**	P76,156	**P5,326**	P4,692	**P3,337**	P3,374	**P –**	P –	**P195,756**	P159,621
Inter-segment sales	**8**	34	**3**	27	**1,302**	1,673	**423**	2,482	**936**	701	**–**	–	**2,830**	2,789	**(5,502)**	(7,706)	**–**	–
Total sales	**P30,500**	P27,201	**P26,661**	P25,980	**P6,839**	P6,503	**P19,353**	P19,931	**P106,412**	P76,857	**P5,326**	P4,692	**P6,167**	P6,163	**(P5,502)**	(P7,706)	**P195,756**	P159,621
Results																		
Segment results	**P6,823**	P6,075	**P1,994**	P1,701	**P544**	P481	**P5,854**	P7,124	**P9,071**	P4,891	**P2,563**	P2,429	**(P13)**	(P374)	**P45**	(P272)	**P26,881**	P22,055

3. **Other Income (Charges)**

Other income (charges) consists of:

	March 31	
	2017	2016
Construction revenue	**P1,211**	P1,620
Gain (loss) on derivatives - net	**468**	(1,627)
Construction costs	**(1,211)**	(1,620)
Gain (loss) on foreign exchange - net	**(1,673)**	6,989
Others	**(254)**	590
	(P1,459)	P5,952

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 costs pass through the profit or loss before it is capitalized as toll road, airport, port and water concession rights.

4. **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 March 31, 2017 and December 31, 2016:

		Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Shareholders of	**March 31, 2017**	**P -**	**P -**	**P -**	**P11,050**	On demand;	Unsecured;
the Parent	December 31, 2016	-	278	-	10,953	interest bearing	no impairment
Company	**March 31, 2017**	**-**	**-**	**-**	**221**	On demand;	Unsecured;
	December 31, 2016	-	-	-	221	non-interest bearing	no impairment
Retirement	**March 31, 2017**	**99**	**-**	**11,921**	**73**	On demand;	Unsecured;
Plans	December 31, 2016	450	-	11,813	-	interest bearing	no impairment
Associates	**March 31, 2017**	**622**	**6**	**620**	**38**	On demand;	Unsecured;
	December 31, 2016	2,085	199	524	56	interest and non-interest bearing	no impairment
	March 31, 2017	**-**	**-**	**-**	**27,724**	Less than 1	Unsecured and
	December 31, 2016	-	-	-	27,233	to 10 years; interest bearing	secured
Joint Ventures	**March 31, 2017**	**29**	**89**	**2,248**	**21**	On demand;	Unsecured;
	December 31, 2016	72	370	640	8	non-interest bearing	no impairment
Shareholders	**March 31, 2017**	**161**	**127**	**212**	**3,942**	On demand;	Unsecured;
in Subsidiaries	December 31, 2016	299	711	264	2,596	non-interest bearing	no impairment
Others	**March 31, 2017**	**43**	**-**	**166**	**6,872**	On demand;	Unsecured;
	December 31, 2016	216	-	113	6,795	non-interest bearing	no impairment
Total	**March 31, 2017**	**P954**	**P222**	**P15,167**	**P49,941**		
Total	December 31, 2016	P3,122	P1,558	P13,354	P47,862		

a. Interest-bearing payable owed to a shareholder of the Parent Company were used for working capital purposes. This payable bears interest of 3.00% per annum, have no definite payment terms and considered payable upon demand.

b. Amounts owed by related parties consist of current and noncurrent receivables and deposits, and share in expenses.

c. Amounts owed to related parties consist of trade payables and professional fees.

d. The amounts owed to associates include interest bearing loans to Bank of Commerce (BOC) presented as part of "Loans payable" and "Long-term debt" accounts in the consolidated statements of financial position.

5. Property, Plant and Equipment

Property, plant and equipment consist of:

March 31, 2017 and December 31, 2016

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Mine and Mining Property	Capital Projects in Progress	Total
Cost										
January 1, 2016 (Audited)	P62,565	P54,955	P255,082	P49,785	P16,230	P148,607	P2,318	P5,584	P182,408	P777,534
Additions	1,151	1,403	10,654	871	364	9,117	1,277	-	15,855	40,692
Disposals/reclassifications/acquisition of subsidiaries	(65)	(5,011)	4,611	94,310	(494)	(22,882)	(512)	10	(104,949)	(34,982)
Currency translation adjustments	135	179	-	101	73	714	3	-	26	1,231
December 31, 2016 (Audited)	63,786	51,526	270,347	145,067	16,173	135,556	3,086	5,594	93,340	784,475
Additions	352	138	-	6	78	854	6	-	7,349	8,783
Disposals/reclassifications/acquisition of subsidiaries	(6)	(54)	-	17,983	5	835	(6)	-	(17,976)	781
Currency translation adjustments	212	346	-	239	155	562	9	-	33	1,556
March 31, 2017 (Unaudited)	**64,344**	**51,956**	**270,347**	**163,295**	**16,411**	**137,807**	**3,095**	**5,594**	**82,746**	**795,595**
Accumulated Depreciation and Amortization										
January 1, 2016 (Audited)	4,183	21,418	34,635	33,088	11,140	93,958	1,246	4,765	-	204,433
Depreciation and amortization	271	2,382	6,793	5,008	1,193	7,887	228	87	-	23,849
Disposals/reclassifications/acquisition of subsidiaries	(97)	(1,408)	(2,444)	(18)	(370)	(16,519)	(290)	17	-	(21,129)
Currency translation adjustments	12	133	-	171	26	348	1	-	-	691
December 31, 2016 (Audited)	4,369	22,525	38,984	38,249	11,989	85,674	1,185	4,869	-	207,844
Depreciation and amortization	51	523	1,895	1,433	223	1,736	48	4	-	5,913
Disposals/reclassifications/acquisition of subsidiaries	-	(72)	-	8	1	143	(5)	-	-	75
Currency translation adjustments	13	165	-	174	88	344	5	-	-	789
March 31, 2017 (Unaudited)	**4,433**	**23,141**	**40,879**	**39,864**	**12,301**	**87,897**	**1,233**	**4,873**	**-**	**214,621**
Accumulated Impairment Losses										
January 1, 2016 (Audited)	266	2,062	-	-	-	9,093	-	573	-	11,994
Disposals and reclassifications	-	(6)	-	-	-	(1,308)	25	-	-	(1,289)
Currency translation adjustments	-	(32)	-	-	-	77	(1)	-	-	44
December 31, 2016 (Audited)	266	2,024	-	-	-	7,862	24	573	-	10,749
Currency translation adjustments	-	35	-	-	-	102	2	-	-	139
March 31, 2017 (Unaudited)	**266**	**2,059**	**-**	**-**	**-**	**7,964**	**26**	**573**	**-**	**10,888**
Carrying Amount										
December 31, 2016	P59,151	P26,977	P231,363	P106,818	P4,184	P42,020	P1,877	P152	P93,340	P565,882
March 31, 2017	**P59,645**	**P26,756**	**P229,468**	**P123,431**	**P4,110**	**P41,946**	**P1,836**	**P148**	**P82,746**	**P570,086**

March 31, 2016

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Mine and Mining Property	Capital Projects in Progress	Total
Cost										
January 1, 2016 (Audited)	P62,565	P54,955	P255,082	P49,785	P16,230	P148,607	P2,318	P5,584	P182,408	P777,534
Additions	36	109	-	29	10	310	1	-	8,685	9,180
Disposals/reclassifications/acquisition of subsidiaries	121	(71)	-	109,423	536	4,684	8	(37)	(114,621)	43
Currency translation adjustments	461	433	-	677	441	(161)	(1)	-	119	1,969
March 31, 2016 (Unaudited)	63,183	55,426	255,082	159,914	17,217	153,440	2,326	5,547	76,591	788,726
Accumulated Depreciation and Amortization										
January 1, 2016 (Audited)	4,183	21,418	34,635	33,088	11,140	93,958	1,246	4,765	-	204,433
Depreciation and amortization	64	596	1,694	1,153	301	2,096	50	28	-	5,982
Disposals/reclassifications/acquisition of subsidiaries	(2)	(75)	(1)	(2,435)	142	1,707	9	(8)	-	(663)
Currency translation adjustments	31	281	-	593	243	(89)	(1)	-	-	1,058
March 31, 2016 (Unaudited)	4,276	22,220	36,328	32,399	11,826	97,672	1,304	4,785	-	210,810
Accumulated Impairment Losses										
January 1, 2016 (Audited)	266	2,062	-	-	-	9,093	-	573	-	11,994
Disposals and reclassifications	-	(6)	-	-	-	720	7	-	-	721
Currency translation adjustments	-	(39)	-	-	-	(145)	-	-	-	(184)
March 31, 2016 (Unaudited)	266	2,017	-	-	-	9,668	7	573	-	12,531
Carrying Amount										
March 31, 2016 (Unaudited)	P58,641	P31,189	P218,754	P127,515	P5,391	P46,100	P1,015	P189	P76,591	P565,385

Depreciation and amortization charged to operations amounted to P5,913 and P5,982 for the periods ended March 31, 2017 and 2016, respectively.

6. **Basic and Diluted Earnings Per 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 and distribution to holders of convertible perpetual securities (CPS), 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 effects of all potential dilutive debt or equity instruments.

Basic and diluted EPS is computed as follows:

	March 31	
	2017	2016
Net income attributable to shareholders of the Parent Company	**P2,604**	P4,975
Dividends on CPS	**(404)**	-
Net income attributable to common shareholders of the Parent Company (a)	**2,200**	4,975
Weighted average number of common shares outstanding (in millions) (b)	**330**	330
Basic/diluted earnings per common share attributable to equity holders of the Parent Company (a/b)	**P6.66**	P15.06

Earnings per share are computed based on amounts in nearest peso.

As of March 31, 2017 and 2016, the Parent Company has no dilutive debt or equity instruments.

7. **Dividends**

The Parent Company has no dividend declaration in March 2017 and 2016.

8. **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, available-for-sale (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 Board of Directors (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.

The accounting policies in relation to derivatives are set out in Note 9 to the selected notes to the consolidated financial statements.

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 P1,238 and P1,342 for the period ended March 31, 2017 and for the year ended December 31, 2016, 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:

March 31, 2017	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P29,223**	**P9,349**	**P23,136**	**P11,869**	**P49,014**	**P66,718**	**P189,309**
Interest rate	**5.65% - 12%**	**5.4583% - 8.74899%**	**5.4583% - 10.50%**	**4.9925% - 8.74899%**	**4.0032% - 8.74899%**	**4.5219% - 7.6567%**	
Foreign currency-denominated (expressed in Philippine peso)	**-**	**-**	**-**	**-**	**-**	**25,901**	**25,901**
Interest rate	**-**	**-**	**-**	**-**	**-**	**4.875%**	
Floating Rate							
Philippine peso-denominated	**1,255**	**1,279**	**895**	**544**	**531**	**1,248**	**5,752**
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)	**6,443**	**67,042**	**27,538**	**5,758**	**1,939**	**9,301**	**118,021**
Interest rate	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin, COF + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	
	P36,921	**P77,670**	**P51,569**	**P18,171**	**P51,484**	**P103,168**	**P338,983**

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	P28,440	P8,654	P22,539	P13,235	P44,511	P55,361	P172,740
Interest rate	5.65% - 12%	5.4583% - 8.74899%	5.4583% - 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	
	P31,794	P87,188	P36,892	P37,633	P46,938	P92,132	P332,577

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:

	March 31, 2017		December 31, 2016	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$2,183**	**P109,439**	US$2,011	P99,963
Trade and other receivables	**548**	**27,502**	482	24,069
Prepaid expenses and other current assets	**5**	**244**	5	241
Noncurrent receivables	**60**	**2,991**	50	2,496
	2,796	**140,176**	2,548	126,769
Liabilities				
Loans payable	**819**	**41,108**	616	30,625
Accounts payable and accrued expenses	**1,526**	**76,498**	1,422	70,769
Long-term debt (including current maturities)	**2,869**	**143,922**	3,093	153,800
Finance lease liabilities (including current portion)	**1,835**	**92,030**	1,880	93,499
Other noncurrent liabilities	**288**	**14,489**	426	21,160
	7,337	**368,047**	7,437	369,853
Net foreign currency-denominated monetary liabilities	**(US$4,541)**	**(P227,871)**	(US$4,889)	(P243,084)

The Group reported net gains (losses) on foreign exchange amounting to (P1,673) and P6,989 for the periods ended March 31, 2017 and 2016, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 3). 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
March 31, 2017	**50.16**
December 31, 2016	49.72
March 31, 2016	46.07
December 31, 2015	47.06

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations):

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
March 31, 2017	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P1,787)**	**(P1,648)**	**P1,787**	**P1,648**
Trade and other receivables	**(143)**	**(364)**	**143**	**364**
Prepaid expenses and other current assets	**-**	**(5)**	**-**	**5**
Noncurrent receivables	**(4)**	**(9)**	**4**	**9**
	(1,934)	**(2,026)**	**1,934**	**2,026**
Loans payable	**545**	**456**	**(545)**	**(456)**
Accounts payable and accrued expenses	**440**	**1,013**	**(440)**	**(1,013)**
Long-term debt (including current maturities)	**1,968**	**1,419**	**(1,968)**	**(1,419)**
Finance lease liabilities (including current portion)	**1,835**	**1,285**	**(1,835)**	**(1,285)**
Other noncurrent liabilities	**282**	**203**	**(282)**	**(203)**
	5,070	**4,376**	**(5,070)**	**(4,376)**
	P3,136	**P2,350**	**(P3,136)**	**(P2,350)**

	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	545	453	(545)	(453)
Accounts payable and accrued expenses	974	1,046	(974)	(1,046)
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	283	339	(283)	(339)
	6,729	5,333	(6,729)	(5,333)
	P4,785	P3,366	(P4,785)	(P3,366)

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.

San Miguel Corporation (SMC) 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.

March 31, 2017	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	**P201,324**	**P201,324**	**P201,324**	**P -**	**P -**	**P -**
Trade and other receivables - net	**110,711**	**110,711**	**110,711**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account)	**151**	**151**	**151**	**-**	**-**	**-**
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**158**	**158**	**158**	**-**	**-**	**-**
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	**6,065**	**6,109**	**116**	**5,709**	**172**	**112**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**7,597**	**7,642**	**-**	**1,935**	**5,496**	**211**
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**3,481**	**3,481**	**2,635**	**846**	**-**	**-**
Financial Liabilities						**-**
Loans payable	**193,069**	**193,946**	**193,946**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, infrastructure restoration obligation (IRO) and deferred income)	**130,747**	**131,079**	**131,079**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**1,981**	**1,981**	**1,981**	**-**	**-**	**-**
Long-term debt (including current maturities)	**335,825**	**406,380**	**52,872**	**91,049**	**148,303**	**114,156**

Forward

March 31, 2017	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Finance lease liabilities (including current portion)	**P183,252**	**P208,814**	**P24,927**	**P25,429**	**P85,353**	**P73,105**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, asset retirement obligation (ARO), deferred income and accrual for mine rehabilitation and decommissioning)	**26,157**	**26,306**	**-**	**15,714**	**9,571**	**1,021**

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	P203,246	P203,246	P203,246	P -	P -	P -
Trade and other receivables - net	110,966	110,966	110,966	-	-	-
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)	6,057	6,100	96	5,728	172	104
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	7,032	7,086	-	1,549	536	5,001
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	3,884	3,884	3,059	825	-	-
Financial Liabilities						
Loans payable	197,093	197,648	197,648	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO and deferred income)	130,352	145,423	145,423	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	2,475	2,475	2,475	-	-	-
Long-term debt (including current maturities)	329,431	396,740	47,439	100,172	146,987	102,142
Finance lease liabilities (including current portion)	187,105	214,018	24,737	25,011	84,160	80,110
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and accrual for mine rehabilitation and decommissioning)	25,680	25,784	-	22,759	422	2,603

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.

	March 31, 2017	December 31, 2016
Cash and cash equivalents (excluding cash on hand)	**P199,511**	P201,342
Trade and other receivables - net	**110,711**	110,966
Derivative assets	**151**	84
Financial assets at FVPL	**158**	157
AFS financial assets	**6,065**	6,057
Noncurrent receivables and deposits - net	**7,597**	7,032
Restricted cash	**3,481**	3,884
	P327,674	P329,522

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, CPS and retained earnings, both appropriated and unappropriated. Other components of equity

such as treasury stock, cumulative translation adjustments, reserve for retirement plan and equity reserve 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 Bangko Sentral ng Pilipinas, is not subject to externally imposed capital requirements.

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9. 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.

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.

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.

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.

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 consolidated statements of income. 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.

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.

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.

The table below presents a comparison by category of the carrying amounts and fair values of the Group's financial instruments:

	March 31, 2017		December 31, 2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P201,324**	**P201,324**	P203,246	P203,246
Trade and other receivables - net	**110,711**	**110,711**	110,966	110,966
Derivative assets (included under "Prepaid expenses and other current assets" account)	**151**	**151**	84	84
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**158**	**158**	157	157

Forward

	March 31, 2017		December 31, 2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)	**P6,065**	**P6,065**	P6,057	P6,057
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**7,597**	**7,597**	7,032	7,032
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**3,481**	**3,481**	3,884	3,884
Financial Liabilities				
Loans payable	**193,069**	**193,069**	197,093	197,093
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO and deferred income)	**130,747**	**130,747**	130,352	130,352
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**1,981**	**1,981**	2,475	2,475
Long-term debt (including current maturities)	**335,825**	**353,608**	329,431	347,354
Finance lease liabilities (including current portion)	**183,252**	**183,252**	187,105	187,105
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO, deferred income and accrual for mine rehabilitation and decommissioning)	**26,157**	**26,157**	25,680	25,680

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Trade and Other Receivables, Noncurrent Receivables and Deposits and Restricted Cash. The carrying amount of cash and cash equivalents and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent receivables and deposits and restricted cash, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

Financial Assets at FVPL and AFS Financial Assets. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets. Unquoted equity securities are carried at cost less impairment.

Loans Payable and Accounts Payable and Accrued Expenses. The carrying amount of loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of

reporting date. Discount rates used for Philippine peso-denominated loans range from 2.2% to 5.1% and 1.8% to 4.9% as of March 31, 2017 and December 31, 2016, respectively. The discount rates used for foreign currency-denominated loans range from 1.0% to 2.1% and 1.1% to 2.2% as of March 31, 2017 and December 31, 2016, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments are discussed below.

The Group enters into various currency and commodity derivative contracts to manage its exposure on foreign currency, interest rate and commodity price risk. The portfolio is a mixture of instruments including forwards, swaps and options.

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 March 31, 2017 and December 31, 2016.

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

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

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

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

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

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

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

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

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid or combined instrument is not recognized as at FVPL.

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

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

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

<u>Derivative Instruments not Designated as Hedges</u>
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 March 31, 2017 and December 31, 2016, the Group has outstanding interest rate swap with notional amount of US$300. Under the agreement, the Group receives quarterly floating interest rate based on LIBOR and pays annual fixed interest rate adjusted based on a specified index up to March 2020. The negative fair value of the swap amounted to P1,416 and P1,288 as of March 31, 2017 and December 31, 2016, respectively.

Currency Forwards
The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$961 and US$875 as of March 31, 2017 and December 31, 2016, respectively, and with various maturities in 2017. The net negative fair value of these currency forwards amounted to P79 and P38 as of March 31, 2017 and December 31, 2016, respectively.

Currency Options
As of March 31, 2017 and December 31, 2016, the Group has outstanding currency options with an aggregate notional amount of US$663 and US$360, respectively, and with various maturities in 2017. The net negative fair value of these currency options amounted to P97 and P150 as of March 31, 2017 and December 31, 2016, respectively.

Commodity Swaps
The Group has no outstanding commodity swaps on the purchase of aluminum as of March 31, 2017 and December 31, 2016.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2017. 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 6.9 million barrels and 26.3 million barrels as of March 31, 2017 and December 31, 2016, respectively. The negative fair value of these swaps amounted to P27 and P676 as of March 31, 2017 and December 31, 2016, respectively.

Commodity Options
As of March 31, 2017 and December 31, 2016, the Group has no outstanding bought and sold options covering the wheat and soybean meal requirements.

The Group has no outstanding three-way options designated as hedge of forecasted purchases of crude oil as of March 31, 2017 and December 31, 2016.

Embedded Derivatives
The Group's embedded derivatives include currency derivatives (forwards and options) embedded in non-financial contracts.

Embedded Currency Forwards
The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$106 and US$140 as of March 31, 2017 and December 31, 2016, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The net negative fair value of these embedded currency forwards amounted to P211 and P239 as of March 31, 2017 and December 31, 2016, respectively.

Embedded Currency Options
As of March 31, 2017 and December 31, 2016, the Group has no outstanding currency options embedded in non-financial contracts.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P468, (P1,627) and (P616) for the periods ended March 31, 2017 and 2016, and December 31, 2016, respectively.

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.

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.

The table below analyzes financial instruments carried at fair value by valuation method:

	March 31, 2017			December 31, 2016		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P -**	**P151**	**P151**	P -	P84	P84
Financial assets at FVPL	**-**	**158**	**158**	-	157	157
AFS financial assets	**260**	**5,805**	**6,065**	253	5,804	6,057
Financial Liabilities						
Derivative liabilities	**-**	**1,981**	**1,981**	-	2,475	2,475

The Group has no financial instruments valued based on Level 3 as of March 31, 2017 and December 31, 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

10. **Other Matters**

a. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.

b. There were no material changes in estimates of amounts reported in prior financial years.

c. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.

d. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.

e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 45 (a) of the 2016 Audited Consolidated Financial Statements, that remain outstanding as of March 31, 2017. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

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

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

g. The effects of seasonality or cyclicality on the interim operations of the Group's businesses are not material.

h. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended March 31, 2017.

i. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of end of March 31, 2017. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

The following are the major performance measures that Top Frontier Investment Holdings, Inc. and Subsidiaries (the Group) uses. Analyses are employed by comparisons and measurements based on the financial data as of March 31, 2017 and December 31, 2016 for liquidity, solvency and profitability ratios and for the periods ending March 31, 2017 and 2016 for operating efficiency ratios.

	March 2017	December 2016
Liquidity:		
Current Ratio	**1.18**	1.18
Solvency:		
Debt to Equity Ratio	**2.05**	2.08
Asset to Equity Ratio	**3.05**	3.08
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**7.30%**	10.68%
Interest Rate Coverage Ratio	**3.59**	3.05
	Period Ended March 31	
	2017	2016
Operating Efficiency:		
Volume Growth	**2%**	12%
Revenue Growth	**23%**	1%
Operating Margin	**14%**	14%

The manner by which the Group calculates the key performance indicators is as follows:

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Volume Growth	$\left[\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}}\right] - 1$
Revenue Growth	$\left[\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}}\right] - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* *Annualized for quarterly reporting*

Annex "C-1"

TOP FRONTIER
INVESTMENT HOLDINGS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE

This discussion summarizes the significant factors affecting the consolidated financial performance, financial position and cash flows of Top Frontier Investment Holdings, Inc. ("Top Frontier" or the "Parent Company") and its subsidiaries (collectively referred to as the "Group") for the three-year period ended December 31, 2016. The following discussion should be read in conjunction with the attached audited consolidated statements of financial position of the Group as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2016. All necessary adjustments to present fairly the Group's consolidated financial position as of December 31, 2016 and the financial performance and cash flows for the year ended December 31, 2016 and for all the other periods presented, have been made.

I. 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. PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

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

<u>Functional and Presentation Currency</u>
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.

<u>Significant Accounting Policies</u>
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.

<u>Adoption of New and Amended Standards and Interpretation</u>
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 effective 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.

II. FINANCIAL PERFORMANCE

Comparisons of key financial performance for the last three years are summarized in the following tables.

	Years Ended December 31		
	2016	2015	2014
		(In Millions)	
Sales	**P685,303**	P672,231	P772,230
Gross Profit	**169,391**	138,242	110,248
Selling and Administrative Expenses	**(72,742)**	(60,776)	(57,015)
Operating Income	**96,649**	77,466	53,233
Financing Charges - net	**(28,722)**	(26,809)	(23,114)
(Forward)			

	Years Ended December 31		
	2016	2015	2014
		(In Millions)	
Equity in Net Earnings (Losses) of Associates and Joint Ventures	**P203**	(P120)	P2,091
Gain (Loss) on Sale of Investments and Property and Equipment	**155**	(79)	610
Other Income (Charges) - net	**(14,158)**	(8,856)	6,048
Income from Continuing Operations	**36,887**	24,515	27,851
Income (Loss) after Income Tax from Discontinued Operations	**12,248**	162	(869)
Net Income	**49,135**	24,677	26,982
Net Income Attributable to Equity Holders of the Parent Company	**11,413**	172	3,652

2016 vs. 2015

As a result of completion of the sale of 100% ownership interest of San Miguel Corporation (SMC) in Vega Telecom, Inc. (Vega) and its subsidiaries on May 30, 2016, the financial performance of Vega and its subsidiaries for the period from 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 Group's consolidated revenues for year 2016 amounted to P685,303 million, 2% higher than 2015. Its core Beverage, Food and Packaging businesses continued to perform very well, delivering a combined revenue growth of 10% for the full year, together with the Power and Infrastructure businesses which also registered higher revenues. Petron Corporation (Petron) on the other hand posted lower revenues due to the effect of lower crude oil prices during the year.

The decrease in cost of sales resulted from the drop in crude prices of Petron, partly offset by the increase in cost of sales due to higher sales volume of Petron and San Miguel Brewery Inc. (SMB) and higher excise tax of SMB domestic operations.

Consolidated operating income grew 25% to P96,649 million from last year's P77,466 million. This was mainly driven by higher revenues and better margins from most of the businesses which brought in double-digit income growth.

The higher net financing charges resulted from the absence of capitalized interest in 2016, tempered by lower borrowing level and bank charges of Petron.

The increase in equity in net earnings in 2016 primarily represents the share of San Miguel Properties, Inc. (SMPI) and San Miguel Yamamura Packaging Corp. (SMYPC) in the higher net income of Bank of Commerce (BOC) and Northern Cement Corporation (NCC), respectively, and the share of SMC Global Power Holdings Corp. (SMC Global) in the lower net loss of Angat Hydropower Corporation (Angat Hydro). The increase was partly reduced by the recognition of the Group's share in the net income of Atlantic Aurum Investments B.V.

(AAIBV) Group from January 1 to March 5, 2015, and Manila North Harbour Port Inc. (MNHPI) from January 1 to December 15, 2015, prior to consolidation.

The gain on sale of investments and property and equipment in 2016 pertains to the gain on sale of investment by San Miguel Equity Investments Inc. in the shares of stock of South Western Cement Corporation and the gain on sale of investment property located in Sta. Maria, Bulacan by San Miguel Pure Foods Company Inc. (SMPFC). The balance in 2015 pertains mainly to the loss on the sale of heavy equipment in Bataan Refinery and the loss on rebranding of service stations of Petron.

The increase in other charges was primarily due to the recognition by Petron of commodity hedging loss in 2016 compared to a gain in 2015.

Income after income tax from discontinued operations pertains to the one-time gain on sale of the Telecommunications business in the second quarter of 2016, which represents the recovery of losses, costs, interest expense and provisions recognized in the previous periods.

The net income from discontinued operations in 2015 pertains to the consolidated net income of Vega and its subsidiaries.

Consolidated net income for the twelve months period is P49,135 million 99% higher than the P24,677 million in the same period last year. The increase was primarily due to the increase in the income from operations of Petron, SMB, Energy, Infrastructure and Food businesses, and the recognition of the one-time gain on sale of the Telecommunications business.

The increase in the share of non-controlling interests in the Group's net income is mainly attributable to the additional issuance by SMC Global of undated subordinated capital securities in August 2015; higher net income of SMC, SMB, Petron and of the various tollways companies namely: Citra Metro Manila Tollways Corporation (CMMTC), Manila Toll Expressway Systems, Inc. and South Luzon Tollways Corporation (SLTC) which were consolidated to the Group starting March 2015.

The following are the highlights of the performance of the individual business segments:

BEVERAGE

San Miguel Brewery Inc.

SMB delivered outstanding results in 2016, with consolidated revenues amounting to P97,160 million, 18% higher than 2015. Consolidated sales volume reached 230.4 million cases, 12% higher than the previous year.

Boosted by the strong performance from its Philippine operations and significant improvements from International Operations, SMB's operating income of P27,188 million and net income of P17,658 million are 20% and 31% higher than the previous year, respectively.

Beer Domestic

Sales volume reflected a growth of 15% versus year-ago level supported by its continuous strong marketing campaigns focused on increasing demand, alongside favorable economic conditions. Revenue grew 20% to P84,723 million.

SMB's major brands posted impressive sales in 2016 led by Red Horse, Pale Pilsen and San Mig Light while San Miguel Flavored Beer continued its growth trajectory. As a result, SMB reinforced its leadership in the beer market.

Setting the tone for SMB's beer segment, 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. The brand also used digital campaigns to reach tech-savvy consumers.

Beer International
San Miguel Brewing International Limited (SMBIL) posted a strong recovery in 2016, surmounting challenges encountered in the previous year. SMB's international arm increased its revenue to US Dollar (US$)261 million. All units registered better financial results in 2016, led by the sustained growth in Thailand and Exports, rebound in Indonesia and improvements in China, Hong Kong and Vietnam.

SMBIL further strengthened its presence in both existing and new markets by implementing various sales initiatives aided by marketing activities as well as introduction of new products, variants and packaging design in selected markets.

Thailand's operating income for 2016 was higher on account of higher exports contribution, incremental profit of partner brands as well as higher margins from domestic operations coupled with more efficient advertising and promotion spending.

Exports' profits grew steadily as San Miguel and Red Horse volumes increased, led by higher sales to the United Arab Emirates, Malaysia, Korea and Oman. New markets in Europe and Africa helped improve volumes and better margins also contributed to Export's double-digit growth in operating income.

In Indonesia, 2016 volumes were flat due to the continuing instability brought about by the government regulation, banning the sale of alcohol in provision and convenience stores. Despite this, operating income for the year ended higher compared to the previous year due to improved margins as a result of the price increases implemented in mid-2016.

Operations in China continued to face tough market conditions in 2016, with beer consumption adversely affected by the economic slowdown in the country. However, operating results significantly improved owing to higher margins following the purposive shift to more profitable products and lower production cost.

Hong Kong operations continued to recover from the challenges it faced in 2015. Overall volumes still remained lower than last year but volumes of San Mig Light and partner brands posted growth for the year. Operating results significantly improved - the result of distribution and warehouse restructuring, price adjustments and exports.

Vietnam sustained volume and profit improvements in 2016. San Mig Light continued its strong expansion driven by awareness programs, consumer promotions and trade incentives. Operating results were favorable versus last year on the back of higher domestic volumes, improved margins as well as the increase in exports production.

Liquor and Spirits

Ginebra San Miguel Inc. (GSMI) grew volumes for a third successive year, to 25.2 million cases, driven by flagship brand Ginebra San Miguel and Vino Kulafu. GSMI reclaimed market leadership of the North and South Luzon areas as a result, based on the Nielsen Retail Audit December 2016 report. Revenues reached P18,572 million, 12% higher than last year while operating income jumped 58% to P978 million. Net income amounted to P361 million, a turnaround from last year's P386 million net loss.

FOOD

SMPFC delivered another stellar performance in 2016, registering a net income of P5,976 million, 26% higher than the previous year, boosted by the Agro-industrial and Branded Value-added businesses. Operating income reached P8,931 million, 17% higher compared to P7,644 million in 2015, due to improved margins brought about by better selling prices, lower costs and improved efficiencies.

SMPFC continued its strategic thrust to shift to offering more branded value-added products, improving efficiencies, strengthening distribution network and aggressive capacity expansion.

Agro-Industrial

Revenues from the Agro-Industrial business, consisting of B-Meg feeds, Magnolia chicken and Monterey fresh meats, posted a 5% growth on the back of robust volumes and better selling prices of poultry, coupled by the strong performance of the Feeds business.

Milling

The Flour business continued to be affected by the downward pressure of selling prices due to the continuous decline of global wheat prices, coupled with intense competition, resulting in a 4% decline in revenues.

Flour prices are expected to remain soft in 2017. To cushion this, the Milling business has been focusing on expanding the higher-value segments namely the customized and special premixes and Kambal Pandesal.

On the other hand, its Grain Terminal business continued to provide support to the Feeds and Flour businesses which generated 10% growth in revenue, partly offsetting the setback in the results of the Flour business.

Value-Added

The Branded Value-added business sustained its momentum, bringing 2016 revenues 7% higher compared to the previous year. This is attributed to the broad-based growth in sales

for processed meats, cheese, spreads, biscuits and ice cream, underpinned by effective brand building campaigns and strong innovations in product development.

The Processed Meats business registered revenue growth in all food service channels mainly driven by higher consumer demand for Chicken nuggets, *Purefoods* corned beef and Star corned beef which were supported by new product launches and the successful advertising campaigns top billed by celebrity endorser Alden Richards for Tender Juicy hotdog.

Dairy and Others
The effective marketing campaigns boosted the performance of the dairy, spreads and biscuit segments with margarine maintaining its dominance in the market. New Magnolia Ice Cream flavors such as the Avocado Macchiato, Mango Salted Caramel, Strawberry Crumble Pie and Banoffee Pie of the Best of the Philippines were launched, further expanding the market of the ice cream category. The San Mig Coffee 3-in-1 likewise launched the Barako and Essenso variants.

The Food Service business also reported stronger sales across its primary channels, aided more aggressive customized product offerings in the quick-service restaurant channel and by the growing consumer preference for convenience products sold in convenience stores.

PACKAGING
The San Miguel Packaging Group's sales revenue for the full year reached P27,386 million, 9% higher than last year mainly driven by solid sales performance from the Glass and Plastic businesses and the growing contribution from its Australian business operations.

Operating income amounted to P2,584 million, 10% higher compared to same period last year.

The Packaging Group has expanded its presence in Australia and New Zealand. In February 2017, the Group acquired Portavin Holdings Pty. Ltd, the leading wine bottling service provider in Australia, with a total consideration of approximately AUS$ 27 million. This acquisition fully compliments the existing packaging operations in Australia and New Zealand through Cospak and Vinocor Worldwide Direct Pty. Ltd. (Vinocor).

Glass
The Glass business, the Packaging Group's largest business, posted revenue growth of 10% in 2016. This was the result of the strong domestic demand from the beverage customers and growth in the export market. All facilities, including China and Vietnam have also shown outstanding performance achieving the highest efficiencies.

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

Plastics
The Plastic business' revenue grew 16% from 2015 due to the surge in sales of crates and buckets for Beer and Coca-Cola products. Its leasing operations also saw growth in its revenue as a result of the lease-to-own purchase of pallets and revenues generated from the trucking services.

Paper
Despite the adverse weather conditions that affected crop harvest in southern Philippines in 2016, the Paper business managed to bring revenue slightly higher than the previous year as demand from its major customers increased and cost of raw materials and utilities were lower during the year.

Malaysia
Malaysia operations revenue slightly rose compared to last year that have been affected by stiff competition and slowdown in demand from local customers.

Australia
The Australian operations' sales grew by 18% due to strong sales of wine bottles, corks, screwcaps, hoods and capsules from Cospack Group and the Vinocor. The Australia operations revenue now accounts to about 19% of the Packaging Group.

ENERGY
SMC Global registered consolidated offtake volume of 17,346 gigawatt hours (GWh) for the full year, 5% higher than 2015 with both the Sual and Ilijan power plants posting higher bilateral volumes. There were also lower outages and maintenance shutdown experienced during the year compared to 2015. As a result, power revenues increased to P77,972 million, slightly higher than last year. Combined with a 9% decline in generation cost, operating income reached P26,730 million, 13% higher than last year. Net income amounted to P4,151 million, significantly higher than 2015.

The two greenfield coal power projects located in Malita, Davao and Limay, Bataan (Phase 1 and 2) will have a total capacity of 900 megawatts (MW). These power plants will be using the circulating fluidized bed technology which limits the effect to the environment. The 600 MW capacity will be completed this year.

Sual
Sual power plant's revenue grew 3% compared to the previous year mainly driven by the 5% increase in offtake volumes despite the decline in average bilateral and Philippine Wholesale Electricity Spot Market (WESM) prices.

Ilijan
Ilijan power plant's offtake volume grew 10% with lower outages this year. Revenue however declined by 2% due to lower bilateral and WESM prices.

San Roque
The San Roque power plant posted lower offtake volumes by 10% due to low dam reservoir level during the year. Revenue likewise ended lower by 11% due to lower spot market prices.

FUEL AND OIL
Petron ended 2016 with strong results as consolidated net income reached P10,822 million, 73% higher than the previous year's P6,270 million. The solid performance was fueled by sales volume growth, better efficiencies from both the Philippines and Malaysia operations and effective risk management.

With better margins, Petron's operating income grew 31% to P23,797 million in 2016.

Combined volumes from both the Philippines and Malaysian operations reached all-time high of 104.3 million barrels, 6% higher than the 98 million barrels sold in 2015. Both markets saw robust growth across its major business segments in reseller, industrial, liquified petroleum gas (LPG) and lubricants, with nearly all sectors experiencing double digit growth.

The surge in sales volume and the recovery of crude prices during the last quarter of 2016 helped mitigate the overall effect of lower crude oil prices throughout the year. Benchmark Dubai crude averaged US$41.27 per barrel in 2016, 19% lower than the full year 2015 average of US$50.91 per barrel. Sales revenue ended lower by 5% at P343,840 million, compared to P360,178 million in 2015.

Philippines
Philippine domestic volumes grew by 10% reaching 48.2 million barrels in 2016. This is better than the industry growth of 8.5%. Combined sales of high-value products of gasoline, diesel and Jet A-1 or kerosene grew 14%, further strengthening its market leadership.

2016 also marked the first full year of commercial operations for Petron's US$2,000 million refinery upgrade. This has enabled Petron to produce more high-margin fuels and petrochemicals supporting the substantial growth in sales. Costs have likewise gone down since its 180,000 barrel-per-day Bataan refinery can now process cheaper crudes.

At the end of 2016, Petron acquired the 140MW co-generation plant from sister company SMC PowerGen Inc. (SPI). The solid fuel-fired plant located beside Petron's refinery is expected to lower steam and power costs at the facility. The plant can utilize the pet coke from the refinery's delayed coker unit. The power plant is equipped with the latest clean technologies (e.g., circulating fluidized bed) and exceeds local and international environmental standards.

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

Malaysia
Total volumes grew 7% in 2016 fueled by strong sales in both the retail and commercial sectors. The launch of innovative fuels, namely the Blaze 100 Euro IV-M and the Turbo Diesel Euro V helped drive volumes.

Petron built more service stations – more than any other player in Malaysia – bringing its total station count to about 580. The ongoing retail network expansion program enabled Petron to increase its presence, especially in underserved markets.

INFRASTRUCTURE
The Infrastructure business through San Miguel Holdings Corp. (SMHC), continued to increase its contribution to the Group. Revenues in 2016 reached P19,866 million, 13% higher than full year 2015 result. This was mainly driven by the continuous growth in traffic volume from all our operating tollroads – South Luzon Expressway (SLEX), Metro Manila Skyway (Skyway) Stages 1 and 2, Southern Tagalog Arterial Road (STAR) and Tarlac-Pangasinan-La Union Toll Expressway (TPLEX).

Operating income amounted to P9,849 million, up by 6% compared to last year.

Tollroads
SLEX recorded a 13% growth in average daily traffic volume which registered revenues of P5,454 million, 12% higher than 2015. The Skyway Stages 1 and 2, generated P8,854 million of revenue with average daily traffic volume growth of 4%. Star Tollway, on the other hand, posted a 15% growth in revenue at P702 million, the result of increase in average daily traffic volume by 17%. TPLEX continued to post improvements in average daily traffic which grew 31% resulting in revenues of P978 million, up by 29%.

TPLEX's Carmen and Binalonan Exits have been opened to vehicular traffic last July and September 2016, respectively, while the construction of the section from Binalonan to Pozzorubio is currently ongoing and is expected to be completed within this year.

The Ninoy Aquino International Airport (NAIA) Expressway's Sections 1 and 2 are now open. Section 2 was finally opened on December 21, 2016 and started collecting toll fees on January 31, 2017 - more than one month from its opening date. Average daily traffic has been growing since the time the tollway has been completely opened to the commuters.

The construction of Skyway Stage 3, particularly Sections 1 and 2 from Buendia to Aurora Boulevard is ongoing and progressing well. Skyway Stage 3 involves the construction of a 14.2 kilometer elevated expressway from Buendia in Makati up to Balintawak, Quezon City. Target completion date is early 2019.

Construction of SLEX-TR4 is also about to start in 2017. This involves the construction of a 57.04 kilometer, four-lane toll road that will extend SLEX from Sto Tomas, Batangas up to Lucena City in Quezon province.

Airport
The expansion of the runway to 1.8 kilometers has been completed including navigational equipment that enabled night flights. The first A320 flight has successfully landed on November 18, 2016. Construction of the new terminal is currently ongoing and target completion is by middle of 2018.

Mass Rail
On July 1, 2016, SMC also took full control of Mass Rail Transit Line 7 (MRT 7) Project, through its wholly-owned subsidiary, SMHC. The remaining 49% equity interest in Universal LRT Corporation BVI (ULC BVI) and 100% in ULCOM Company, Inc. (ULCOM) was acquired for a total consideration of US$100 million. ULC BVI holds the exclusive right, obligation and privilege to finance, design, construct, supply, complete and commission the MRT 7 Project. ULCOM is the designated facility operator of the MRT 7 Project.

The construction of MRT 7 has initially started. Preparation of the Detailed Engineering Design survey for Right-of-Way acquisitions are ongoing. SMC Mass Rail Transit 7, Inc. (SMC-MRT 7) was incorporated on April 15, 2016 under SMHC which will be the corporate vehicle for the implementation of this project. This involves the construction of a 22 kilometer light rail transit from North EDSA to San Jose Del Monte, Bulacan, with a 22 kilometer road component that will connect to the North Luzon Expressway at the Bocaue

exit. A groundbreaking ceremony was held on April 20, 2016 at the Quezon Memorial Circle. Construction will take about three and a half years.

Bulk Water
The Bulacan Bulk Water project involves the construction and operations and maintenance of water treatment facilities that will supply potable water to up to 24 different water districts in Bulacan. SMC, through SMHC and partner Korea Water Resources Corporation (K-Water) won the public bidding for this project and concession agreement was signed on January 15, 2016. Commencement of site works such as clearing and grubbing started in September 2016 at the water treatment plant location.

REAL ESTATE
SMPI, the property arm of SMC, delivered higher sales from its residential projects, rental income and hotel revenues. Total revenues amounted to P1,716 million, a 53% growth over last year.

Makati Diamond Residences (MDR) achieved a significant rise in average occupancy in 2016 which grew 61.2% compared to the previous year's growth of 36%.

SMPI's income from operations of P210 million in 2016, increased by 83% from last year.

2015 vs. 2014

In 2015, Top Frontier's consolidated sales revenue amounted to P672,231 million, 13% lower than 2014. This mainly reflects the effect of lower crude oil prices which affected the revenues of Petron. SMC Global volumes and revenues were also affected because of the scheduled shutdown of Malampaya gas facilities, the main fuel source of the Ilijan power plant, as well as, the scheduled major maintenance of the Ilijan and Sual power plants.

On the other hand, the Group's core businesses of Beverage, Food and Packaging continued to contribute higher revenues compared to 2014. The Infrastructure business has also started to contribute higher revenues with the consolidation of the concession companies of Skyway Stages 1 and 2, and SLEX in the first quarter of 2015.

The lower cost of sales was a result of the drop in crude prices which was partly offset by higher sales volume of Petron.

Consolidated operating income grew 46% above last year at P77,466 million, mainly attributable to higher margins from Petron, continued good performance from the Beverage, Food and Packaging businesses, and higher contribution from the Infrastructure business.

Higher financing charges in 2015, was mainly on account of the consolidation of AAIBV Group's interest expense and other financing charges balance starting March 2015, partly offset by the increase in interest income earned from the proceeds of the disposal of investments in Trustmark Holdings Corporation (Trustmark), Zuma Holdings and Management Corporation (Zuma) and Fortunate Star Limited (Fortunate Star) and increase in the average balance of money market placements of the Group.

In 2015, the equity in net losses primarily represents the share of SMC Global in the net loss of Angat Hydro, a joint venture company of PowerOne Ventures Energy Inc. and K-Water

beginning November 18, 2014, net of the Group's share on AAIBV's net earnings for the period from January 1 up to March 4, 2015, while the balance in 2014 primarily represents the Group's share in the net earnings of AAIBV and BOC.

The decrease in other income was mainly due to lower hedging gain of Petron in 2015 which stemmed mainly from the less volatile commodity prices.

The depreciation of the Philippine peso against the US dollars resulted to higher foreign exchange loss in 2015 as compared to 2014.

The higher income tax expense in 2015 primarily resulted from the recognition of income tax on the dividend income from a foreign subsidiary of Petron, improved income from operations, as well as expiration of the income tax holiday on the Board of Investments - registered projects of Petron in 2015; consolidation of the income tax expense balance of AAIBV Group; and the higher taxable income of SMB, SMPFC and SMC Shipping and Lighterage Corporation (SMCSLC).

Consolidated net income, excluding loss on foreign exchange translation amounted to P37,233 million, 28% higher than 2014. Reported net income amounted to P24,677 million, which includes the P12,556 million loss on foreign exchange - net.

The following are the highlights of the performance of the individual business segments:

BEVERAGE

San Miguel Brewery Inc.

SMB ended 2015 with consolidated revenues of P82,374 million, 4% higher than 2014, mainly driven by the robust performance of its Philippine operations. On-going efforts to stimulate volumes, improved cost-efficiencies and managed fixed costs resulted in an operating income of P22,631 million, 3% higher than 2014.

SMB has expanded its business portfolio which now includes the non-alcoholic beverages (NAB). SMB acquired from GSMI its non-alcoholic beverage business in April 2015. This initiative was aimed to pursue a multi-beverage strategy, to enhance SMB's growth prospects, and to strengthen its competitiveness. NAB volumes reflected gradual improvement since it was launched, contributing further growth to the business.

Beer Domestic

Sales volume for SMB's domestic operations reached 177 million cases, 3% higher than 2014. This translated to a 9% growth in revenues amounting to P70,651 million. Operating income reached P22,401 million, 5% up from 2014.

SMB continued to focus on strengthening brand equities through effective and targeted ad and promo campaigns and demand generating - programs to further strengthen its leadership in the domestic beer market.

Red Horse reinforced its dominance in the strong beer category through its "#1 Beer" campaign, and the annual Pambansang Muziklaban and Pasiklaban Challenge. Meanwhile, San Miguel Pale Pilsen strengthened its position with bar activations and the "Amin ang Beer, Sa'yo ang Kwento" beer stories promo.

San Mig Light remained strong encouraged by its "San Mig Light Bucket Nights" promo and sustained thematic campaigns.

Gold Eagle further strengthened its hold in the Visayas and Mindanao markets through the "Sama-Samang Mag-Jamming, Sama-Samang Mag-Gold Eagle Beer" thematic campaign, complemented by digital promotion initiatives.

Beer International
SMB's international operations in Hong Kong, Indonesia, and China experienced major challenges which affected volumes. Slowdown was mitigated by sales programs implemented to address these challenges, complemented by the strong growth in Thailand's domestic operations and Vietnam's core brands. Total revenues amounted to US$257 million, compared to US$331 million in 2014.

Sales volume in South China continued to improve as it increased by 14% supported by outlet coverage expansions and higher export volumes. Meanwhile, operations in North China continued to be challenged by competition.

Hong Kong operations has been challenged by the decline in sales volume mainly due to the termination of the distribution agreement with Anheuser Busch InBev (AB InBev) in 2015. SMBIL continued to put in place programs to recover these lost volumes such as getting new portfolio of imported brands and adopted the "going-to-market" strategy penetrating big wholesalers. These initiatives have started to show improvements. Without AB InBev, volumes grew by 2% in 2015.

Indonesia operations had a difficult year in 2015 due to the implementation of the new government regulation banning sales of alcoholic beverages in major channels. This significantly affected sales volume but slowdown was mitigated through the implementation of sales programs. Dealers and wholesalers were encouraged to become distributors and sub distributors and more sales programs were introduced to the modern trade-off and on-premise outlets providing trade discount incentives.

Vietnam sustained its positive trend in 2015, ending with 18% growth in sales volume. This was led by the double-digit growth of San Miguel Pale Pilsen, San Mig Light and W1N Bia. On the other hand, 2015 operating performance was 16% unfavorable versus 2014 due to lower export contribution.

Thailand's domestic volume ended 2015 with a double-digit growth of 14% backed by SMBIL's ongoing programs and outlet penetration initiatives. All brands and regions registered gains with San Mig Light outperforming 2014 levels by 11%. 2015 operating income grew by more than 100% mainly due to volume improvement and higher prices implemented during the second quarter of 2015.

Liquor and Spirits
GSMI delivered a robust performance in 2015, surpassing the 2014's performance. Growth was mainly driven by better sales volume and cost-management programs. Total domestic volumes reached 23 million cases, 4% higher than 2014. Flagship Ginebra San Miguel increased sales volume by 5% as the "Ganado Sa Buhay" thematic campaign continued to resonate with consumers. Vino Kulafu grew by 12% on the back of improved distribution system and

innovation, which strengthened the brand's popularity among younger consumers in the Visayas and Mindanao area. As such, consolidated revenues grew by 7% to P16,628 million.

Lower production costs, better bottle retrieval system, and improved distillery efficiencies drove 2015 operating income 73% ahead of 2014 to P621 million.

FOOD

SMPFC posted another growth year for 2015, with a 4% increase in revenues at P106,860 million and operating income of P7,644 million, up by 18% from 2014. Growth was driven by the strong performance of its Feeds and Branded businesses.

SMPFC remained focused on growing its Branded Value-added business which provided more robust and steady margins. In 2015 alone, SMPFC launched 24 new products under this category. This category, together with the stable priced products had already increased the total contribution to the revenue pie to about 51%. The acquisition of the *La Pacita* brand, a biscuit and flour based snack business early in 2015 has provided its Milling business to expand its portfolio of branded products which have already started to register growth. SMPFC also introduced powdered mixes such as Wandah! The "All Around Mix" of gravy, mayo, catsup, cheese spread and creamee mixes. This introduces various condiments in powdered form that is conveniently packed for single use and easy preparation. These initiatives were in line with the Food Group's shift to more value-added products.

Agro-Industrial

The Agro-Industrial business composed of Feeds, Poultry and Fresh Meats, generated revenues of P72,559 million, exceeding 2014's sales by 4%. The business was able to recover from a profit decline in the first three quarters of 2015 on account of continued favorable performance of its Feeds segment and the improvement of chicken prices in the fourth quarter of 2015.

Milling

The Milling business was affected by the drop in flour selling prices following the decline in global prices of wheat, competitive pressures coming from imported and new competitors, together with the government's continued call to bring down flour prices. Despite this, revenues increased by 3% to P10,256 million due to higher volume. The contribution of the grain terminal operations partly compensated the drop in flour profit. Also cushioning the impact of the drop in basic flour margins is the growing volume of customized premixes and the expansion of the exclusive franchised Kambal Pandesal outlets.

Value-Added

The Value-Added Processed Meats business posted strong growth as revenues rose by 8% over 2014. This was mainly driven by its core products of Hotdogs and Nuggets products, complimented by its Christmas products like hams and cheeseballs. This delivered a faster growth than the basic foods segment as SMPFC moved to focus more on the value-added segment.

Dairy and Others

The Dairy, Fats and Oil business achieved revenue growth of 13% contributing P8,762 million led by the strong performance of its core product lines for butter, margarine, and cheese.

The Food Service business continued to benefit from the growing trend of out of home consumption and has been among the top suppliers of major fast food chains. This made it one

of the major drivers of San Miguel Pure Foods' growth, generating combined revenues of P12,500 million, growing by 9% in 2015.

The International operations in Vietnam and Indonesia continued to face challenges which posted revenue decline in 2015. This was mainly due to the temporary closure of the feeds and hogs operations in Vietnam and lower volumes in Indonesia.

PACKAGING

The Packaging Group continued to provide stable growth in 2015. Revenues grew by 3% to P25,050 million, a result of higher sales across all business groups. Operating income increased to P2,344 million, 2% higher versus 2014.

In February 2015, the Group expanded its Packaging business through the acquisition of Vinocor, a supplier of wine bottle corks and customized bottles. This enabled the Packaging Group to service the Australian wine market, and cork supplying in the area. This strengthened Australian operations, contributing a double-digit growth in revenues.

Glass

The Glass business achieved record performance in terms of revenue and operating income. Sales revenue reached P8,626 million, 14% better than 2014 mainly driven by sustained strong demand from the beverage and pharmaceutical customers.

Metal

The Metal business experienced a decrease in demand from soft drink customers but impact was softened by the greater domestic demand from beer and other beverage customers.

Plastics

With the continuous domestic delivery of plastic crates and pallets, sales volume increased by 4% from 2014. Revenues reached P1,928 million from P2,094 million in 2014.

Paper

The Paper segment registered revenues of P2,273 million, 3% higher than 2014, which resulted to a double-digit growth in net income.

Malaysia

Malaysia operations experienced an increase in sales volume with woven products growing by 4% and plastic films by 13%. However revenues decreased by 6% to P3,282 million.

Australia

San Miguel Yamamura Australasia Pty. Ltd. and its subsidiaries (SMYA or Cospak Group) turned in strong profits with higher sales volume from pharmaceutical products and wine bottles. This enabled the Cospak Group to increase revenues by 22% to P4,675 million.

ENERGY

2015 was a challenging year for SMC Global. Consolidated offtake volume declined by 3% from the previous year at 16,558 GWh. Lower volumes was mainly the result of the scheduled maintenance outage and occasional supply restrictions of the Malampaya gas facility for Ilijan power plant, as well as the more than 90-days extended major maintenance outage of Unit 2 of Sual power plant. This was, however, moderated by higher power generation of San Roque

power plant attributable to better water inflow, and higher contribution from the Limay Co-generation power plant.

Consolidated revenues and operating income amounted to P77,507 million and P23,703 million, respectively.

Revenues from the Sual power plant was 2% better than 2014 at P33,336 million, mainly attributable to higher bilateral volumes sold despite the decline in average bilateral and WESM prices.

The San Roque power plant reached an offtake volume of 1,589 GWh, 89% higher than 2014. Coupled with contribution from the ancillary services, revenues amounted to P8,550 million, 32% up from 2014.

Revenues from the Ilijan power plant declined by 21% to P31,473 million due to lower bilateral and WESM volumes, as well as decrease in prices compared to 2014.

The Limay co-generation power plant added 527 GWh in offtake volumes. Revenues significantly increased by 29% amounting to P7,261 million.

FUEL AND OIL

Petron remained to be challenged in 2015 as it was affected by the continued drop in oil prices. Even with robust volume growth, Petron registered lower sales revenue of P360,178 million, a 25% decrease from the previous year. Benchmark Dubai crude fell to US$35 per barrel in December 2015 with an annual average price of US$51 per barrel, 47% lower than the previous year.

Despite weak oil prices in 2015, the differential between crude and finished products remained strong and the mix of higher value products improved, supporting refining margins. As a result, Petron's operating income reached P18,134 million last year, a 138% increase from only P7,605 million in 2014.

Philippines

Oil demand in the Philippines has grown significantly amid the low price environment. Supported by the higher production from Petron Bataan Refinery Master Plan Phase-2 (RMP-2) and strong industry growth, sales volume hit 62 million barrels, 20% higher than 2014.

Production from RMP-2 continued to improve, as utilization levels reached more than 90%, increasing the production of high-margin products such as gasoline and petrochemicals. The refinery upgrade started its commercial operations in January 2016 and has already passed performance tests, producing Euro IV gasoline and diesel.

Malaysia

Volume grew by 3% mainly driven by increase in sales to industrial accounts, LPG and retail gasoline. The completion of the rebranding and upgrading program supported an 11% growth in gasoline retail sales.

To sustain volume growth in the years to come, Petron continued to expand its network of service stations in both markets. As of December 2015, there were 50 new service stations under different stages of construction in the Philippines and 15 new stations in Malaysia.

INFRASTRUCTURE

In 2015, the Group began to realize higher contributions from the Infrastructure business given the consolidation of SLEX and the Skyway System starting March 5, 2015. On a full year 2015 results, SMHC delivered P15,238 million in revenues and P8,536 million in operating income, a 19% and 15% increase, respectively, from 2014.

The tolling revenues consolidated to the Group reached P13,021 million and operating income was at P7,272 million, with the consolidation of SLEX and Skyway Stages 1 and 2 in March 2015.

With higher-than-expected traffic volume, all the operating tollways posted good revenue growth.

SLEX revenues amounted to P4,886 million with average daily traffic reaching 273,978 vehicles. Skyway Stages 1 and 2 delivered P8,111 million in revenues which registered average daily traffic of 241,906 vehicles. The Radio Frequency Identification (RFID) toll collection has been implemented in both tollways and uptake from the consumers was well received.

STAR Tollway posted double-digit growth in its average daily vehicle count which reached 41,148 vehicles, resulting to P610 million in revenues. The growth was mainly driven by the safety improvements done on the tollway, including the construction of additional lanes.

The TPLEX operating segments delivered P760 million in revenues with daily traffic count already reaching 12,750 vehicles. The construction of Section 3A-2 from Binalonan to Pozorrubio is currently ongoing.

The Boracay Airport runway extension to 1.8 kilometer was completed in December 2015, with jet operations commencing on November 18, 2016.

REAL ESTATE

SMPI delivered a good performance for 2015. SMPI generated P1,119 million in total revenues, 48% higher than 2014, backed by the good performance of its real estate segment.

SMPI completed the MDR, a luxury serviced apartment located in Makati which had a high occupancy rate since its opening to the public, even prior to its formal opening on April 1, 2015.

SMPI is creating more synergies with its business units and more active on new real estate developments, as well as, maximizing the use of existing properties. It shall focus on generating revenues from existing assets by developing quality residential, commercial and industrial projects.

III. FINANCIAL POSITION

A. The following are the significant transactions in 2016:

<u>DIVESTMENT</u>

- *Sale of Telecommunications Business to Philippine Long Distance Telephone Company (PLDT) and Globe Telecom, Inc. (Globe)*

On May 30, 2016, SMC entered into agreements with PLDT and Globe for the sale of 100% ownership interest of SMC in Vega for total amount of P30,004 million. Vega, through its subsidiaries holds the telecommunications assets of SMC. In addition, advances by SMC to Vega was also assigned to PLDT and Globe in the total amount of P22,077 million. SMC received P39,061 million or 75% of the proceeds from the sale of shares and assignment of advances. The remaining balance of P13,020 million, is payable on May 30, 2017.

<u>INVESTMENT IN SUBSIDIARIES</u>

- *Additional 49% Equity Interest in ULC BVI and Acquisition of 100% Equity Interest in ULCOM by SMHC*

On June 16, 2016, SMC 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 million, 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 million.

ULC BVI holds the exclusive right, obligation and privilege to finance, design, construct, supply, complete and commission the 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.

<u>LONG-TERM DEBT</u>

- AVAILMENT OF LONG-TERM LOANS TO FINANCE CAPITAL PROJECTS
  - SMC CONSOLIDATED POWER CORPORATION (SCPC)

In 2016, SCPC drew a total of US$359 million from the US$400 million, seven-year term loan facility with a syndicate of banks. The loan bears interest rate of LIBOR plus a 3.25%

margin, payable in arrears on the last day of the agreed interest period. Repayment of the loan principal shall commence on October 31, 2017, and every three months thereafter.

Proceeds of the loan is earmarked for the financing of the construction of the 2x150MW Limay Power Plant (Phase I), in Bataan.

- VERTEX TOLLWAY DEVT. INC. - NAIA EXPRESSWAY

On January 29 and February 1, 2016, Vertex has drawn a total of P1,100 million loan, to complete the P7,500 million loan facility for the financing of the construction of the NAIA Expressway.

- REFINANCING AND DEBT LIABILITY MANAGEMENT

  - *Issuance of P15,000 Million Fixed Rate Peso-denominated Bonds by SMC Global*

On July 11, 2016, SMC Global issued fixed rate Philippine Peso-denominated bonds with an aggregate principal amount of P15,000 million. 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 in July 2016 to refinance the short-term US$300 million bridge financing loan (with an interest rate per annum of 7.00%), availed for the redemption of the US$300 million bond.

The Series A Bonds, Series B Bonds and Series C Bonds, were listed on the Philippine Dealing & Exchange Corp. (PDEx) on July 11, 2016.

  - *Refinancing of the US$340 million Loan of AAIBV*

On March 14, 2016, Atlantic Aurum Investments Philippines Corporation (AAIPC) entered into a Corporate Notes Facility Agreement with local banks amounting to P16,700 million to finance its acquisition of the shares of stock of Stage 3 Connector Tollways Holding Corporation from AAIBV. The loan is payable semi-annually maturing in 2021 and 2026 with a fixed interest rate of 6.5% and 6.7394% per annum, respectively.

On March 15, 2016, AAIBV used the proceeds from the sale of the shares to prepay its existing US$340 million loan with an interest rate per annum of 5.7989%, from the loan facility agreement it has entered into with Standard Chartered Bank on September 17, 2014. The refinanced loan was redenominated to minimize the exposure to foreign exchange rate changes.

- *Refinancing of US$1,500 million Long-term Debt by SMC*

On various dates in 2016, SMC refinanced the US$1,500 million long-term debt through the availment of: a) P25,000 million short-term bridge loan from local banks, which was partially refinanced by the issuance of the P20,000 million bonds on March 1, 2017; b) US$420 million short-term loans; and c) US$580 million medium-term loans from foreign banks. The redenomination and refinancing of the long-term debt, minimized the exposure to foreign exchange rate changes and lowered the interest margin from 2.35% to a weighted average margin of 0.76%, respectively.

- *Issuance of P20,000 Million Fixed Rate Peso-denominated Retail Bonds by Petron*

On October 27, 2016, Petron issued and listed in the PDEx P20,000 million fixed rate Philippine Peso-denominated retail bonds, the first tranche of Petron's shelf registration of P40,000 million fixed rate bonds. The fixed rate bonds consist of Series A Bonds (P13,000 million) due on October 27, 2021 with fixed interest rate of 4.0032% per annum and Series B Bonds (P7,000 million) due 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 million and $550 million Term Loan facilities, to repay short-term loans and for general corporate requirements.

- PAYMENT OF LONG-TERM DEBT

  - SPI

On December 23, 2016, SPI pre-settled the remaining balance of the P13,800 million, 10-year term loan drawn in 2013 and 2014, 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 payment of the loan was funded by the proceeds from the sale of power plant to Petron.

  - INFRASTRUCTURE GROUP

In 2016, the Infrastructure Group paid a total of P9,009 million of its maturing long-term debt.

1. AAIPC paid a total of P4,385 million, from the P14,500 million Corporate Notes Facility drawn in 2013 for the acquisition of the 87.84% ownership interest in CMMTC.

2. MTD Manila Expressways Inc. (MTDME) paid P2,862 million, from the P11,500 million Corporate Notes Facility drawn in 2012.

3. Private Infra Dev Corporation (PIDC) paid P757 million, from the P15,140 million ten-year term Loan Facility used for financing the TPLEX Project.

4. MNHPI paid P600 million from the P3,000 million loan facility used to finance the modernization, development and maintenance of the Manila North Harbor Development Program.

5. Star Infrastructure Development Corporation (SIDC) paid P349 million, from the P3,500 million Loan Facility Agreement with local banks, the proceeds of which were primarily used to finance the construction and development of Stage II, Phase II of the STAR Project.

6. Trans Aire Development Holdings Corp. paid P56 million, from the P3,300 million loan obtained for financing the Boracay Airport Project.

- PETRON

  In 2016, Petron paid US$205 million, from the US$475 million loan drawn in 2014, obtained for the refinancing of an existing loan.

- PETRON MALAYSIA

  In 2016, Petron Malaysia paid MYR96 million, from the MYR300 million loan availed in 2014 to finance the refurbishment of the retail stations in Malaysia.

EQUITY

- PREFERRED SHARES

  - *Issuance of 400,000,000 Series "2" Preferred Shares - Subseries G, H and I by SMC*

    On February 24, 2016, the Board of Directors (BOD) of The Philippine Stock Exchange, Inc. (PSE) approved the listing application of SMC 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 Philippine Securities and Exchange Commission (SEC) approved the Shelf Registered Shares and issued a permit to sell on March 8, 2016.

    SMC 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 of SMC. 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 of SMC.

    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 SMC's follow-on offering of 280,000,000 Series "2" preferred shares, with an oversubscription option of 120,000,000 Series "2" preferred shares, SMC 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, SMC 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 net proceeds from the issuance of the shares amounting to P29,707 million were used for the refinancing of the existing US$170 million long-term debt and for investments by way of equity in the Infrastructure business.

- CONVERTIBLE PERPETUAL SECURITIES (CPS)

  - *Issuance of Peso-Denominated Convertible Perpetual Securities by the Parent Company*

  On June 30, 2016, the Parent Company issued Philippine Peso-denominated CPS with an aggregate face value of P25,883 million in favor of Bryce Canyon Investments Limited, a British Virgin Island business company. The CPS shall entitle the security holder to a cumulative preferential distribution at 6.25% per annum on their face value amount, payable semi-annually in arrears on June 30 and December 31 in each year, commencing on December 31, 2016. The security holders shall have the option to convert the CPS into preferred shares of the Parent Company at any time on or after July 31, 2019.

  Proceeds from the sale of the securities were used by the Parent Company for payment of the US$550 million long-term debt.

B. The following are the significant transactions in 2015:

BUSINESS COMBINATIONS AND INVESTMENTS IN SUBSIDIARIES

TELECOMMUNICATIONS

- *Acquisition of Additional 51.88% Equity Interest in Liberty Telecoms Holdings, Inc. (LTHI)*

On July 14, 2015, the BOD of SMC 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 Telecoms, Inc.), which is in the business of providing data communication services.

- *Acquisition by Vega of 88.17% Ownership Interest in CobaltPoint Telecom, Inc. (CTI, formerly Express Telecommunications Co., Inc.)*

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 million.

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

INFRASTRUCTURE

- *Acquisition of 44% Equity Interest and Exercise of Option to Acquire Additional 4.47% in 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 million or P9,893 million.

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, the Skyway Stages 1, 2 and 3.

- *Investment in MNHPI by SMHC*

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 million.

MNHPI holds the concession rights 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.

FOOD

- *Acquisition of the 49% Ownership Interest in San Miguel Pure Foods Investment (BVI) Limited (SMPFIL)*

  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. 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.

OTHER ASSETS

- *Acquisition of La Pacita Trademarks*

In February 2015, the acquisition by SMC 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.

LONG-TERM DEBT

- REFINANCING

SMC

On September 8, 2015, SMC drew US$287 million or P13,469 million from a loan facility agreement signed in March 2015. Proceeds from the five-year floating rate loan were used to fund the Medium Term Notes (MTN) Tender Offer in April 2015. The US$287 million loan's interest rate of LIBOR + 1.6% per annum is lower than the MTN rate of 4.875%.

On April 10, 2015, SMC purchased a total of US$284 million (P12,611 million) in principal amount of the US$800 million MTN issued in April 2013 to mature in 2023. The price at which SMC purchased the Notes validly tendered and accepted for purchase is 95%. SMC recognized a gain of about P275 million for the transaction.

FUEL AND OIL

On July 29, 2015, Petron drew US$550 million loan or P25,013 million, to be 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 refinance existing debt amounting to US$550 million or P25,060 million, effectively extending the loan maturity profile from 2016 and 2017 to 2020.

On October 13, 2015, Petron drew P5,000 million 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 rate of 5.4583%.

INFRASTRUCTURE

- SLTC

On May 22, 2015, SLTC issued fixed rate bonds amounting to P7,300 million consisting of Series A (P2,400 million), Series B (P2,400 million) and Series C (P2,500 million) having a term of five years and three months or maturing on August 22, 2020, seven years or maturing on May 22, 2022, and 10 years or maturing on May 22, 2025 respectively, with a fixed interest rate per annum of 4.9925%, 5.5796% and 6.4872%, respectively.

The net proceeds of the fixed rate bond offering were used to prepay the five-year P7,975 million Peso-denominated Floating Rate Corporate Notes and Security Agreement drawn on April 4, 2012. Actual interest rates from April 2012 to May 2015 ranged from 4.2158% to 5.7153%. The refinancing of the P7,975 million corporate notes extended the maturity of the loan from 2017 to 2020 up to 2025. Principal payment for the refinanced loan was due with balloon amounts on various periods up to April 2017. The retail bonds were not subjected to Single Borrower's Limit unlike the refinanced loan.

▪ PAYMENT OF LONG-TERM DEBT

In 2015, the Group paid the following long-term debt balances with a total amount of P21,347 million:

- SMC

On December 14, 2015, SMC paid the remaining balance of various loans availed in 2009 and 2010 amounting to P7,850 million.

- INFRA GROUP

On various dates in 2015, the Infrastructure Group paid a total of P7,510 million of its maturing long-term debt.

1. AAIPC paid a total of P3,246 million, from the P14,500 million Corporate Notes Facility drawn in 2013 for the acquisition of the 87.84% ownership interest in CMMTC.

2. MTDME paid a total of P2,536 million, from the P11,500 million Corporate Notes Facility drawn in 2012.

3. CMMTC paid a total of P1,454 million, from the P12,100 million Syndicated Loan Facility drawn in 2009 to finance the construction of Stage 2 and the restructuring of certain liabilities related to Stage 1 of the South Metro Manila Skyway.

4. PIDC paid P189 million, from the P15,140 million ten-year term Loan Facility used for financing the TPLEX Project.

5. SIDC paid P85 million, from the Loan Facility Agreement with local banks amounting to P3,500 million, the proceeds of which were primarily used to finance the construction and development of Stage II, Phase II of STAR Project.

- FOOD

On December 11, 2015, San Miguel Foods, Inc. paid the peso-denominated fixed rate and floating rate notes with principal amounts of P800 million and P3,700 million, respectively. The source of funding came from the equity infusion of SMPFC in 2015.

- ENERGY

In 2015, SPI paid P1,373 million, from the P13,800 million 10-year term loan drawn in 2013 which was used for the acquisition of 2 x 35 MW Co-Generation Solid Fuel-Fired Power Plant in Limay, Bataan, from Petron.

- BEVERAGE

In 2015, East Pacific Star Bottlers Phils Inc., a wholly-owned subsidiary of GSMI paid P114 million from its P800 million loan which was used to finance the construction of the bottling facilities in Ligao, Albay and Cauayan, Isabela.

▪ AVAILMENT OF LONG-TERM LOANS TO FINANCE CAPITAL PROJECTS

- SMC GLOBAL

On March 6, 2015, SMC Global made the final drawdown of US$200 million (P8,825 million) five-year floating rate loan from the US$700 million facility agreement. The proceeds were used to finance the ongoing construction of power plants in Davao and Limay (the Greenfield Power Plant Projects).

- VERTEX - NAIA EXPRESSWAY

On various dates in 2015, Vertex has drawn a total of P6,400 million loan, for the financing of ongoing construction of the NAIA Expressway Project.

- PIDC - TPLEX

On April 24, 2015, PIDC made the final drawdown of P3,640 million to complete the P15,140 million ten-year term loan facility used for financing the TPLEX Project.

- CITRA CENTRAL EXPRESSWAY CORP. (CCEC) – SKYWAY STAGE 3

On various dates in 2015, CCEC has drawn a total of P8,700 million from the P31,000 million loan facility to partially finance the design, construction and the operation and maintenance of the Stage 3 of the Metro Manila Skyway Project.

PREFERRED SHARES

- *Issuance of 446,667,000 Series "2" Preferred Shares – Subseries D, E and F and Redemption of Series "2" Preferred Shares - Subseries A by SMC*

  On September 21, 2015, SMC 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.

  On September 21, 2015, SMC 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. SMC paid P54,076 million 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 million.

- *Reissuance of Series "1" Preferred Shares of SMC*

  On April 14, 2015, SMC 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.

- *Redemption of Outstanding Preferred Shares by SMPFC*

  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 million.

  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.

- *Issuance of Series "2" Perpetual Preferred Shares by SMPFC*

  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 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 million.

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.

- *Redemption of the Preferred Shares Issued by Petron*

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.

- *Redemption of Preferred Shares by Petron Global Limited (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, Petron acquired additional PGL common shares of 12,131,829 for US$1.00 per share or for a total consideration of US$12 million.

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

UNDATED SUBORDINATED CAPITAL SECURITIES

Issuance of US$300 million Undated Subordinated Capital Securities by SMC Global

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 million 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.

C. MATERIAL CHANGES PER LINE OF ACCOUNT

2016 vs. 2015

The Group's consolidated total assets as of December 31, 2016 amounted to P1,426,986 million, P57,321 million higher than 2015. The increase is primarily due to the: a) higher amount of cash and cash equivalents from the proceeds on the issuance of preferred shares in subseries 2-G, H and I by SMC and the proceeds from the sale of the Telecommunications business; b) the recognition of receivables for the unpaid balance on the sale of the Telecommunications business, and c) the increase in inventories of Petron due to higher volume and price of crude, and higher cost of finished products, net of the payment of dividends and distributions and finance lease liabilities.

Cash and cash equivalents increased by P22,112 million mainly due to proceeds from the sale of the Telecommunications business and from the issuance of preferred shares in Subseries 2-G, H, and I by SMC.

Trade and other receivables increased by P12,982 million primarily due to the recognition of receivables for the unpaid balance on the sale of the Telecommunications business due on May 30, 2017.

Inventories increased by P19,093 million mainly due to increase in inventories of: Petron as a result of higher volume and price of crude and higher cost of finished products, SMPFC due to higher importation of major raw materials to take advantage of lower prices, and increased cassava harvest and the higher inventory of full goods and purchase of new bottles and shells of the domestic operations of SMB in anticipation of higher sales volume.

Current portion of biological assets decreased by P197 million due to lower production of marketable hogs and decrease in volume of hatching eggs.

The balance of assets held for sale in 2016 pertains to roller press and elevators for sale by SPI to NCC and Eagle Cement in January 2017.

Investments and advances increased by P5,586 million in 2016 mainly due to additional investments made by SMC Global in Angat Hydro.

Investment property increased by P2,461 million mainly due to the acquisition by a subsidiary of SMPI of parcels of land in Mariveles, Bataan for the construction of an industrial park.

Other intangible assets decreased by P14,803 million primarily due to the deconsolidation of the licenses attributed to the subsidiaries of Vega, net of the recognition of additional concession rights for the various infrastructure project, namely: Skyway Stage 3, NAIA Expressway, Boracay Airport, Manila North Harbour and TPLEX in 2016.

Deferred tax assets increased by P4,004 million mainly due to the recognition by SMC of

deferred tax asset on: NOLCO, provision for doubtful accounts, unrealized loss on foreign exchange and loss on derivatives.

The increase in loans payable of P49,067 million in 2016 was primarily due to net availment made by SMC to refinance the payment of its US$ denominated - long-term debt and the reavailment of the US$125 million loan by the Parent Company.

Accounts payable and accrued expenses increased by P19,651 million mainly due to higher liabilities of Petron for crude and finished product importation, as a result of the increase in volume and price of crude oil and petroleum products, and increase in payable to contractors in relation to the power plant projects of SMC Global and the various infrastructure projects of SMHC, net of the deconsolidation of Vega's balance, as a result of the sale of the investment.

The increase in income and other taxes payable of P2,998 million in 2016 was mainly due to higher Value-added Tax (VAT) payable of SPI and higher withholding tax payable of Petron attributable to the sale of power plant by SPI; and higher income tax payable of SMB, Petron and SMCSLC due to higher taxable income, net of the deconsolidation of Vega's balance, as a result of the sale of the investment.

Dividends payable increased by P1,996 million mainly due to the dividend declared by SMC to its preferred stockholders on November 10, 2016, which was subsequently paid on January 5, 2017. SMC has no outstanding dividends payable to its preferred stockholders as of December 31, 2015.

The decrease in long-term debt was mainly due to the net payments made by the the Parent Company and SMC of their US Dollar denominated-loans, SPI, Infrastructure Group, and SMYPC of their maturing long-term debt. The decrease was partially offset by the: a) availments used to finance the construction of the Limay Power Plant (Phase I), in Bataan by SCPC and the NAIA Expressway Project by Vertex; b) issuance of P20,000 million bonds by Petron, and c) the effect of foreign exchange rate changes on the translation of foreign currency denominated-long-term debt.

Deferred tax liabilities increased by P2,242 million due largely to the recognition of deferred income tax expense on the actuarial gain on remeasurement of the plan assets of Petron.

The decrease in finance lease liabilities was mainly due to payments, net of interest and the effect of foreign exchange rate changes.

Other noncurrent liabilities decreased by P9,194 million mainly due to the deconsolidation of Vega's balance, as a result of the sale of the investment, and the lower net retirement benefit liability due to higher value of plan assets of Petron, SMB and SMPFC.

The balance of convertible perpetual securities in 2016 represents the issuance made by the Parent Company on June 30, 2016.

Equity reserves decreased by P3,564 million primarily due to the acquisition of the remaining non-controlling interest in ULCBVI by SMHC and in Petrochemical Asia (HK) Limited by Petron.

Additional appropriations on retained earnings were made by Petron, SMB, SMCSLC and

SMITS, Inc. mainly to finance future capital expenditures. The appropriations in 2016 were partly reduced by the reversals made by San Miguel Mills, Inc. and The Purefoods-Hormel Company, Inc. upon approval by the SEC of the increase in authorized capital stock.

The increase in non-controlling interest (NCI) pertains to the re-issuance on March 30, 2016 of Series 2 Subseries G, H and I preferred shares from the Series "2" preferred shares subseries held in treasury by SMC and share of NCI in the net income of the Group, net of dividends declared.

Equity

The increase in equity in 2016 is due to:

(In millions)	2016
Income during the period	P49,135
Issuance of convertible perpetual securities	25,158
Net addition to non-controlling interests and others	23,334
Other comprehensive income	1,894
Cash dividends and distributions	(24,132)
	P75,389

2015 vs. 2014

The Group's consolidated total assets as of December 31, 2015 amounted to P1,369,665 million, P27,648 million higher than 2014. The increase is primarily due to the consolidation of the concession rights of: AAIBV (toll road concession rights to operate and maintain the SLEX and the Skyway) and MNHPI (port concession rights); the recognition of licenses upon the consolidation of LTHI and CTI; recognition of goodwill upon the consolidation of AAIBV on March 5, 2015; and increase in property plant and equipment particularly from SMC Global and Petron, net of the decrease in cash and cash equivalents.

Cash and cash equivalents decreased by P77,629 million mainly due to the redemption of the: a) preferred shares issued by Petron in 2010 and b) Series A and B Preferred Shares of PGL, and payment of short-term loans by Petron.

Trade and other receivables decreased by P28,674 million mainly due to: a) collection of VAT claims by Petron; b) collection of non-trade receivables of SMHC; and c) lower trade receivable balance of GSMI due to improvement in collection over the year and lower sales revenue recorded for the month of December 2015.

Inventories decreased by P21,698 million due to lower volume and price of crude and finished products of Petron.

Prepaid expenses and other current assets increased by P20,801 million mainly due to the increase in: a) unutilized VAT credit certificates of Petron; b) excess of input VAT of SMC Global due to payments made for the purchase of materials and equipment and payment of labor for the construction of the new power plants; c) increase in input VAT and advances to suppliers due to purchases made related to the ongoing project roll-out of Bell Telecommunication Philippines, Inc.; d) the consolidation of AAIBV Group's balance, particularly its prepaid taxes and restricted cash balance, partly offset by lower input tax on imported crude and finished

products as a result of cheaper prices of Petron.

The decrease in assets held for sale was primarily due to the sale of the investment in shares of stock of *Indophil Resources NL* by Coastal View Exploration Corporation.

Investments and advances decreased by P19,716 million in 2015 mainly due to the reclassification from investments in associates to investments in subsidiaries of the carrying amount of the investments in AAIBV Group, LTHI and MNHPI; reclassification to investments in subsidiaries of the advances for investment in CTI and the advances to DMCI Holdings, Inc. and D.M. Consuji, Inc. (collectively, "DMCI") for the acquisition of PIDC shares.

Property, plant and equipment increased by P39,459 million mainly due to the on-going plant construction of Limay Power Plant - Phase 1 and Phase 2, Davao Power Plant and additional capital expenditures on the RMP-2 project of Petron.

Investment property increased by P1,014 million mainly due to SMPI's acquisition of land in Makati and the return of property, a 33-hectare parcel of land located in Alfonso, Cavite, donated to Philippine Foundation of Blessed Mary Mother of the Poor, Inc.

Noncurrent portion of biological assets increased by P204 million as breeding stocks affected by typhoon Glenda were replenished.

Goodwill increased by P18,604 million mainly due to the consolidation of AAIBV Group.

Other intangible assets increased by P94,855 million mainly due to the following transactions in 2015: a) consolidation of AAIBV's toll road concession rights to operate and maintain the SLEX and the Stages 1 to 3 of the Skyway and of MNHPI's port concession rights to maintain and operate the Manila North Harbor; b) recognition of additional concession rights for various infrastructure projects, namely: the NAIA Expressway, TPLEX and Boracay Airport; and c) the recognition of licenses due to the consolidation of LTHI and CTI.

Deferred tax assets increased by P2,025 million mainly due to the recognition by SMC of deferred tax assets on unrealized losses on foreign exchange, derivatives and retirement in 2015.

Loans payable decreased by P32,686 million in 2015 mainly due to the net payments made by Petron and SMPFC.

Accounts payable and accrued expenses decreased by P18,185 million mainly due to payments made by Petron to various contractors and suppliers, net of the increase in payable to suppliers and contractors pertaining to the on-going power plant construction in Davao and Bataan (Phase I and II) and consolidation of the balances of AAIBV Group.

Income and other taxes payable increased by P610 million mainly due to consolidation of balances of the AAIBV Group.

Dividends payable decreased by P1,138 million mainly due to the payment in 2015 of the dividends payable by SMC to its preferred stockholders which were outstanding in 2014.

The increase in long-term debt of P66,380 million was mainly due to the consolidation of AAIBV and MNHPI's balance, and the loan availments made by SMC Global to finance the

ongoing construction of power plants in Davao and Limay; Vertex to fund the NAIA Expressway Project, CCEC to fund the Skyway Stage 3 Project and PIDC to fund the TPLEX Project, net of the payments made by SMC, SMPFC and Petron.

Deferred tax liabilities increased by P8,037 million due to the consolidation of AAIBV Group's balance and the recognition by Petron of deferred tax liabilities for the timing differences arising from capitalized pre-commissioning expenses of the RMP-2 Project.

The decrease in finance lease liabilities was mainly due to payments, net of interest and the effect of foreign exchange rate changes.

Other noncurrent liabilities increased by P21,078 million mainly due to: a) deposit for future stock subscription received by Vega; b) consolidation of MNHPI's concession fee; and c) increase in retirement liability of Petron due to the drop in the fair value of plan assets.

Equity reserves decreased by P3,274 million primarily due to the buy-out of 41.49% and 50% non-controlling interests in Sleep International (Netherlands) Cooperatief U.A. and Wiselink Investment Holdings, Inc., respectively, (collectively holds the toll road concession right of the STAR Project) and acquisition by Rapid Thoroughfares Inc. from DMCI of its 25.11% non-controlling interest in PIDC; the recognition of remeasurement loss on the retirement plan assets of Petron, SMC, SMB and GSMI, primarily attributable to the decline in fair market value of the investment in shares of stock held by the retirement plans; and the translation adjustments on the net assets of foreign subsidiaries, particularly of Petron and AAIBV.

Equity

The decrease in equity in 2015 is due to:

(In millions)	2015
Income during the period	P24,677
Net reduction to non-controlling interests and others	(4,444)
Other comprehensive loss	(5,816)
Cash dividends and distributions	(20,307)
	(P5,890)

IV. CASH FLOW

SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	December 31		
	2016	2015	2014
		(In Millions)	
Net cash flows provided by operating activities	**P78,160**	P62,843	P37,591
Net cash flows provided by (used in) investing activities	**(24,420)**	(58,628)	17,166
Net cash flows provided by (used in) financing activities	**(32,235)**	(85,537)	12,580

Net cash from operations basically consists of income for the period and changes in noncash current assets, certain current liabilities and others.

Net cash flows provided by (used in) investing activities are as follows:

	December 31		
	2016	2015	2014
		(In Millions)	
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	**P37,175**	P -	P -
Interest received	**3,482**	4,140	3,486
Proceeds from sale of investments and property and equipment	**1,114**	2,607	66,945
Dividends received from associates and available-for-sale financial assets	**19**	96	102
Acquisition of subsidiaries, net of cash and cash equivalents acquired	**(1,905)**	(7,633)	(243)
Cash and cash equivalents acquired from business combination, net of cash paid	**-**	14,415	-
Additions to investments and advances and available-for-sale financial assets	**(8,042)**	(3,549)	(6,313)
Additions to property, plant and equipment	**(40,692)**	(60,094)	(38,989)
Increase in other noncurrent assets and others	**(15,571)**	(8,610)	(7,822)

Net cash flows provided by (used in) financing activities are as follows:

	December 31		
	2016	2015	2014
		(In Millions)	
Net proceeds from (payments of) short-term borrowings	**P48,476**	(P33,622)	P37,965
Proceeds from reissuance of treasury shares of a subsidiary	**29,707**	54,201	-
Net proceeds from issuance of convertible perpetual securities	**25,158**	-	-
Increase (decrease) in non-controlling interests	**(5,443)**	(342)	212
Cash dividends paid	**(22,135)**	(21,446)	(22,071)
Payments of finance lease liabilities	**(23,907)**	(22,296)	(20,152)
Net proceeds from (payments of) long-term borrowings	**(84,091)**	3,978	(6,382)
Net proceeds from issuance of preferred shares and undated subordinated capital securities of subsidiaries	**-**	28,708	23,008
Redemption of preferred shares of subsidiaries	**-**	(94,718)	-

The effect of exchange rate changes on cash and cash equivalents amounted to P607 million, P3,693 million and (P387 million) on December 31, 2016, 2015 and 2014, respectively.

V. ADDITIONAL INFORMATION ON UNAPPROPRIATED RETAINED EARNINGS

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.

VI. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year. Please refer to Item II "Financial Performance" of the MD&A for the discussion of certain Key Performance Indicators.

	December 31	
	2016	2015
Liquidity:		
Current Ratio	**1.18**	1.16
Solvency:		
Debt to Equity Ratio	**2.08**	2.52
Asset to Equity Ratio	**3.08**	3.52
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**10.68%**	0.19%
Interest Rate Coverage Ratio	**3.05**	2.34
Operating Efficiency:		
Volume Growth	**7%**	10%
Revenue Growth	**2%**	(13%)
Operating Margin	**14%**	12%

The manner by which the Group calculates the key performance indicators is as follows:

KPI	Formula
Current Ratio	Current Assets / Current Liabilities
Debt to Equity Ratio	Total Liabilities (Current + Noncurrent) / Equity + Non-controlling Interests
Asset to Equity Ratio	Total Assets (Current + Noncurrent) / Equity + Non-controlling Interests
Return on Average Equity	Net Income Attributable to Equity Holders of the Parent Company / Average Equity Attributable to Equity Holders of the Parent Company
Interest Rate Coverage Ratio	Earnings Before Interests and Taxes / Interest Expense and Other Financing Charges

Volume Growth $\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) -1$

Revenue Growth $\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) -1$

Operating Margin $\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

VII. OTHER MATTERS

- Event After the Reporting Date

On February 9, 2017, the SEC approved the shelf registration of up to P60,000 million worth of Fixed Rate Bonds of SMC, and issued the corresponding Permit to Sell for the first tranche consisting of P15,000 million Fixed Rate Bonds with an Oversubscription Option of P5,000 million Fixed Rate Bonds (collectively, the Bonds).

The Bonds were issued on March 1, 2017 and comprised of five-year Series A Bonds due 2022, 7-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.

SMC listed the Bonds in the PDEx on the issue date, March 1, 2017.

On March 13, 2017, SMC filed with the SEC the Registration Statement and Offer Supplement for the offer of up to P10,000 million Fixed Rate Bonds with an oversubscription Option of up to P5,000 million Fixed Rate Bonds (the Offer Bonds) under its P60,000 million 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.

- 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.

a. Treasury Shares of SMC

A portion of the total treasury shares of SMC came from 25,450,000 common shares, with an acquisition cost of P481 million, [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 SMC 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 SMC 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 SMC 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, SMC 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 SMC, 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 SMC to deliver to the PCGG the stock certificates and cash and stock dividends under the Sandiganbayan Resolution upheld by the Supreme Court. SMC 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 of SMC 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 SMC. The financial advisor stated that if SMC 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 million; and (c) a negative EPS impact of 6.9% in 2004. The external legal counsel at the same meeting advised the BOD of SMC 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 SMC to deliver what it acquired from the sellers without a substantive ground to justify it, and a direct action in which SMC 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 SMC 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 SMC 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 SMC 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 SMC shares of stock should exclude the treasury shares.

At its January 29, 2004 meeting, the BOD of SMC 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 SMC 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 SMC's intervention, the Sandiganbayan's disposition of the so-called CIIF block of SMC shares in favor of the Government cannot bind SMC, and that SMC 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 SMC'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 SMC 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 SMC approved the recommendation of external legal counsel on January 18, 2008 which was ratified by the BOD of SMC on March 6, 2008.

On July 23, 2009, the stockholders of SMC 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 SMC 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 SMC, 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, SMC 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 SMC.

On June 30, 2011, the PCGG filed with the Supreme Court an Urgent Motion to Direct SMC to comply with the Sandiganbayan Resolution (the "Urgent Motion"). On March 30, 2012, SMC 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 SMC on February 22, 2012, directing SMC to file its Comment on the Urgent Motion. The Supreme Court, in the Resolution of April 24, 2012 noted the comment of SMC.

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 SMC Shares of 1983 Decreed by the Sandiganbayan, and Sustained by the Honorable Court, as Owned by the Government; and 2) To Direct SMC to Comply with the Final and Executory Resolutions Dated October 24, 1991 and March 18, 1992 of the Sandiganbayan Which Were Affirmed by the Honorable Court in G.R. Nos. 104637-38" ("Manifestation and Omnibus Motion").

The Supreme Court, in the Resolution of November 20, 2012 in G.R. Nos. 177857-58 and 178193, required SMC 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) SMC is likewise not a party in those cases, and if SMC is indeed being required to comment on the pleadings in the Resolution of November 20, 2012, a copy of the Resolution be furnished SMC; 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 SMC 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 SMC, 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 SMC'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.

SMC, 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 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, SMC 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 SMC to the 25,450,000 treasury shares of SMC. On November 29, 2016, the Supreme Court denied with finality the motion for reconsideration of the Republic of the Philippines.

b. Deficiency Excise Tax

On April 12, 2004 and May 26, 2004, SMC was assessed by the Bureau of Internal Revenue (BIR) for deficiency excise tax on "San Mig Light", one of its beer products. SMC 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, SMC, on January 31, 2006, filed with the CTA (1st Division), under CTA case number 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, SMC 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 SMC, appealing to SMC 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". SMC'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 SMC, especially in view of SMC's pending claims for refund.

As of December 31, 2016, the BIR has taken no further action on the matter.

On July 24, 2009, SMC 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 SMC'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 SMC in the amount of P926 million, 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 SMC, 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 million, 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 SMC's counsel on August 27, 2014, the Third Division of the Supreme Court required the parties to submit memoranda. Both SMC'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 million for the period of December 1, 2005 to July 31, 2007, and P782 million for the period of February 2, 2004 to November 30, 2005.

In the meantime, effective October 1, 2007, SMC 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*.

CTA Case Nos. 8748, 8955, 9223 and 9513 are still pending in their respective Divisions.

c. Deficiency Tax Liabilities

The BIR issued a Final Assessment Notice dated March 30, 2012 (2009 Assessment), imposing on Iconic Beverages, Inc. (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 million 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 million.

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. The Company addressed the assessment of each tax type with factual and legal bases in a Protest filed within the reglementary period.

d. Tax Credit Certificates Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron relating to its use of P659 million 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.

e. 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.

f. 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 million. The cases are still pending as of December 31, 2016.

g. Generation Payments to Power Sector Assets and Liabilities Management Corporation (PSALM)

South Premiere Power Corp. (SPPC) and PSALM are parties to the Ilijan Independent Power Producer Administration (IPPA) Agreement covering the appointment of SPPC as the IPP administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments, calculated based on its interpretation and the amount which has already been paid by the SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain that it has fully paid all of its obligations to PSALM. Notwithstanding the bonafide 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 Manila Electric Company (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 prelimary 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.

h. 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 million. The case is still pending with the DOJ as of December 31, 2016.

San Miguel Energy Corporation (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 Energy Regulatory Commission (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.

i. 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 Department of Energy, 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 Strategic Power Devt. Corp. (SPDC) recognized a reduction in the sale of power while San Miguel Electric Corp. 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 which was 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.

j. Electric Power Industry Reform Act (EPIRA) 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.

- Commitments

  The outstanding purchase commitments of the Group amounted to P86,188 million as of December 31, 2016.

  Amount authorized but not yet disbursed for capital projects is approximately P115,433 million as of December 31, 2016.

- 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.

- 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.

- There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.

- There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.

- There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.

- There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.

- There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for "Contingencies" of Section VII above that remain outstanding as of December 31, 2016.

- The effects of seasonality or cyclicality on the interim operations of the Group's businesses are not material.

- There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period December 31, 2016.

Annex "C-2"

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of Top Frontier Investment Holdings, Inc. ("Top Frontier" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended March 31, 2017 (with comparative figures as of December 31, 2016 and for the period ended March 31, 2016). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of March 31, 2017, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. 2017 SIGNIFICANT TRANSACTIONS

LONG-TERM DEBT

- **Refinancing of Long-term Debt and Short-term Loan**

- *Shelf Registration of P60,000 Million worth of Fixed Rate Peso-denominated Bonds by San Miguel Corporation (SMC) and Issuance of P20,000 Million*

  On February 9, 2017, the Philippine Securities and Exchange Commission (SEC) approved the shelf registration of up to P60,000 million worth of Fixed Rate Bonds of SMC, and issued the corresponding Permit to Sell for the first tranche consisting of P15,000 million Fixed Rate Bonds with an Oversubscription Option of P5,000 million Fixed Rate Bonds (collectively, the Bonds).

  The Bonds were issued and listed in the Philippine Dealing & Exchange Corp. (PDEx) on March 1, 2017. The Bonds 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, Series B and Series C Bonds have fixed interest rate per annum equivalent to 4.8243%, 5.2840% and 5.7613%, respectively.

  Proceeds from the issuance were used by SMC to partially pay the P25,000 million bridge short-term loan which was availed to partially redenominate the US$500 million out of the US$1,500 million long-term debt of SMC.

  On March 13, 2017, SMC filed with the SEC the Registration Statement and Offer Supplement for the offer of its second tranche of up to P10,000 million Fixed Rate

Bonds with an oversubscription option of up to P5,000 million Fixed Rate Bonds (the Offer Bonds) under its P60,000 million Shelf Registration.

SMC issued and listed the P10,000 million Bonds in the PDEx on April 7, 2017. The Bonds comprised of five-year Series D Bonds due 2022 with a fixed interest rate per annum equivalent to 5.1923%.

Proceeds from the issuance were used by SMC to partially redenominate its US$200 million obligation, under the US$300 million Facility Agreement with the final repayment date on November 22, 2017.

The redenomination eliminated the exposure to foreign exchange rate changes.

- *Payment of the US$200 Million out of the US$700 Million Five-Year Term Loan by SMC Global Power Holdings Corp. (SMC Global)*

  On March 31, 2017, SMC Global paid US$200 million (P10,043 million) out of the US$700 million five-year term loan drawn in 2013 and 2015 to refinance existing indebtedness and to fund the ongoing construction of power plants in Davao and Limay, investments in power-related assets, and for general corporate purposes.

  The payment was funded by the US$200 million (P10,040 million) short-term loan bridge financing availed on March 30, 2017. The refinancing lowered the interest margin from 1.9% to 1%.

II. FINANCIAL PERFORMANCE

<u>2017 vs. 2016</u>

The Group's consolidated sales revenue for the first quarter of 2017 amounted to P195,756 million, 23% higher than 2016. Most businesses increased their revenues with Petron Corporation (Petron), the Infrastructure and Beverage businesses posting double-digit growth. Petron, in particular, posted a 38% revenue increase versus 2016 with higher crude oil prices.

The corresponding consolidated operating income went up by 22% to P26,881 million, as most businesses surpassed their 2016 income levels.

The lower interest expense resulted from the payment of the: a) US$550 million long-term debt by the Parent Company on June 30, 2016, b) US$340 million long-term debt by Atlantic Aurum Investments B.V. (AAIBV) on March 15, 2016 and c) P11,054 million long-term debt by SMC PowerGen Inc. (SPI) on December 23, 2016.

The decrease in equity in net earnings in 2017 primarily represents the share of SMC Global in the lower net income of Angat Hydropower Corporation (Angat Hydro), reduced by the share of San Miguel properties, Inc. (SMPI) in the net income of Bank of Commerce (BOC) in 2017 compared to the net loss in 2016.

The decrease in other income (charges) was primarily due to the P0.44 depreciation of the Philippine Peso (PhP) against the United States Dollar (US$) in March 2017 compared to the P0.99 appreciation of PhP in March 2016, resulting to a foreign exchange loss of P1,673 million in 2017 compared to a foreign exchange gain of P6,989 million in 2016.

The loss on foreign exchange in 2017 pertains mainly due to the loss on the revaluation of foreign currency denominated: a) loans payable and long-term debt of SMC, SMC Global and Petron; and b) finance lease liabilities of SMC Global. This was partially offset by the foreign exchange gain on the foreign currency-denominated cash in banks of SMC.

The decrease in other income (charges) was partly offset by the marked-to-market gains on outstanding commodity hedge positions of Petron in 2017, compared to the marked-to-market loss on freestanding currency of Petron and SMC in 2016.

Consolidated net income of P13,613 million was 7% lower than last year.

Excluding the effect of foreign exchange losses, net income for the period would have been P15,015 million, 69% higher than the comparable 2016 net income of P8,873 million.

The increase in the share of non-controlling interests (NCI) in the Group's net income was due to the higher net income of Petron and San Miguel Brewery Inc. (SMB).

2016 vs. 2015

The consolidated sales revenue of the Group amounted to P159,621 million for the first quarter of 2016. This is slightly higher than 2015. Most businesses increased their revenue but were offset by the lower Petron revenues.

The Group's consolidated operating income reached P22,055 million, 40% increase from 2015. This is a result of Petron's higher refinery margins, the Infrastructure business' higher full quarter contribution of Metro Manila Skyway (Skyway) and South Luzon Expressway (SLEX), core Beverage, Food and Packaging businesses' double digit income growth as well as the Energy business' improved income performance.

The consolidation of the three months balances in 2016 of the AAIBV Group compared to the consolidation of the balances in 2015 starting March mainly accounts for the increase in interest expense and other financing charges.

Lower interest income due to lower average balance of money market placements of SMC, Petron and SMC Global, net of the higher interest income of the AAIBV Group due to three-month period balance contribution compared to one month in 2015, mainly accounts for the decrease in interest income.

The decrease in the equity in net earnings in 2016 primarily represents the share of SMPI in the net loss of BOC compared to the share in the net income in 2015, partly offset by the increase in the share of SMC Global in the net income of Angat Hydro as compared to 2015.

Other income in 2016 consists mainly of the gain on foreign exchange, tempered by the Group's losses on the currency hedging of Petron and SMC. The appreciation of PhP against the US$ by P0.99 on March 31, 2016 as compared to P0.02 on March 31, 2015, resulted to higher gain on foreign exchange.

The gain on foreign exchange in 2016 pertains to the gain on the revaluation of foreign currency - denominated: a) loans payable and long-term debt of SMC, SMC Global, Petron and the Parent Company; b) finance lease liabilities of SMC Global; and

c) liabilities on crude importations of Petron. This was partly offset by the forex loss on foreign currency-denominated cash in banks of SMC, SMC Global, San Miguel Equity Investments Inc. and Petron.

The higher income tax expense resulted from the: a) recognition of deferred income tax on the unrealized foreign exchange gains of SMC Global and SMC; b) increase in taxable net income of Petron, SMC Shipping and Lighterage Corporation, SPI and South Premiere Power Corporation; and c) recognition of income tax on the dividend income received from foreign subsidiaries of Petron. The increase in income tax expense of Petron was tempered by the recognition of income tax holiday benefit of the Refinery Master Plan Phase 2 Project.

Consolidated net income stood at P14,601 million, more than double the level in 2015 of P6,131 million.

The higher share of NCI on the Group's net income in 2016 was mainly due to the increase in share of the holders of undated subordinated capital securities on the net income of SMC Global on account of additional issuance of capital securities in August 2015, the increase in share of NCI due to higher net income of SMC, Petron and SMB and, the higher share of NCI in the net income of Citra Metro Manila Tollways Corporation and South Luzon Tollways Corporation, which were consolidated to the Group starting March 5, 2015.

The following are the highlights of the performance of the individual business segments:

1. BEVERAGE

<u>2017 vs. 2016</u>

a. San Miguel Brewery Inc.

SMB posted P25,364 million in revenues in the first quarter of 2017, 9% higher compared to the same period last year. Operating income likewise grew 10% to P6,677 million.

Domestic operations contributed P22,225 million in revenues, a 10% jump from the previous year. It sold 52.6 million cases, a 3% improvement compared to the same period last year. This is despite of the very strong volumes in the first quarter of 2016 due to the elections.

International operations contributed 6 million cases, a 7% decline from the previous year mainly due to the withholding of shipments to United Arab Emirates as part of the purposive effort to shift from single to multiple distributors. Despite lower volumes, San Miguel Brewing International Ltd. managed to register operating income growth, with most units providing profitability improvements.

b. Ginebra San Miguel Inc. (GSMI)

GSMI posted 32% volume growth to 7 million cases, driven by higher consumption of its core brands. In particular, flagship Ginebra San Miguel contributed 34% growth in volumes.

Better over-all volumes translated to 31% revenue growth to P5,136 million. This, along with higher efficiency, pushed operating income by 61% to P303 million in the first quarter of 2017.

2016 vs. 2015

a. San Miguel Brewery Inc.

For the first quarter of 2016, SMB posted 23% growth in sales revenue to P23,267 million. This was supported by 25% increase in domestic beer sales volumes reaching about 51 million cases.

Volume improvement was due to: new brand campaigns backed by consumer and trade activations, encouraging external environment, election related spending, and trade stock build-up in March in anticipation of the price increase last April 1, 2016.

Total beer volumes reached 57.4 million cases, up by 21% from 2015. In the international beer operations, the recovery of Indonesia and Export volumes were offset by declines in China, particularly in the North.

The corresponding SMB consolidated operating income for the first quarter amounted to P6,050 million, 17% better than 2015. International beer was able to turnaround from 2015's negative results with strong performance of Indonesia and Exports.

b. Ginebra San Miguel Inc.

GSMI started 2016 strong as its first quarter operating income doubled to P188 million from 2015's P94 million. This is on account of better volumes and managed fixed costs.

Hard liquor volumes and revenues both increased by 7% and reached 5.3 million cases or P3,934 million in revenues.

2. FOOD

2017 vs. 2016

San Miguel Pure Foods Company Inc. (SMPFC) and its subsidiaries' revenue grew 3% for the first quarter of 2017, reaching P26,661 million.

Agro-industrial cluster revenue grew by 2% led by 4% increase in Poultry and Meats businesses driven by favorable prices and 2% growth in chicken volumes.

Milling business managed to increase volumes by 10% but with softening of world wheat prices and industry competition, revenue increase was limited to 4%.

Branded Value-Added cluster delivered 3% increase in revenues driven by 11% increase in processed meats volume. However, cheese, spreads and biscuits were affected by higher cost of raw materials and high inventories at the trade level at the start of the year.

SMPFC's consolidated operating income for the first quarter of 2017 amounted to P2,069 million, 16% higher than last year's results. The strong result was due to the income performance of Agro-industrial cluster, particularly with Poultry and Meats businesses' favorable selling prices and lower cost of some major raw materials. Processed Meats business also contributed to the improved income performance.

2016 vs. 2015

SMPFC grew its revenue by 4% reaching about P25,980 million for the first quarter of 2016. This was due to the good performance of its major businesses, namely, the Agro-Industrial and Branded Value-added businesses.

The Agro-Industrial cluster posted 6% revenue growth with higher volumes and stabilized prices of chicken, as well as improved distribution and consistent quality of feeds. This was however, tempered by lower basic meat volumes and lower pork prices due to influx of lower-priced imported meat.

Branded Value-added cluster grew revenues by 5%, consistent with the Food group strategy to grow this segment through effective marketing campaigns, better prices and product portfolio across all product line.

Driven by Poultry, Feeds, and Value-added Meat performance, SMPFC consolidated operating income reached P1,776 million, 21% ahead of 2015 results. Improved efficiencies and lower raw material costs particularly in the Poultry and Dairy businesses also contributed to the much improved results.

3. PACKAGING

2017 vs. 2016

The San Miguel Yamamura Packaging Group's (SMYPG) sales revenue for the first quarter amounted to P6,839 million, 5% higher than last year. The increase was brought about by higher sales of plastics, metal cans and crowns, and Australian operations.

The Packaging business' operating income for the period amounted to P632 million, 6% higher than 2016.

2016 vs. 2015

SMYPG reached sales revenues of P6,503 million for the first quarter of 2016, 12% above 2015. Contributory to the increase are the Glass business, Australia operations and Metal business. The Glass business' revenues surged 17% in the first quarter with record deliveries to beverage companies and increased requirements for generic bottles. Increased beverage requirements also pulled-up Metal Closure and Can businesses' revenues.

The corresponding operating income increased by 25% to P597 million.

4. ENERGY

2017 vs. 2016

SMC Global's off take volume for the first quarter of 2017 was 3,961 gigawatt hours (GWh), 11% lower than 2016 mainly due to lower bilateral volumes as a result of the scheduled annual maintenance shutdown of Ilijan Power Plant and Malampaya gas facility from January 28 to February 16, 2017.

Corresponding consolidated net revenue decreased by 3% to P19,353 million as a result of lower bilateral volumes, partly offset by higher average bilateral realization prices. Increase in average realization price is attributable to higher fuel costs, both coal and diesel, passed on to customers.

The Energy business' consolidated operating income ended at P6,040 million.

2016 vs. 2015

SMC Global's off take volume for the first quarter of 2016 was 4,457 GWh, 16% higher than 2015. All the power plants delivered higher bilateral volumes with Ilijan plant leading the growth. The Ilijan plant experienced maintenance outage, limiting its generation capacity in 2015. This resulted to consolidated net revenues of P19,931 million, 1% higher than 2015. Both bilateral and Wholesale Electricity Spot Market volumes have lower average realization prices.

The Energy business' corresponding operating income reached P7,310 million, 7% higher than 2015. The increase was mainly due to the improved volume and margin.

5. FUEL AND OIL

2017 vs. 2016

Petron doubled its net income in the first three months of 2017 to P5,555 million, the highest quarterly income in Petron's history. Operating income likewise improved by 54% to P8,858 million, the result of Petron's strong focus on more profitable segments, production of higher-margin products and aggressive market expansion in both Philippines and Malaysia.

Petron's volumes grew modestly by 3% to 26.2 million barrels. Philippine operations sold 16.2 million barrels, up by 3% from the previous year, as its retail segment's volumes jumped by 6% while Liquefied Petroleum Gas (LPG) and Lubricants businesses grew by 5% and 16%, respectively. Petrochemical export volumes also doubled over the period. Malaysian operations, meanwhile, posted a 4% volume growth to almost 10 million barrels, as its domestic volumes posted 6% growth with Commercial and Lubricants sectors showing double-digit growth.

Revenues registered at P106,412 million, 38% ahead of the same period the previous year. Volume growth was coupled with higher selling prices as benchmark crude-Dubai averaged at US$53.12 per barrel, compared to an average of US$30.42 per barrel in the first quarter of 2016.

2016 vs. 2015

Petron closed the first quarter of 2016 with a net income of P2,758 million, almost 11 times the 2015's P257 million. The strong performance is driven by better volumes and higher margins.

Consolidated volumes for the first quarter of 2016 rose by 9% ending at 25.3 million barrels with both Philippines and Malaysia registering volume growth. Philippines grew by 8% and reached 15.7 million barrels as contributed by strong sales from Reseller, Industrial, and LPG segments and advancement in the Lubricant's sector. Malaysia also posted higher volumes amounting to 9.6 million barrels, 12% ahead of 2015 as a result of increased industrial sales and service station volumes.

Operating income margin, on the other hand, increased to 7% compared to 2015's 3%, resulting to operating income of P5,764 million, almost double that of 2015. This was attributed to higher refining margins despite weak oil prices in the first few months of 2016. Petron's refinery upgrade also supported margin with higher crude run, increased production of higher-value fuels and petrochemicals, and the use of cost-efficient heavier crudes.

Consolidated revenues, however, still reflects lower oil prices registering decline of 11% to end at P76,857 million.

6. INFRASTRUCTURE

2017 vs. 2016

Consolidated Infrastructure opened 2017 with a 14% increase in revenues, bringing the first quarter revenues to P5,326 million. The growth came from the full operations of Ninoy Aquino International Airport Expressway and continuous growth across all toll companies namely Skyway, SLEX, Southern Tagalog Arterial Road (STAR) and Tarlac-Pangasinan-La Union Toll Expressway (TPLEX). Consequently, operating income rose by 6%, to end at P2,563 million.

2016 vs. 2015

In March 2016, the Infrastructure business mainly composed of Skyway and SLEX contributed P4,692 million in revenues and P2,429 million in operating income, both growing 16% on a quarter on quarter comparison. The increase in revenues is driven by higher traffic from Skyway, SLEX, STAR, and full year operations of Sections 1 and 2 for TPLEX.

III. FINANCIAL POSITION

2017 vs. 2016

Consolidated total assets as of March 31, 2017 amounted to P1,435,331 million, P8,345 million higher than December 31, 2016. The increase was primarily due to the increase in inventories of about P2,940 million and increase of P4,204 million in property, plant and equipment.

The increase in inventories was mainly due to the higher value of finished products of Petron, inventory build-up of raw materials by San Miguel Yamamura Packaging Corporation and increase in purchases of molasses by GSMI.

The increase in property, plant and equipment was primarily due to the capital expenditures incurred by SMC Global for the on-going construction of the new power plants in Davao and Limay, Bataan and by SMPFC for its expansion projects.

Current portion of biological assets also increased by P211 million mainly due to the purposive increase in volume of live broiler grown, to support anticipated demand requirements in 2017.

Dividends payable increased by P1,253 million mainly due to the dividend declared by SMB to its common stockholders on March 13, 2017 which was paid on April 19, 2017.

The increase in long-term debt of P6,394 million was mainly due to the issuance by SMC of fixed rate Peso-denominated bonds on March 1, 2017, net of payments made by SMC Global, the Infrastructure Group and Petron of their maturing long-term debt.

2016 vs. 2015

The Group's consolidated total assets as of March 31, 2016 amounted to P1,396,318 million, P26,653 million higher than 2015. The increase was primarily due to the higher balance of cash and cash equivalents, from the net proceeds of the issuance of Series "2" preferred shares of SMC and increase in property, plant and equipment in relation to the costs of the on-going construction of power plants in Davao and Limay, Bataan.

Cash and cash equivalents increased by P20,362 million mainly due to the net proceeds from the issuance of Series "2" preferred shares of SMC and availment of short-term loans by SMC Global, net of the net payment of finance lease liabilities and long-term debt of SMC Global and loans payable of Petron.

Inventories increased by P3,978 million mainly due to: a) higher volume of crude and finished products of Petron Philippines; b) increase in raw materials inventory of SMPFC particularly soybean meal and wheat in March 2016 to take advantage of the low raw material cost, and to support production requirements; and c) increase in molasses prices and purposive build-up of raw alcohol by GSMI.

Investments and advances increased by P1,891 million in 2016 mainly due to additional advances for investment by SMPI in a property company.

The increase in income and other taxes payable of P3,950 million in 2016 represents the income and other accrued taxes due for the first quarter of 2016.

Dividends payable increased by P2,588 million mainly due to the dividend declared by SMC to its preferred stockholders on January 15, 2016, which was subsequently paid on April 5, 2016, and the cash dividend declared by SMB to its common stockholders on March 11, 2016 paid on April 20, 2016.

The decrease in long-term debt of P16,842 million was mainly due to the net payments made by SMC Global, Petron and the Infrastructure Group, reclassification to short-term loans payable of the Parent Company's US$125 million loan and adjustments due to foreign exchange rate changes.

The decrease in finance lease liabilities was mainly due to payments of P5,935 million and the effect of foreign exchange rate changes, net of interest.

Equity reserves decreased by P481 million mainly due to the translation adjustments on the net assets of foreign subsidiaries, particularly of Petron and AAIBV Group and the effect of the increase in ownership interest of Petron in Petrochemical Asia (HK) Limited.

The decrease in appropriated retained earnings was mainly due to reversal of appropriations made by SMPFC.

The increase in non-controlling interests pertains mainly to the issuance of 400 million Series "2", in Subseries G, H and I preferred shares of SMC on March 30, 2016.

Equity

The increase in equity is due to:

(In millions)	**March 31**	
	2017	2016
Income during the period	**P13,613**	P14,601
Other comprehensive income	**911**	1,156
Addition to non-controlling interests and others	**16**	30,079
Cash dividends and distributions	**(7,394)**	(6,936)
	P7,146	P38,900

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	**March 31**	
	2017	2016
Net cash flows provided by operating activities	**P21,392**	**P24,819**
Net cash flows used in investing activities	**(11,446)**	**(12,146)**
Net cash flows provided by (used in) financing activities	**(11,918)**	**8,506**

Net cash flows provided by operating activities for the period basically consists of income for the period and changes in noncash current assets, certain current liabilities and others.

Net cash flows used in investing activities included the following:

(In millions)	**March 31**	
	2017	2016
Additions to property, plant and equipment	**(P8,783)**	(P9,180)
Acquisition of subsidiaries, net of cash and cash equivalents acquired from business combinations	**(770)**	-
Additions to investments and advances	**(665)**	(1,712)
Interest received	**938**	940
Proceeds from sale of investments and property and equipment	**26**	10
Increase in other noncurrent assets and others	**(2,200)**	(2,379)

Net cash flows provided by (used in) financing activities included the following:

(In millions)	March 31	
	2017	2016
Proceeds from (payments of) long-term debt - net	**P4,796**	(P12,830)
Payment of finance lease liabilities	**(6,174)**	(5,935)
Payment of cash dividends and distributions	**(6,141)**	(4,346)
Proceeds from (payment of) short-term loans - net	**(4,410)**	1,649
Net proceeds from issuance of preferred shares of subsidiaries	**-**	29,962

The effect of exchange rate changes on cash and cash equivalents amounted to P50 million and (P817 million) for the periods ended March 31, 2017 and 2016, respectively.

V. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year. Please refer to Item II "Financial Performance" for the discussion of certain Key Performance Indicators.

	March 2017	December 2016
Liquidity:		
Current Ratio	**1.18**	1.18
Solvency:		
Debt to Equity Ratio	**2.05**	2.08
Asset to Equity Ratio	**3.05**	3.08
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**7.30%**	10.68%
Interest Rate Coverage Ratio	**3.59**	3.05

	Periods Ended March 31	
	2017	2016
Operating Efficiency:		
Volume Growth	**2%**	12%
Revenue Growth	**23%**	1%
Operating Margin	**14%**	14%

The manner by which the Group calculates the key performance indicators is as follows:

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$

Asset to Equity Ratio	$$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$$
Return on Average Equity	$$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$$
Interest Rate Coverage Ratio	$$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$$
Volume Growth	$$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}}\right)-1$$
Revenue Growth	$$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}}\right)-1$$
Operating Margin	$$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$$

* *Annualized for quarterly reporting*