

5 STRATEGIES TO

A C C

E L E

R A T E

OUR GROWTH



2016 INTEGRATED REPORT

WHEN WE **PURSUE STRATEGIES**

we execute with a disciplined approach and a long-term view for success. We will continue to aggressively participate in vital industries that will accelerate our country's growth and create significant opportunities for Filipinos.



The 18MW Montesol solar farm in Negros Oriental is AC Energy's first project in the Visayas.

A landscape photograph featuring a large array of blue solar panels in the foreground, which appear to be partially torn away, revealing a lush green valley with rolling hills and a small settlement in the background. The sky is filled with soft, white and grey clouds, suggesting a bright but slightly overcast day. The overall scene conveys a message of sustainable energy and environmental stewardship.

WE

HAVE A FEEL FOR
WHAT'S NEXT.

ABOUT THIS REPORT

AYALA REAFFIRMS ITS COMMITMENT TO **ADVANCING INTEGRATED THINKING** AS A MEANS TO ACHIEVE SUSTAINABLE DEVELOPMENT WITH THE PUBLICATION OF ITS **FIRST INTEGRATED REPORT.**

This Integrated Report is based on extensive reporting from our operating units in the Philippines and around the world. Through this report, we make a deliberate effort to describe our organization's strategy, governance, performance, and prospects in the context of our external environment, and explain how we create value in the short, medium, and long term. All information is reviewed formally by the group's Investor Relations Council and Sustainability Council and was approved by Ayala's management and Board before publication.

STATEMENT FROM THE BOARD (G4-48)

The Board is ultimately responsible for overseeing the integrity of the Integrated Report. The Board was supported by the Ayala management, which convened internal teams with the relevant skills and experience to undertake the reporting process, as well as provided management oversight. These teams have devoted significant thought to the best way of communicating the Ayala story. The report was prepared under the supervision of the Chief Finance, Risk, and Sustainability Officer, Jose Teodoro K. Limcaoco, and the Group Head for Corporate Strategy and Development, Paolo Maximo F. Borromeo.

The Integrated Report contains certain forward-looking statements which, by their nature, involve risk and uncertainty because they relate to future events and circumstances that may be beyond Ayala's control. In addition, PSE regulations prohibit making price sensitive forecasts without considerable independent review and process. The directors therefore advise readers to use caution in interpreting any forward-looking statements in this report.

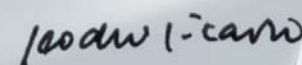
The Board unanimously approved this report on 10 March 2017 and authorized its release on 21 April 2017.




JAIME AUGUSTO ZOBEL DE AYALA
Chairman and CEO



FERNANDO ZOBEL DE AYALA
President and COO



JOSE TEODORO K. LIMCAOCO
Chief Finance, Risk, and Sustainability Officer



PAOLO MAXIMO F. BORROMEEO
Group Head, Corporate Strategy and Development

REPORTING SCOPE (G4-28, G4-29, G4-30)

This report details the annual consolidated financial, economic, social, and environmental performance of the conglomerate, including both listed and unlisted subsidiaries, and affiliates, from January 1, 2015 to December 31, 2016. All necessary notes, explanations, and definitions are provided in the text or accompanying tables. More metrics have also been included from emerging subsidiaries and affiliates, as investments that were in the pipeline are now operating. A summary of 2014 data restatements is found on pages 372 to 373. Furthermore, the table on pages 370 to 371 outlines the companies and the scope of information included in this report.

Our previous group-wide sustainability report published in September 2015 and all other additional references for stakeholders are all available online via www.ayala.com.ph. Since no separate sustainability report was published in 2016 to make way for the publication of our first Integrated Report, this report will cover the periods 2015 and 2016. Moving forward, the Integrated Report will be Ayala's sole annual reporting publication for its consolidated financial, economic, social, and environmental performance.

NOTE ON FORWARD-LOOKING STATEMENTS

This report contains statements describing the company's objectives, projections, estimates, and expectations, which may be "forward-looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the company's operations include, among others, economic conditions affecting demand or supply and price conditions in the domestic and overseas markets in which the company operates, changes in government regulations, tax laws, and other statutes and incidental factors.

REPORTING STANDARDS (G4-32)

This report has been prepared in accordance with the integrated reporting guidelines provided by the International Integrated Reporting Council and the "Core" option of the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative.

By adopting these two global standards, we can present our value creation model and our outlook in a more systematized and transparent manner.

Learn more about the IIRC and integrated reporting at www.integratedreporting.org and the GRI at www.globalreporting.org.

OUR APPROACH TO EXTERNAL ASSURANCE (G4-33)

Our Board's Audit Committee oversees the performance of our external and internal auditors. It has a mandate to review and to approve the audit, audit-related, and non-audit services rendered by the company's external auditors. Moreover, our senior management was involved in the decision to seek independent third-party assurance for this report, as well as in the appointment of the external assurer.

This year, we pursued a more rigorous and thorough data-gathering and verification system to advance our entire group's sustainability strategy.

ON OUR FINANCIAL STATEMENTS

SGV & Co. is the external auditor of the company's financial statements, with Lucy L. Chan as the new lead engagement partner given the required audit partner rotation every five years. More information about our audit process is found on pages 155 to 156, while our financial statements can be found on pages 164 to 368.

ON OUR SUSTAINABILITY PERFORMANCE

Senior management appointed DNV GL, an independent organization and a global provider of certification, assurance assessment, and training services, for the second time to validate the figures and information pertaining to our sustainability performance and <IR> Frameworks presented in this report. The external assurance process was completed in 15 days, which included interview sessions with senior executives in the conglomerate.

The Independent Assurance Statement found on pages 382 to 385 outlines the assurer's findings and recommendations.

FEEDBACK (G4-31)

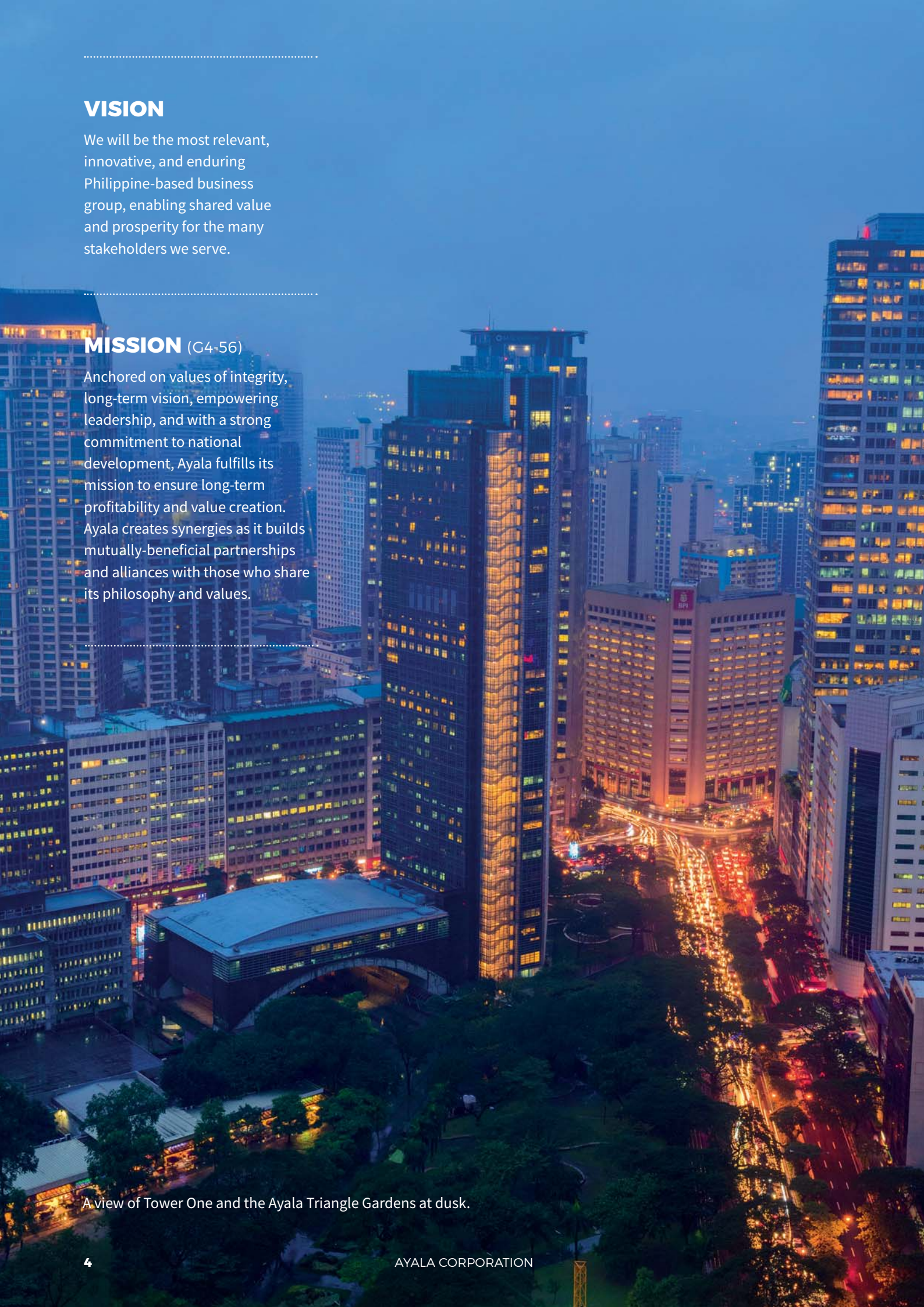
We welcome inquiries and feedback on this report. Please e-mail investorrelations@ayala.com.ph and sustainability@ayala.com.ph.

VISION

We will be the most relevant, innovative, and enduring Philippine-based business group, enabling shared value and prosperity for the many stakeholders we serve.

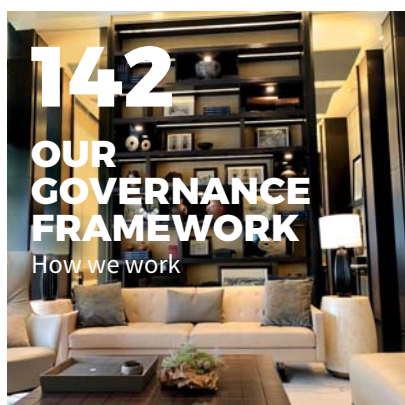
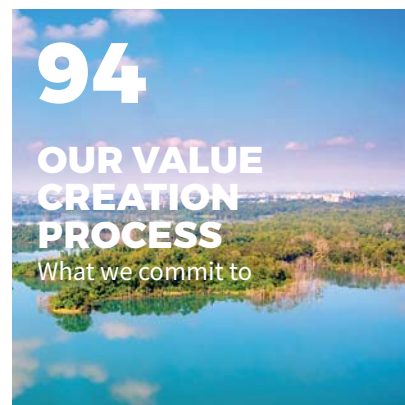
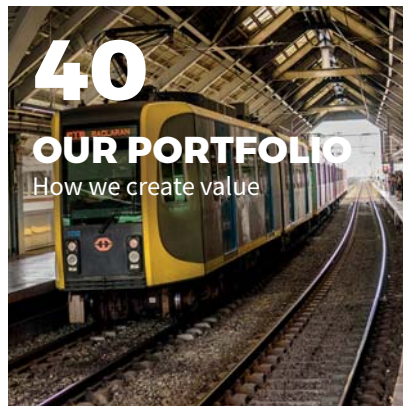
MISSION (G4-56)

Anchored on values of integrity, long-term vision, empowering leadership, and with a strong commitment to national development, Ayala fulfills its mission to ensure long-term profitability and value creation. Ayala creates synergies as it builds mutually-beneficial partnerships and alliances with those who share its philosophy and values.



A view of Tower One and the Ayala Triangle Gardens at dusk.

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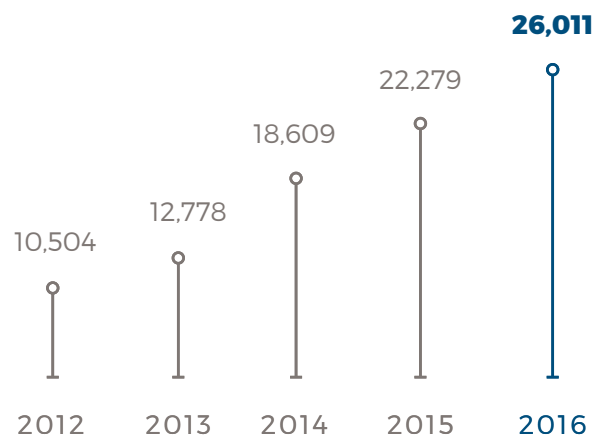




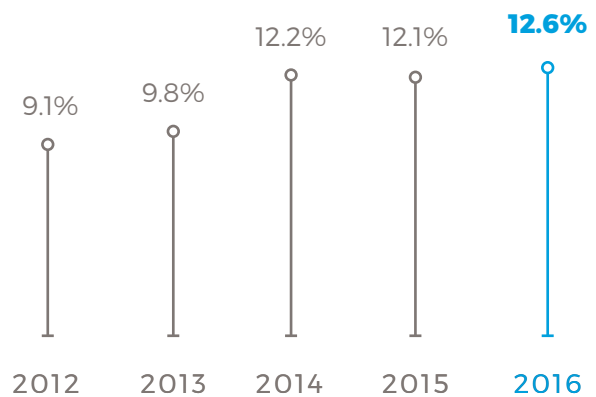
Ayala Corporation is one of the oldest and largest conglomerates in the Philippines with business interests in real estate, banking, telecommunications, water, power, infrastructure, industrial technologies, healthcare, and education. Its social commitment arm, Ayala Foundation, has programs that focus on education, youth leadership, sustainable livelihood, and the promotion of arts and culture.

With headquarters in Makati City and operations mainly in the Philippines, it continues to grow its regional and global footprint, serving millions of customers across all market segments.

NET INCOME (IN MILLION PESOS)



RETURN ON COMMON EQUITY





A GLANCE

23.6%

FIVE-YEAR
AVERAGE NET
INCOME GROWTH



19.4%

FIVE-YEAR TOTAL
SHAREHOLDER
RETURN CAGR



553M

CUBIC METERS
WATER SUPPLIED

11.2%

FIVE-YEAR AVERAGE
RETURN ON EQUITY



237,286

REVENUES
(IN MILLION PESOS)



148M

PASSENGERS
FERRIED BY LRT 1

60,223

CASH AND CASH
EQUIVALENTS
(IN MILLION PESOS)



911,705

TOTAL ASSETS
(IN MILLION PESOS)



342.1GWH

GENERATED BY
RENEWABLE
ENERGY

39.88

EARNINGS PER
SHARE (IN PESOS)



1.22

CURRENT RATIO




124,613*


JOBS GENERATED

*Approximate direct and indirect employment provided

OUR 2016 MILESTONES

1 JAN


 Manila Water partners with Ayala Land for the provision of water and used water services in the latter's mixed-use developments nationwide


 Ayala Land and the Department of Transportation sign a concession agreement to build and operate the South Integrated Transport System within the FTI Compound





7 JUL

 BPI fully migrates its credit cards operations from magnetic strip technology to chip-enabled cards under the Europay MasterCard Visa system


 IMI ranks sixth largest automotive EMS and 21st largest EMS provider in the world


 APEC Schools opens three new campuses in Marikina, Muntinlupa, and Quezon City


 APEC Schools and University of Nueva Caceres enroll 10,500 and 7,700 students, respectively, for the school year 2016 - 2017

 Globe submits three-year coverage rollout plan to the National Telecommunications Commission and commits to provide mobile services to 95 percent of municipalities and cities by the end of 2018 using the LTE 700MHZ and LTE 2600MHZ frequencies

2 FEB

 South Luzon Thermal Energy commences commercial operations for the second unit of its 2 x 135MW thermal energy plant


 Ayala Land completes the acquisition of a 51 percent stake in Prime Orion Philippines, the owner and developer of Tutuban Center in Manila


 Monte Solar Energy completes and energizes its 18MW solar farm in Bais, Negros Oriental

 Ayala group Sustainability Council kicks off group-wide roadshow on creating shared value




8 AUG


 Ayala deepens its presence in industrial technologies and establishes AC Industrials to consolidate its electronics manufacturing and automotive businesses into a single group

 BPI becomes the exclusive local equity partner of CARD MRI through the acquisition of a 10 percent stake in Rizal Bank

 IMI expands its technology and product portfolio through the acquisition of a 76 percent stake in VIA Optronics, a leading optical bonding and display solutions provider


3 MAR


 Ayala holds 3rd group-wide Corporate Governance and Risk Management Summit


 670 college students graduate from the University of Nueva Caceres, the pioneer batch under AC Education





9 SEP


 Manila Water breaches one million service connections in the Manila Concession


 Generika launches its new brand campaign, Gabay Generika, to carve out its unique position in the market through a traditional media campaign and value-added services for its customers

 BPI assumes full ownership of BanKo, a mobile-based savings bank that extends financial services to the unbanked segment

 Volkswagen Philippines opens sixth dealership in Pampanga, its first in Central Luzon

 AC Energy breaches its 2016 target of assembling 1,000MW in attributable power generating capacity

 KTM Philippines opens its flagship showroom in Bonifacio Global City

 Project Kasibulan commences reforestation work in North Luzon Renewables in Ilocos Norte with the first batch of Ayala group volunteers

4 APR



KTM AG appoints AC Industrials (formerly Ayala Automotive) as the exclusive distributor of KTM motorcycles in the Philippines



KTM AG partners with IMI to manufacture KTM motorcycles in the Philippines with an annual production capacity of 20,000 units



5 MAY



Globe acquires a 50 percent stake in companies holding the frequencies from San Miguel and begins the roll-out of its LTE service using the 700MHZ and 2600MHZ frequencies under a co-use agreement approved by the National Telecommunications Commission



6 JUN



Ayala Land in partnership with AboitizLand launches Gatewalk Central, an integrated mixed-use development in Mandaue City, Cebu



Globe opens its flagship ICONIC store, a world-class destination catering to the Filipino digital lifestyle, at the Bonifacio Global City



Ayala launches Project Kasibulan, a large-scale multi-disciplinary initiative that brings together employees in the group to participate in a comprehensive reforestation and forest protection program

12 DEC



AC Energy, as part of an Indonesian and Philippine consortium, wins the bid for Chevron Global Energy's geothermal assets in Indonesia and the Philippines

10 OCT



AC Health opens four new FamilyDOC clinics, expanding its network to six clinics



Ayala holds the 2nd group-wide Investor Relations Forum, a learning platform on industry best practices for senior management and investor relations officers of the group



Ayala group holds the 6th Sustainability Summit



11 NOV



Manila Water inaugurates the Marikina North Sewage Treatment Plant, the largest sewage treatment plant in the country to date



AC Energy acquires an additional 17.8 percent stake in NorthWind, increasing its effective ownership to 68 percent



Ayala launches its new branding story, "Accelerating the Future," anchored on three principles: seeing potential, making businesses better, and improving lives



Globe achieves target of deploying 500 LTE 700MHZ and 900 LTE 2600MHZ cell sites using frequencies acquired from the San Miguel transaction



Manila Water signs an agreement to provide water and used water services and facilities to select property developments of the SM group



AC Infra, through the Light Rail Manila Corporation, increases capacity by 30 percent and breaches the 500,000 ridership mark for LRT 1



Globe's mobile subscribers reach 63 million, up 12 percent from 2015



Last batch of Ayala employees for the year volunteer for Project Kasibulan for a total of 1,534 seedlings planted and 1,856 hours volunteered

FIVE-YEAR CONSOLIDATED

FINANCIAL STATEMENTS

	AYALA CORPORATION					AYALA LAND					BANK OF THE PHILIPPINE ISLANDS				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
FOR THE YEAR (IN MILLION PESOS)															
Revenues	130,571	159,412	184,276	207,667	237,286	59,932	81,523	95,197	107,183	124,629	47,385	52,498	55,787	59,359	66,551
Net Income Attributable to Equity Holders	10,504	12,778	18,609	22,279	26,011	9,038	11,742	14,803	17,630	20,908	16,352	18,811	18,039	18,234	22,050
Cash Dividends to Common Shares	2,344	2,877	2,928	3,569	3,572	2,856	4,067	5,871	6,094	6,999	8,180	6,401	7,077	7,078	7,086
Cash Dividends to Equity Preferred Shares	543	529	1,281	1,281	1,285	46	62	62	62	62	-	-	-	-	-
AT YEAR-END (IN MILLION PESOS)															
Total Assets	510,904	599,664	726,048	794,075	911,705	254,116	325,474	388,944	442,342	536,433	985,241	1,195,364	1,450,197	1,516,356	1,725,696
Cash and Cash Equivalents	80,286	65,655	90,770	82,154	60,223	32,122	40,761	34,586	19,540	20,904	142,372	270,179	250,373	250,641	275,206
Short-Term Investments	297	119	1,103	2,052	1,009	17	17	301	164	208	128,501	92,153	67,171	50,371	38,904
Total Borrowings	175,085	205,681	258,845	263,341	295,854	74,778	101,902	124,666	130,996	159,801	33,315	28,230	33,680	21,372	62,643
Equity Attributable to Equity Holders	124,098	143,476	185,664	208,657	230,993	81,993	98,470	106,940	133,731	147,705	96,696	104,535	144,063	150,284	165,134
PER SHARE (IN PESOS)															
Earnings - Basic	17.03	20.53	29.83	33.89	39.88	0.68	0.84	1.05	1.20	1.43	4.60	5.19	4.62	4.64	5.60
Earnings - Diluted	16.92	20.39	29.35	33.38	39.31	0.67	0.83	1.05	1.20	1.43	4.60	5.19	4.62	4.64	5.60
Book Value of Common Shares	208.78	230.68	261.63	298.80	334.40	5.87	6.86	7.44	9.01	11.70	27.19	29.37	36.64	38.22	41.94
Cash Dividend to Common Shares	4.00	4.80	4.80	5.76	5.76	0.21	0.29	0.41	0.42	0.48	2.30	1.80	1.80	1.80	1.80
FINANCIAL RATIOS															
Current Ratio	1.46	1.46	1.50	1.28	1.22	1.41	1.45	1.22	1.14	1.12	-	-	-	-	-
Debt-to-Attributable Equity Ratio	1.41	1.43	1.39	1.26	1.28	0.78	0.91	1.02	0.87	0.93	-	-	-	-	-

FINANCIAL HIGHLIGHTS

GLOBE TELECOM					MANILA WATER					INTEGRATED MICRO-ELECTRONICS INC.*				
2012	2013	2014	2015	2016	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
82,742	90,500	99,025	113,679	119,990	14,553	15,926	16,357	16,936	17,712	661.8	745.0	844.5	814.4	843.0
6,845	4,960	13,372	16,484	15,888	5,490	5,752	5,813	5,958	6,065	5.6	10.5	29.1	28.8	28.1
8,606	8,877	9,953	11,017	11,682	1,214	1,560	1,611	1,669	1,712	-	-	2.3	7.9	8.6
33	24	286	553	552	278	346	323	326	333	2.7	0.9	0.6	-	-
148,012	159,079	179,507	195,680	249,863	67,127	72,858	74,860	80,608	85,479	453.3	488.2	552.7	516.5	635.9
6,760	7,421	16,757	11,814	8,633	5,540	6,780	6,052	6,850	4,066	56.2	49.0	117.6	101.5	86.5
-	-	-	-	-	-	94	400	-	-	-	-	-	-	-
61,779	69,301	65,276	72,229	105,729	24,071	26,252	25,471	26,220	27,619	90.8**	93.4**	99.7**	110.9**	174.2**
45,698	41,639	54,542	59,392	63,440	26,632	30,477	34,508	38,825	43,384	193.8	192.6	244.1	232.2	236.6
51.45	37.25	98.64	120.11	115.45	2.24	2.34	2.36	2.41	2.45	0.002	0.006	0.017	0.015	0.015
51.38	37.22	98.41	119.92	115.27	2.23	2.34	2.36	2.41	2.44	0.002	0.006	0.017	0.015	0.015
339.15	308.05	330.03	366.62	397.30	13.01	14.92	16.66	18.96	20.93	0.10	0.10	0.12	0.13	0.13
65.00	67.00	75.00	83.00	88.00	0.60	0.76	0.81	0.82	0.83	-	-	0.0014	0.0042	0.0046
0.74	0.65	0.77	0.72	0.64	0.83	1.12	1.16	0.80	1.10	1.56	1.53	1.73	1.54	1.51
1.35	1.66	1.20	1.22	1.67	0.91	0.86	0.74	0.68	0.64	0.47	0.48	0.41	0.48	0.74

*In million US\$, except for share data in US\$
 ** Total bank borrowings

OUR CONTRIBUTION TO THE

1 NO POVERTY



₱221.22 MILLION

economic value distributed as community investments for various poverty alleviation and social welfare projects in livelihood, education, healthcare, and more.

BPI continues to open doors for equal access to financial services through Direct Save-Up, with increases in savings volume by **9.7 PERCENT** and average savings per account by **15 PERCENT**

2 ZERO HUNGER



BPI supports agricultural productivity and food security by providing **₱53.5 BILLION** worth of loans to agribusinesses

3 GOOD HEALTH AND WELL-BEING



Generika provides affordable and quality medicines across **674 STORES** nationwide

FamilyDOC provided affordable primary care to **16,000 UNIQUE PATIENTS** through its six community-based branches

Qualimed continues to provide quality medical care through **2 HOSPITALS, 4 CLINICS,** and **2 AMBULATORY** surgical centers throughout the country

4 QUALITY EDUCATION



670 COLLEGE graduates from UNC

10,500 JUNIOR AND SENIOR high school students received affordable quality education in **27 APEC SCHOOLS**

5 GENDER EQUALITY



1:1.37

male:female ratio of employees

553.4 MILLION CUBIC METERS of water delivered to 1,146,120 water service connections

51.5 MILLION CUBIC METERS of used water treated from 139,482 sewer connections

6 CLEAN WATER AND SANITATION



7 AFFORDABLE AND CLEAN ENERGY



6,180 GWH

of total energy generated

342 GWH

from renewable energy sources

8 DECENT WORK AND ECONOMIC GROWTH



₱164.3 BILLION

group-wide capital expenditures, a 26 percent increase from 2015

124,613 total jobs generated

UNITED NATIONS

SUSTAINABLE DEVELOPMENT GOALS

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



About **30,000** BASE STATIONS used to serve **65 MILLION** telecom customers with **361 PETABYTES** of information exchanged

1.96 MILLION auto camera units,
2.2 MILLION security control devices,
172,000 DOSIMETERS completed by IMI

NON-DISCRIMINATION

on religious affiliation, gender, and physical disability in hiring

10 REDUCED INEQUALITIES



11 SUSTAINABLE CITIES AND COMMUNITIES



12 RESPONSIBLE CONSUMPTION AND PRODUCTION



Globe and IMI diverted **12 PERCENT** and **98 PERCENT, RESPECTIVELY, OF WASTE** from landfills

141,834 KG OF E-WASTE were hauled through Globe's Project 1 Phone

13 CLIMATE ACTION



151MW of gross capacity of renewable energy

BPI disbursed **P86.3 BILLION** in loans for sustainable energy financing

5 THREATENED PLANTS and **20 THREATENED LAND ANIMALS** sighted and protected in El Nido Resorts and Lio Estate

14 LIFE BELOW WATER



9,003 TONNES of organic pollutants removed by Manila Water

9 THREATENED AQUATIC ANIMALS sighted and protected in El Nido Resorts, Lio Estate, and Anvaya Cove

MCX, a four-kilometer toll road, serves 24,000 vehicles per day, **SAVING P219 MILLION IN FUEL CONSUMPTION** and 889,000 in manhours valued at ₱139 million

Increased light rail vehicles of LRT1 from 77 to 100, accommodating 148 million passengers with **99.4 PERCENT PUNCTUALITY OF TRAINS**

Total of **20 MASTERPLANNED ESTATES** across the country

1.62 MILLION SQUARE METERS of total gross leasable area for malls

836,000 SQUARE METERS of total gross leasable area for offices

15 LIFE ON LAND



Enrichment planting of **262 HA** in La Mesa Watershed and tree nurturing of **5.8 HA** in Ipo Watershed

16 PEACE, JUSTICE AND STRONG INSTITUTIONS



Ayala upholds good governance, anti-corruption, and human rights in its operations

17 PARTNERSHIPS FOR THE GOALS



Partnership with UN Global Compact – Global Compact Network Philippines Founding Member

BRINGING AYALA'S BRAND STORY

TO

LIFE

Since 1834, we at Ayala have been building businesses that transform industries, challenging the status quo to bring game-changing innovations here in the Philippines and abroad.

We constantly look for possibilities in the market to drive advancement. We see challenges as opportunities and tackle problems differently. We explore new dynamic business models and introduce pioneering products and services. We empower our leaders and employees to take initiative and make an impact in everything we do.

Because no matter what business we enter, our goal isn't just to succeed, but to reinvent the way things work to change people's lives for the better.

As a group, Ayala aims to meet Filipinos' evolving demands by providing practical solutions that balance quality and affordability. We have ventured into areas that touch on the basic needs of Filipinos—from building sustainable communities throughout the country, to widening access to financial services,

improving connectivity, providing clean potable water, and expanding beyond our shores to cater to the needs of a globalized economy.

In recent years, we have taken a more deliberate approach to integrating the needs of a wider ecosystem into our business plans and in our continued symbiotic relationship with our stakeholders. We diversified into sectors that are going through important social and economic transformation and are critical to sustaining our country's economic progress—hard infrastructure through power and transport and social infrastructure through healthcare and education.

Our emerging businesses have taken on a unified brand identity, where they establish a clear connection to Ayala, while having the space to grow as they become industry leaders in their own right. They have been renamed—AC Energy, AC Infra, AC Health, AC Education, and AC Industrials. Collectively, they will further drive innovation, synergy, and dynamism for the Ayala group.

SEEING POTENTIAL

While others see challenges, we see potential in markets that are not being served well and become the drivers for its transformation. It is in our DNA to challenge convention, and in doing so, we unlock the potential within.

IMPROVING LIVES

We are fueled by the hopes and dreams of others, and are committed to giving people the opportunity to lead improved lives. By making good business that doesn't just focus on returns, we contribute to the communities that we serve, and ultimately to the country as a whole.

MAKING BUSINESSES BETTER

We believe that success in business requires constant work, and the work lies in its people doing things the right way to generate trust. This trust allows businesses to further develop and create a bigger impact that brings about greater change.

ACCELERATING THE FUTURE

These three principles guide Ayala in all our decisions and actions, driven by our continued pursuit of accelerating the future for Filipinos.

WHAT WE SEE **AHEAD**

OUR
LEADER

Ayala's 182-year business journey is captured in a mural installation at its corporate headquarters.



ERSHIP





MESSAGE
FROM THE

CH



₱26B
NET INCOME

12%
EQUITY EARNINGS FROM
EMERGING BUSINESSES

12.6%
RETURN ON
COMMON EQUITY

AIRMAN

G4-1, G4-13

FELLOW SHAREHOLDERS:

Let me start with a broad macroeconomic overview as it sets the contextual framework for our results.

The Philippines has maintained its positive economic trajectory in 2016 despite tepid global economic growth and heightened uncertainties from geopolitical concerns globally, including our country's own political transition.

Robust domestic consumption and overseas remittance flows continued to bolster the domestic economic environment, and helped maintain its position as the fastest growing economy in Southeast Asia. This has resulted in a resurgence of consumer confidence among Filipinos. Consumer outlook in the country reached a record high, with the overall confidence index registering a positive 9.2 percent for 2016.

In contrast, the global economic picture remained lackluster in 2016 with muted cross-border trade, subdued business investments, and lingering deflationary pressures—all heightened by uncertainty surrounding

fiscal and policy shifts. In the ASEAN region, we saw divergent trends in economic activity for much of the year, with growth moderating in Malaysia and Singapore while accelerating in Thailand and Indonesia, along with the Philippines.

At the beginning of 2017, however, we have seen improved momentum in the global environment and it has been most evident in export-oriented Asian economies, the US, and China, as well as the larger emerging economies of Russia and Brazil.

Nonetheless, optimism has been tempered by new geopolitical shifts following the vote in the UK to withdraw from the European Union, the emergence of nationalist movements in the Eurozone, and the US' implied protectionist stance under a new administration.

Similarly, the past year marked a period of political transition for the Philippines as the country elected a new leader, President Rodrigo Duterte. Since assuming office, President Duterte and his administration have been pushing for progressive reforms in fiscal, monetary, and trade policies to support rapid and broad-based development under a 10-point socio-economic agenda. With the Duterte administration approaching its first

WE CONTINUE TO SEE **ENCOURAGING FINANCIAL RESULTS** FROM THE CALCULATED STEPS WE TOOK IN PURSUIT OF OUR STRATEGIC TARGETS

full year in office, its economic agenda has taken on more concrete shape, including a focus on increased infrastructure spending and a strong drive to attract foreign investments.

The Ayala group capitalized on this positive momentum in the domestic environment. We continue to see encouraging financial results from the calculated steps we took in pursuit of our strategic targets. As part of our five-year strategic plan, the Ayala group pursued an aggressive growth strategy that led to the expansion of our core businesses in real estate, banking, telecommunications, and water, while investing in new business initiatives in power, infrastructure, industrial technologies, healthcare, and education from which we can derive future sources of earnings and value creation. These initiatives strengthened our competitive advantage, kept us relevant to our markets, and established the foundation for long-term growth and value.

Over the last five years, we executed strategic adjustments to our portfolio and intervened across our businesses to generate consistent value for our shareholders, regardless of the prevailing macroeconomic

or competitive environment. As an investment management company, we remain committed to active portfolio management.

We are happy to report that we closed 2016 with a successful execution of our five-year strategic plan to increase our earnings capacity, improve shareholder returns, and rebalance our investments to create a more resilient portfolio.

It can be recalled that in 2011, we designed our plans around three strategic imperatives:

Double our net income to ₱20 billion: We breached our target a year ahead of the plan. Our earnings momentum was sustained through 2016, with net income climbing 17 percent to ₱26 billion.

Increase the equity earnings contribution of our emerging businesses to at least 10 percent: Our emerging businesses, or those that are outside our core investments in real estate, banking, telecommunications, and water, contributed 12 percent to our equity earnings, a turnaround from its negative contribution in 2011. This



The world class Globe ICONIC store plays with the consumers' senses.



KTM motorcycles are now manufactured in the Philippines at IMI's facility in Laguna.

19.4%

FIVE-YEAR TOTAL
SHAREHOLDER
RETURN CAGR

20%

FIVE-YEAR MARKET
CAP CAGR

₱185B

2017 GROUP
CAPEX PLAN

was primarily driven by AC Energy, which has assembled a portfolio of power generation assets with total attributable capacity of over 1,000 megawatts from virtually no exposure to this space five years ago.

Improve our return on common equity to 15 percent:

The investments we made in the previous years required a high degree of financial discipline and prudence. As part of our conservative balance sheet management, we raised new equity capital to support our balance sheet in 2014. This funded our many growth initiatives and enabled the expansion of our earnings capacity. While this tempered the increase in our ROCE—which stood below our target at 12.6 percent in 2016—it has improved at a healthy pace from its 2011 level of 8.8 percent.

These achievements were reflected in the strong appreciation of our share price. Our total shareholder return was at 19.4 percent per annum over the past five years. Furthermore, our market capitalization grew 20 percent per annum from 2012 to 2016.

As we look ahead to 2020 and execute on our new five-year aspirations, we continue to be confident in the overall business environment. We continue to track relevant indicators across our group to give us a pulse of

the many variables that affect our business landscape. Our confidence in our economy is supported by the aggressive capital outlay that we continue to deploy across the Ayala group. For 2017, our group has a planned ₱185 billion in combined capital expenditures across our portfolio of businesses. This is consistent with the level of capital that we deployed over the past five years, which reached a cumulative amount of ₱720 billion. We consider this a significant contribution to the national economy.

As we make progress in fulfilling our economic aspirations, we continued to create value enhancing investments. We are deepening our presence in industrial technologies amid the disruptive technological trends that are taking place in the global automotive and manufacturing industries. We view this as a unique window of opportunity to participate in an emerging ecosystem not only for the Ayala group, but for the entire Philippine manufacturing industry.

As part of our strategy, we established AC Industrials last year to consolidate IMI and AC Automotive into a single business grouping in our portfolio to capture the growing opportunities amid technological shifts, changing industry dynamics, and increasing customer demand.

Furthermore, while our presence has traditionally been overweighted in the domestic market, we believe that the time is ripe for the Ayala group to begin

WE ADOPTED A MORE IMAGINATIVE APPROACH TO BUILDING SUSTAINABLE BUSINESSES AND CREATED PLATFORMS WHERE **SOCIAL ISSUES ARE INTEGRATED INTO AND MADE CENTRAL—NOT MERELY ADJACENT—TO BUSINESS STRATEGY.**

expanding overseas, particularly in the ASEAN region. ASEAN remains among the most dynamic growth regions in the world and has remained resilient even in the face of a global economic slowdown. With regional integration and greater interconnectivity among markets, as well as a certain alignment in cultures and demographics among member nations, we see tremendous strategic opportunities in ASEAN.

Some of our businesses have already made inroads into ASEAN in recent years. Manila Water has invested in various water infrastructure projects in Vietnam and is the largest foreign investor in the country's water sector. Ayala Land has made a strategic acquisition in a real estate company in Malaysia, and more recently, AC Energy won the bidding for Chevron's geothermal facility in Indonesia. Moreover, AC Industrials has identified ASEAN as a core market in most of its business lines. We continue to explore potential investments in the region and aim to generate 10 percent of our equity earnings from our group's various international investments by 2020.

Aside from financial value creation, we remain committed to a philosophy of integrating society's needs into our businesses in a more deliberate way. We believe that enterprises like ours have a responsibility to ensure

the progressive development of the communities we serve. We have seen social tensions arise from economic inequity not just in our country, but in other parts of the world. To remain relevant, we believe that now, more than ever, it is indispensable for businesses to develop a more encompassing and progressive partnership with society.

In recent years, we adopted a more imaginative approach to building sustainable businesses and created platforms where social issues are integrated into and made central—not merely adjacent—to business strategy. We developed sectors with significant gaps in capacity, accessibility, quality, and affordability and which are vital engines of broad-based development.

The Ayala group is now contributing to the country's energy requirements through AC Energy and providing safe and reliable transport systems through AC Infrastructure. Through AC Health and AC Education, we are expanding our reach to the low-income segment with affordable products and services that are specifically designed to meet their real needs, preferences, and motivations. Through AC Industrials, we are aiming to generate employment with greater scale. These businesses are in their early stages, but we are excited about their growth potential and the impact they are creating to improve lives.

WE CONSTANTLY LOOK FOR NEW WAYS TO RAISE THE STANDARDS OF **OUR VALUE CREATION AND SUSTAINABILITY PROCESSES** TO GLOBALLY ACKNOWLEDGED PRINCIPLES.

I AM PROUD TO SAY THAT **THE AYALA GROUP IS THE FIRST BUSINESS GROUP IN THE PHILIPPINES TO ADOPT THE INTEGRATED ANNUAL REPORTING FRAMEWORK.**

While we recognize that our sustainability initiatives are works in progress, we feel that they have already helped define our commitment as a business to broader civic goals. We have a robust sustainability framework in place that includes concrete standards for measuring and reporting our performance. We have anchored our shared value creation process on the United Nations Sustainable Development Goals, which is a roadmap for good business with a 15-year horizon.

We constantly look for new ways to raise the standards of our value creation and sustainability processes to globally acknowledged principles. We are pleased to present our first annual report under the Integrated Reporting <IR> framework. The <IR> framework was developed by the International Integrated Reporting Council, a global coalition of regulators, investors, companies, and standard setters aimed at enhancing accountability and stewardship by providing investors with ample information to make more effective capital allocation decisions to facilitate better long-term investment returns. It explains how a company's capital allocation and corporate behavior are aligned with the broader goals of financial stability and sustainable development. I am proud to say that the Ayala group is

the first business group in the Philippines to adopt the integrated annual reporting framework.

As a final word, the progress that we made over the past five years would not have been possible without the engagement, foresight, and determination of the various teams in the organization. It is in this light that I thank our Board of Directors for its support, and our management team and staff for their shared philosophy in value creation. Finally, I thank our business partners, shareholders, and all our stakeholders for their continued trust and support.

We are proud of the many accomplishments that we achieved, but we recognize that we must constantly evolve, work better, and innovate further to reach more Filipinos and improve lives.



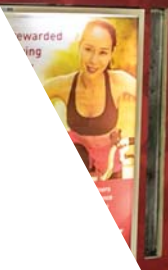
JAIME AUGUSTO ZOBEL DE AYALA

Chairman and Chief Executive Officer

MCX advocates care for the environment through its Green Program.



Insurance



REPORT
OF THE

PR



~125,000

JOBS PROVIDED

P189B
TAXES PAID IN
THE LAST FIVE YEARS

23%

5-YEAR NET INCOME CAGR

ESIDENT

G4-1, G4-2, G4-13

FELLOW SHAREHOLDERS:

As we reflect on the past year, we feel a great sense of pride to see the significant transformation of our businesses in the Ayala group. In 2016, we successfully concluded our five-year strategic plan to expand our earnings capacity, improve shareholder returns, and strengthen our portfolio by investing in new value enhancing businesses.

This was achieved through a bold growth strategy with prudent financial management and during a period of solid economic growth in the country. Our core real estate, banking, telecommunications, and water businesses pursued aggressive expansion programs, which underpinned their dominant positions in their sectors. Meanwhile, we made capital-intensive investments to develop new platforms in power, infrastructure, industrial technologies, healthcare, and education not only to create new sources of growth, but also to strengthen our relevance to our markets and to the country.

In 2016, our net income expanded 17 percent from the previous year to ₱26 billion mainly driven by our real estate and banking businesses, and boosted by our water, power, and industrial technologies units. This translates to

a compounded annual growth rate of 23 percent since we set the plan in motion in 2011.

Our stronger earnings capacity was driven by the robust performance of our core businesses Ayala Land, Bank of the Philippine Islands, Globe Telecom, and Manila Water in the last five years. In addition, some of our emerging businesses are beginning to contribute positively to our bottomline. This was led by AC Energy and AC Industrials, which both performed strongly in the past year.

Furthermore, we continue to explore potentially disruptive trends and participate in the transformation of industries. In recent years, we formed AC Health and AC Education as components of our social infrastructure investments. We believe these two sectors are ripe for disruption given massive gaps in capacity and affordability. In the next five years, we expect our emerging businesses to be a meaningful component of our portfolio.

Let me now go through each of our business units in more detail.

I will start with **real estate**. With its strategic landbank, diversified product lines and geographic areas, and solid track record in developing large-scale integrated mixed-use estates, Ayala Land has consistently recorded strong growth over the past five years. In 2016, its net income

grew 19 percent to ₱20.9 billion backed by the solid performance of almost all its business units.

More importantly, with a landbank of 9,852 hectares across 20 sustainable estates and 55 growth areas in the Philippines, Ayala Land ensures that it has a positive impact on communities and the environment. It continues to implement strict sustainability practices in all its estates, focusing on site resilience, pedestrian and transit connectivity, local employment, and eco-efficiency.

In addition, Ayala Land is building up its recurring income business. It is working to create a more resilient portfolio that can withstand economic cycles and pave the way for sustainable growth in the long-term. Last year, the recurring income businesses in office and mall leasing, as well as hotels and resorts accounted for 31 percent of Ayala Land's net income.

In 2016, Ayala Land launched 43 projects valued at ₱88 billion, ₱62 billion of which accounted for residential and office projects for sale. It spent ₱85.4 billion in capital expenditures and introduced two key mixed-use developments—One Ayala in the Makati Central Business District and the 17.5-hectare Gatewalk Central in Mandaue, Cebu.

These positive developments and favorable economic and industry indicators, coupled with the government's focus on increased infrastructure spending, put Ayala Land on track for its target of ₱40 billion in net income by 2020. This will come from a balanced contribution of its property development and recurring income businesses.

In the **banking** sector, BPI focused on addressing its clients' evolving financial needs, digitizing the Philippine financial landscape, and looking for ways to expand access to financial services.

Last year, BPI achieved a record performance at a time of extremely volatile markets and geopolitical concerns around the world. It generated a net income of ₱22.05 billion, up 21 percent from the previous year. This was largely driven by solid gains from the bank's core banking, transactional, and bancassurance businesses and boosted by significant securities trading gains.

Cognizant of rising affluence and technology-driven shifts in consumer behavior, BPI started last year a very significant multi-year investment to upgrade its digital infrastructure. Customers' increasing demand for expanded access across traditional and electronic channels required more sophisticated information and increased safety, innovation, and convenience. As a response, BPI was one of the first banks in the country to



Located in San Jose del Monte, Altaraza Town Center is Ayala Land's first integrated mixed-use estate in Bulacan. Its unique design and masterplanning seeks to foster a thriving community.

deliver an image-based check clearing service for faster and more accurate processing. It also successfully launched the first Security Operations Center together with other major Philippine banks. The SOC enhances the bank's security network and has been successful in supporting law enforcement efforts in transactional security.

Furthermore, BPI continues to achieve financial inclusion through increased efforts in servicing self-employed microentrepreneurs. Last year, BPI assumed full ownership of BanKo, a mobile-based savings bank that extends financial services to unbanked households and entrepreneurs. Similarly, it partnered with Rizal Bank of CARD MRI, a leading microfinance institution in the country serving over 3.6 million clients nationwide. This partnership is an excellent opportunity to deepen BPI's presence in microfinance and provide greater access to credit to more unbanked Filipinos.

Moving on to **telecommunications**, Globe Telecom has swiftly transformed itself in recent years to successfully capture the Filipino digital lifestyle. It has become the preferred brand for digital mobile platforms, recording unprecedented growth across all data-related segments. It continues to capitalize on the growing demand for lifestyle and entertainment-driven connectivity needs such as music, video, gaming, information, e-commerce, financial technology, movies, TV series, and social media.

Despite heightened industry competition, Globe delivered double-digit growth across all data-related services, helped in part by the full year consolidation of Bayan. Data revenues now account for nearly 50 percent of Globe's consolidated service revenues, which stood at

₱120 billion in 2016, six percent higher than a year ago. By focusing on customer experience amid increasing data-driven demand, Globe gained recognition as the number one mobile company in the Philippines in 2016.

Globe's subscriber base continued to expand with mobile subscribers reaching 62.8 million, up 12 percent, bolstered by record-level prepaid acquisitions during the year. Home broadband subscribers, meanwhile, grew six percent to 1.13 million from a year ago.

Despite topline growth, the impact of non-operating and depreciation expenses from its network infrastructure investments and recent strategic acquisitions weighed down on Globe's net profits in 2016, which declined four percent to ₱15.9 billion. We consider this a temporary setback as we lay the foundation for sustainable growth for the future.

Globe continues to gear up for the shift from traditional mobile to data services. Globe has spent close to US\$700 million in annual capital expenditures over the past five years to support its data infrastructure improvements.

In the **water** sector, Manila Water has had a progressive transformation over the past five years to become a major water infrastructure player not only in the Philippines, but in Southeast Asia. From a single concession company operating in the eastern area of Metro Manila, Manila Water now has a portfolio of water and environmental service businesses across the country, as well as in Vietnam, Indonesia, and Myanmar.

In 2016, Manila Water put in place an ambitious target under the 2X in 20XX plan to double its net income to ₱11.5 billion and generate 50 percent contribution from its new businesses by 2020. This entails penetrating new geographic markets, expanding its products and services, and offering different service delivery modalities to cater to different customer needs. We are happy to see how Manila Water is performing against these goals in the strategy's first full year of implementation.

In the Philippines, Manila Water's presence now spans Luzon, Visayas, and Mindanao. Its operations in Boracay, Clark, Cebu, and Laguna continue to ramp up. Its projects in Zamboanga and Tagum are in the pre-operating stage, while it recently won long-term concessions to operate the water systems in Calasiao in Pangasinan and Obando in Bulacan.

In Southeast Asia, Manila Water remains a strong player in Ho Chi Minh City in Vietnam, where it supplies a third of the city's total water demand. It is also exploring opportunities in the region through pilot projects in Yangon in Myanmar and Bandung in Indonesia.

Similarly, Manila Water is expanding its products and services. In 2016, it launched Estate Water to undertake projects for the provision of water and used water services in real estate developments. This has delivered significant results in its first year of operations, with Ayala Land as its first customer. Manila Water has subsequently partnered with the SM group to service some of its properties and is in discussions with other property developers.

Manila Water is also leveraging established relationships with its current customers. It has a five-gallon bottled water offering specially formulated and customized to the drinking needs of the whole family as an after-the-meter product. This is marketed as Healthy Family Purified Water.

Through these initiatives, as well as the continued improvements in the Manila Concession, Manila Water's net income reached ₱6.1 billion in 2016, up two percent from the previous year. The non-Manila Concession accounted for 17 percent of Manila Water's net earnings during the period.

Let me now move on to our **emerging businesses**.

Last year, we established AC Industrials as a new pillar to boost our presence in **industrial technologies**. AC Industrials will consolidate our investments in manufacturing and automotive—with IMI as our core manufacturing business, serving also as a conduit to tap different markets and technologies globally, and AC Automotive as our vehicle retail arm.

In support of this vision, IMI acquired a 76 percent stake in VIA Optronics, a leading optical bonding and display solutions provider based in Germany. VIA's proprietary technology will bolster IMI's strengths in automotive camera and display monitor solutions.

We also partnered with KTM AG, the largest motorcycle manufacturer in Europe, to distribute and manufacture motorcycle models in the Philippines under the KTM brand for the domestic market and export to China and eventually, to Southeast Asia.

On a combined basis, Ayala's industrial technologies portfolio reached ₱1.2 billion in equity earnings in 2016, 51 percent higher than a year ago as its automotive business contributed significant profit growth. This was lifted by robust vehicle sales across all brands as well as higher contributions from its distribution businesses.

Another emerging business that is already having a significant impact on Ayala's overall profitability is AC Energy.



Apart from providing safe and affordable drinking water to Filipino families, Healthy Family also provides opportunities for entrepreneurship through its partner-distributor program.

As its **power** generation investments achieved higher operating levels, AC Energy sustained its trajectory in 2016 and is now a significant contributor to Ayala's bottomline. In 2016, AC Energy posted a 25 percent growth in net income to ₱2.7 billion. This was achieved through a strong equity earnings contribution from its operating assets and gains from the partial sale of its stake in South Luzon Thermal Energy.

Five years ago, we started investing heavily in the power business to bring it to sufficient scale and become a significant driver of our long-term growth. We committed US\$800 million in equity to assemble 1,000 megawatts of attributable power generating capacity in renewable and conventional platforms by 2016. By the end of 2016, we had already exceeded that target.

Last December, AC Energy, as part of a consortium, won the bidding for the acquisition of Chevron's geothermal operations in Indonesia and the Philippines. Moreover, in January 2017, AC Energy partnered with UPC Renewables Indonesia to develop a 75 megawatt wind farm project in Sidrap, South Sulawesi, Indonesia.

As it continues to ramp up, we expect AC Energy to be a major segment of Ayala's portfolio in the next five years.

In the area of **infrastructure**, AC Infrastructure continues to ramp up its operations in its three public-private partnership projects. In LRT 1, Light Rail Manila Corporation increased its capacity by 30 percent to 100 light rail vehicles. Average daily ridership exceeded 500,000 multiple times in December 2016. In February 2017, LRMC inaugurated the improved Doroteo Jose station, which will serve approximately 27,000 passengers interconnecting to LRT 2. The upgrading of the whole

system as well as its stations will continue so that we can serve more daily passengers in a much better riding environment.

The Muntinlupa-Cavite Expressway is currently servicing an average of over 27,000 vehicles daily as of February 2017. There has been a steady increase in vehicles every year.

Meanwhile, the Beep payment card posted ₱9.7 billion in total transactions, reaching 2.8 million users in 2016. The Beep card has now expanded beyond rail to include select bus lines. It is also accepted as a payment platform in 80 FamilyMart stores.

We continue to look for opportunities to support the government's ambitious plans for infrastructure development.

We have also moved into two sectors that we consider to be critical parts of the country's social infrastructure.

Healthcare and education are two sectors that are critical to harness our country's human capital. However, these are sectors that continue to be challenged by issues of capacity, affordability, and quality. We have started to invest strategically in these sectors. We intend to transform some parts of these industries through innovative and value-accretive business models under AC Health and AC Education.

In healthcare, AC Health continued to grow its partnership with Generika, a leader in quality and affordable medicine in the country. It opened 116 stores in 2016, bringing its total network to 674 stores nationwide. In primary care, AC Health launched an innovative chain of retail community clinics called FamilyDOC that combines primary care, a laboratory, a pharmacy, and a convenience store all in one area. We have so far opened six clinics with a growing base of over 16,000 unique patients served since piloting this project in late 2015. AC Health intends to open 18 new clinics in 2017.

In education, AC Education continued to deliver affordable, quality education that enhances the employability of its high school and college graduates. Last year, APEC schools tripled its total student population to 10,500 students from 3,300 in the previous year. APEC is present in 27 sites across the Greater Manila Area and surrounding provinces. Meanwhile, the University of Nueva Caceres in Naga welcomed 7,700 students in the last school year.

WHILE WE CONTINUE TO WORK TOWARDS OUR FINANCIAL GOALS, WE BELIEVE THAT THE PROFITABILITY OF OUR BUSINESSES MUST BE PROPERLY BALANCED WITH THEIR **WIDER SUSTAINABLE IMPACT** ON SOCIETY AND THE ENVIRONMENT.

In both sectors, we continue to look for opportunities to scale our existing platforms and achieve a more meaningful impact to the country's social infrastructure.

Ayala's **balance sheet** continues to be strong. At the parent level, cash amounted to ₱16.4 billion while net debt stood at ₱60 billion at the end of 2016. Net debt to equity ratio during the period was 0.56 at the parent level and 0.63 at the consolidated level. Ayala's loan to value ratio, the ratio of our parent net debt to the total value of our investments, stood at 11 percent at the end of 2016. This healthy balance sheet and cash position allow us to pursue investments, both domestically and internationally, as well as comfortably cover our dividend and debt obligations.

While we continue to work towards our financial goals, we believe that the profitability of our businesses must be properly balanced with their wider sustainable impact on society and the environment. Guided by the 17 Sustainable Development Goals of the United Nations, we continually strive to align and integrate our **sustainability framework** into the core of our corporate strategies.

The Ayala group remains a major contributor to the Philippine economy. Our group's investments in various sectors translated to ₱720 billion in combined capital spending over the past five years. Similarly, the combined taxes the Ayala group paid to the national government over the past five years amounted to ₱189 billion.

We recognize that employment generation is critical to achieving economic equity and improving the quality of life. Ayala remains one of the largest employers in the country, providing jobs to nearly 125,000 individuals across our group of companies.

With the pressing risk posed by climate change, we are intensifying our efforts to preserve the health of the environment in a more direct way. We believe that the private sector, with its resources, capabilities, and network, has a vital role in helping the government build a strong disaster risk reduction and management infrastructure program.

We are proud to say that Ayala Land has announced an ambitious target to achieve carbon neutrality by 2022 by implementing energy-efficiency initiatives across its properties all over the country. AC Energy has also set out a target to assemble 1,000 megawatts of attributable power generating capacity from renewable sources by 2020.

In addition, last year, we launched Project Kasibulan, or "nurture and growth," a program that engages employees from our various companies in a comprehensive forest protection and rehabilitation drive. The project goes beyond a simple tree-planting activity. It involves appropriate training on the full planting cycle and best practices to achieve high survival rates. Furthermore, the project provides green jobs for the community.

In conjunction with strategic and financial targets, we laid out this year a set of imperatives to monitor our group's sustainability practices in a more concrete way: greenhouse gas reduction, employment generation, the economic value of infrastructure we build, the economic value we distribute, and the total population we serve across our businesses.

Overall, we continue to feel positive about the domestic environment as our business units continue to perform well and are on track for their 2020 targets.

These achievements would not have been possible without the trust and support of our business partners, shareholders, and all our stakeholders. I wish to thank our Board of Directors for their guidance and our management and staff for their shared commitment not just to succeed, but to reinvent the way things work so that we can truly change people's lives for the better.



FERNANDO ZOBEL DE AYALA

President and Chief Operating Officer

ZOBEL DE AYALA



JAIME AUGUSTO ZOBEL DE AYALA. Filipino, 57, Director of Ayala Corporation since May 1987. He is the Chairman and CEO of Ayala Corporation since April 2006. He holds the following positions in publicly-listed companies: Chairman of Globe Telecom, Inc., Integrated Micro-Electronics, Inc., and Bank of the Philippine Islands; and Vice Chairman of Ayala Land, Inc. and Manila Water Company, Inc. He is also the Chairman of Ayala Education, Ayala Retirement Fund Holdings, Inc., Asiacom Philippines, Inc., and AC Industrial Technology Holdings, Inc.; Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc.; Director of Alabang Commercial Corporation, Ayala International Pte. Ltd., AC Energy Holdings, Inc., Ayala Healthcare Holdings, Inc., Livelt Investments Limited, AI North America, Inc., and AG Holdings Limited; Chairman of the Harvard Business School Asia-Pacific Advisory Board; and member of the Harvard Global Advisory Council, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, and Endeavor Philippines. He was the Philippine Representative to the Asia Pacific Economic Cooperation (APEC) Business Advisory Council until December 2015. He graduated with a B.A. in Economics (Cum Laude) from Harvard College in 1981 and obtained an MBA from the Harvard Graduate School of Business Administration in 1987. In 2007, he received the Harvard Business School Alumni Achievement Award, the school's highest recognition. He was a recipient of the Presidential Medal of Merit in 2009 for enhancing the prestige and honor of the Philippines both at home and abroad. In 2010, he was bestowed the Philippine Legion of Honor, with rank of Grand Commander, by the President of the Philippines in recognition of his outstanding public service. In 2015, he received the Order of Mabini, with rank of Commander, for his vital contributions during the Philippines' hosting of the Asia Pacific Economic Cooperation (APEC) Summit.

FERNANDO ZOBEL DE AYALA. Filipino, 56, Director of Ayala Corporation since May 1994. He is the President and Chief Operating Officer of Ayala Corporation since April 2006. He holds the following positions in publicly-listed companies: Chairman of Ayala Land, Inc. and Manila Water Company, Inc.; and Director of Bank of The Philippine Islands, Globe Telecom, Inc. and Integrated Micro-Electronics, Inc.; and Independent Director of Pilipinas Shell Petroleum Corporation. He is the Chairman of AC International Finance Ltd., Ayala International Holdings Limited, Accendo Commercial Corporation, Alabang Commercial Corporation, Automobile Central Enterprises, Inc., AC Industrial Technology Holdings, Inc., Liontide Holdings, Inc., AC Energy Holdings, Inc., Ayala Healthcare Holdings, Inc. and Hero Foundation, Inc.; Co-Chairman of Ayala Foundation, Inc. and Ayala Group Club, Inc.; Vice Chairman of Ceci Realty, Inc., Vesta Property Holdings, Inc., Aurora Properties, Inc., Columbus Holdings, Inc. Emerging City Holdings, Inc., Fort Bonifacio Development Corporation, and Bonifacio Land Corporation; Director of Livelt Investments, Ltd., Asiacom Philippines, Inc., AG Holdings Limited, Ayala International Holdings Limited, AI North America, Inc., AC Infrastructure Holdings Corporation, Ayala Retirement Fund Holdings, Inc., Honda Cars Philippines, Inc., Isuzu Philippines Corporation, Manila Peninsula and Habitat for Humanity International; Member of the INSEAD East Asia Council, World Presidents' Organization, Habitat for Humanity International, Asia Philanthropy Circle, TATE Asia Pacific Acquisitions Committee and The Metropolitan Internal Council; Chairman of Habitat for Humanity's Asia-Pacific Capital Campaign Steering Committee; and Member of the Board of Trustees of Caritas Manila, Pilipinas Shell Foundation, National Museum, Asia Society. He graduated with B.A. Liberal Arts from Harvard College in 1982 and holds a CIM from INSEAD, France.

AMANO



YOSHIO AMANO. Japanese, 58, Non-Executive Director of Ayala Corporation since April 2012. He is a Senior Vice President of Mitsubishi Corporation and the General Manager of Mitsubishi Corporation-Manila Branch; Chairman of International Elevator & Equipment Inc.; President of MC Diamond Realty Investment Phils., Inc., MC Oranbo Investment, Inc., FMT Kalayaan, Inc., MCCavite Holdings, Inc. and Japanese Chamber of Commerce & Industry of the Philippines (JCCPI); and Director of Isuzu Philippines Corporation, Imasen Philippines Manufacturing Corp., Kepco Ilijan Corporation, Trans World Agro-Products Corp., Portico Land Corporation, Century City Development II Corporation and The Japanese Association Manila, Inc. He is not a director of any other publicly-listed company. Mr. Amano graduated from the University of Tokyo with a degree from the Faculty of Engineering in 1982. He has been with Mitsubishi Corporation for more than 30 years in various leadership positions.

DEL ROSARIO JR.



RAMON R. DEL ROSARIO, JR., Filipino, 72, Independent Director of Ayala Corporation since April 2010. He holds the following positions in publicly-listed companies: President and Chief Executive Officer of Phinma Corporation; Chairman of Trans-Asia Petroleum Corporation; and Vice Chairman of PHINMA Energy Corp. (formerly Trans-Asia Oil and Energy Development Corporation). He is the President and Chief Executive Officer of Philippine Investment Management, Inc.; Chairman of Araullo University, University of Iloilo, University of Pangasinan, Cagayan de Oro College, Southwestern University, United Pulp and Paper Co., Inc., Microtel Inns and Suites (Pilipinas), Inc., Microtel Development Corp., Trans-Asia Power Generation Corporation, Trans-Asia Renewable Energy Corp., CIP II Power Corp., One Subic Power Generation Corp., Fuld & Co., Inc., Fuld & Co (Philippines), Inc., and Paramount Building Management and Services Corp.; Vice Chairman of Phinma Foundation and Phinma Property Holdings Corp., director of Union Galvasteel Corp. and other PHINMA managed companies; Chairman of The National Museum of the Philippines, Ramon Magsaysay Award Foundation and Philippine Business for Education; Vice Chairman of Caritas Manila; and Trustee of De La Salle University and Philippine Business for Social Progress (PBSP). He is a trustee and former chairman of the Makati Business Club. Mr. del Rosario graduated from De La Salle College in 1967 with a degree in BSC-Accounting and AB Social Sciences Magna cum Laude and from Harvard Business School in 1969 for his Master in Business Administration degree. He has managed Phinma since 2002 and brings with him a wealth of experience in leading a diversified conglomerate.

LAZARO



DELFIN L. LAZARO, Filipino, 70, Non-Executive Director of Ayala Corporation since January 2007. He holds the following positions in publicly-listed companies: Director of Ayala Land, Inc., Integrated Micro-Electronics, Inc., Manila Water Company, Inc., and Globe Telecom, Inc. His other significant positions include: Chairman of Philwater Holdings Company, Inc. and Atlas Fertilizer & Chemicals Inc.; Chairman and President of A.C.S.T. Business Holdings, Inc.; Vice Chairman and President of Asiacom Philippines, Inc.; Director of Ayala International Holdings, Ltd., Ayala Industrial Technology Holdings, Inc., Ayala International Finance, AYC Holdings Inc., Bestfull Holdings Limited, Probe Productions, Inc. and Trustee of Insular Life Assurance Co., Ltd. He graduated with BS Metallurgical Engineering at the University of the Philippines in 1967 and took his MBA (with Distinction) at Harvard Graduate School of Business in 1971.

LOINAZ



XAVIER P. LOINAZ, Filipino, 73, Independent Director of Ayala Corporation since April 2009. He is also an Independent Director of Bank of the Philippine Islands, a publicly-listed company. He also holds the following positions: Independent Director of BPI Family Savings Bank, Inc., and BPI/MS Insurance Corporation; Trustee of E. Zobel Foundation; and Chairman of Alay Kapwa Kilusan Pangkalusugan and XPL Manitou Properties, Inc.; and Vice Chairman of XPL MTJL Properties, Inc. He was formerly the President of the Bank of the Philippine Islands (BPI) from 1982 to 2004. He was also the President of Bankers Association of the Philippines from 1989 to 1991. He graduated with an AB Economics degree at Ateneo de Manila University in 1963 and took his MBA-Finance at Wharton School, University of Pennsylvania in 1965.

PERIQUET



ANTONIO JOSE U. PERIQUET, Filipino, 55, Independent Director of Ayala Corporation since September 2010. He is also an Independent Director of other listed companies namely: ABS-CBN, Bank of the Philippine Islands, DMCI Holdings, Inc., Philippine Seven Corporation, and Max's Group of Companies, Inc. His other significant positions are: Chairman of Pacific Main Holdings, Inc., Campden Hill Group, Inc., and Campden Hill Advisor, Inc. and Albizia ASEAN Tenggara Fund; Independent Director of BPI Capital Corporation, and BPI Family Savings Bank, Inc., and BPI Asset Management Corporation; Director of Straits Wine Company, Inc.; Trustee of Lyceum of the Philippines University; and Member of Philippine Jesuit Provincial and The Dean's Global Advisory Council at the University of Virginia's Darden School of Business. He is also an Honorary Investment Adviser to the British Government. He graduated with an AB Economics degree from the Ateneo de Manila University in 1982 and took his Masters of Science in Economics at the Oxford University, UK in 1988 and Masters in Business Administration at University of Virginia, USA in 1990.



RUEL T. MARANAN

President,
Ayala Foundation

**CEZAR P.
CONSING**

President and CEO,
Bank of the Philippine
Islands

**ERNEST
LAWRENCE L. CU**

President and CEO,
Globe Telecom

**JOSE TEODORO K.
LIMCAOCO**

Chief Finance Officer, Chief Risk
Officer, Chief Sustainability Officer,
and Group Head, Finance
(C4-36)



NOMINATIONS COMMITTEE

**JAIME AUGUSTO
ZOBEL DE AYALA**

Chairman and
Chief Executive Officer

**JOHN PHILIP S.
ORBETA**

Group Head, Corporate Resources,
and President and CEO,
Ayala Automotive¹

ARTHUR R. TAN

CEO, Integrated
Micro-Electronics, and President
and CEO, AC Industrials²

ALFREDO I. AYALA

Chief Executive Officer,
Livelt Investments and
AC Education

¹ Until December 31, 2016
² Effective August 11, 2016



**JOSE RENE GREGORY D.
ALMENDRAS**

Group Head, Public Affairs and
President and CEO, AC Infrastructure*

*Effective August 1, 2016

PAOLO MAXIMO F. BORROMEO

Group Head, Corporate Strategy and
Development and
President and CEO, AC Health

**BERNARD VINCENT
O. DY**

President and CEO, Ayala Land



NOMINATIONS COMMITTEE

**FERNANDO ZOBEL
DE AYALA**

President and
Chief Operating Officer

**GERARDO C.
ABLAZA, JR.**

President and CEO,
Manila Water Company

JOHN ERIC T. FRANCIA

President and CEO, AC Energy and
President and CEO, AC Infrastructure*

*Until August 1, 2016

**SOLOMON M.
HERMOSURA**

General Counsel, Corporate
Secretary, Compliance Officer,
and Group Head, Corporate
Governance



MANAGING DIRECTORS

EMMANUEL A. ALIGADA*

President and COO, Honda Cars Makati, Isuzu Automotive Dealership, and Isuzu Cebu

FERDINAND M. DELA CRUZ*

COO, Manila Water Operations, Manila Water

GIL B. GENIO*

Chief Technology and Information Officer, Globe Telecom

LUIS JUAN B. ORETA*

CFO and Treasurer, Manila Water

GINAFLOR C. ORIS*

CFO and Head of Corporate Finance and Procurement, Makati Development Corporation

VIRGILIO C. RIVERA, JR.*

COO, New Business Operations, Manila Water

JAIME E. YSMAEL*

CFO, Ayala Land

RAMON G. OPULENCIA*

Managing Director, BPI Europe Plc

EXECUTIVE DIRECTORS

CATHERINE H. ANG

Chief Audit Executive

RUBY P. CHIONG*

CFO, Commercial Business Group, Ayala Land

MA. CECILIA T. CRUZABRA

Treasurer

JOSEPHINE G. DE ASIS

Controller

ROSALLIE A. DIMAANO*

CFO, AC Education

MARIA CORAZON G. DIZON*

Head, Finance and Corporate Resources, AC Energy

FELIPE ANTONIO P. ESTRELLA III

Head, Corporate Finance and Asset Management

ROMUALDO L. KATIGBAK*

CFO, Ayala Foundation

MONINA C. MACAVINTA*

Global Head, Human Resources, Integrated Micro-Electronics

MICHAEL C. MONTELIBANO

Head, Business Development and Innovation

JENARA ROSANNA F. ONG*

CFO, AC Automotive

MARIA ANGELICA B. RAPADAS

Chief Information Officer

ALFONSO JAVIER D. REYES*

Head, ALI Capital, Ayala Land

MA. VICTORIA P. SUGAPONG*

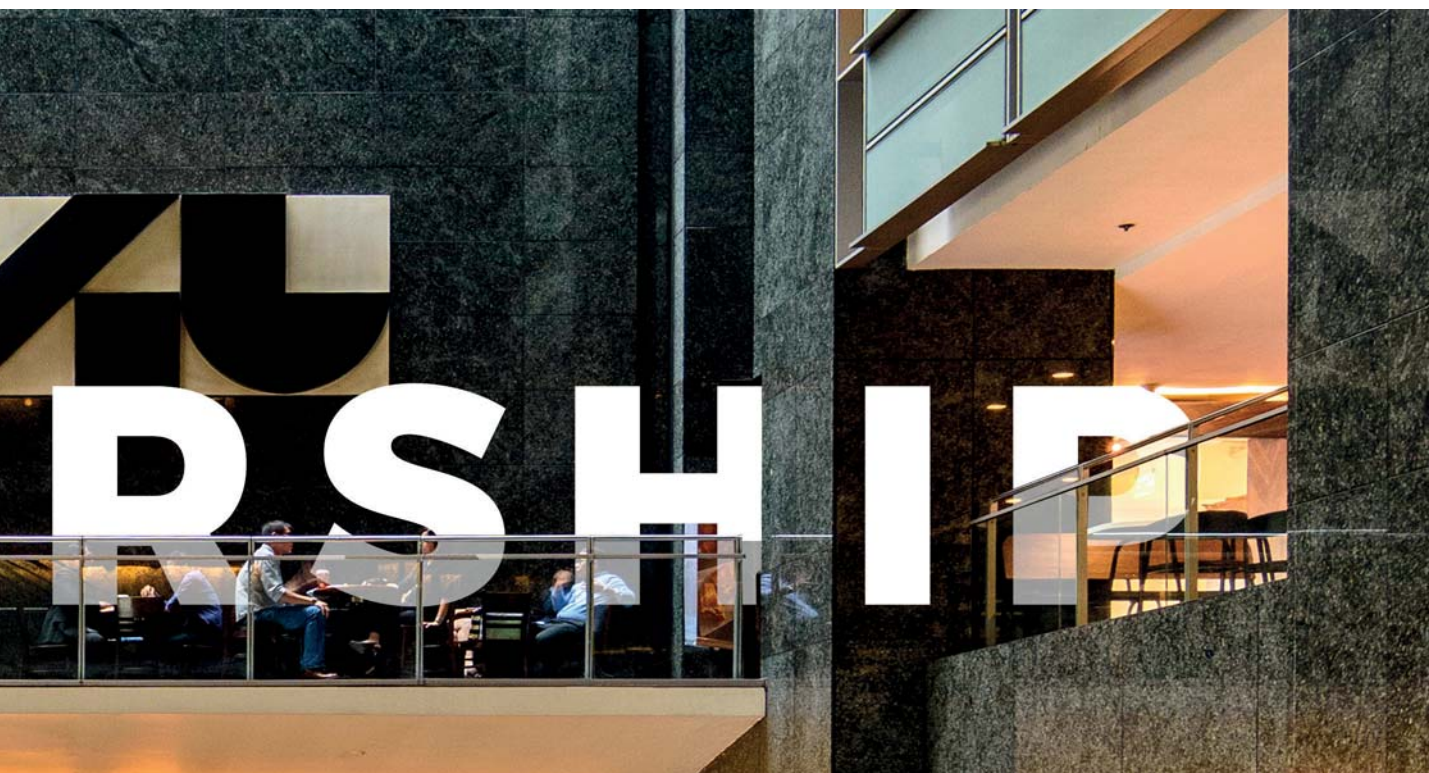
Deputy Group CFO, Corporate Finance and Governance Head, Manila Water

SHEILA MARIE U. TAN*

Head, Strategic Legal Advisory, BPI Capital

NORMA P. TORRES*

Head, Strategy and Business Development, AC Infrastructure



ASSOCIATE DIRECTORS

JOSETTE ADRIENNE A. ABARCA*

VP, Finance and Administration, Generika Group of Companies

FATIMA P. AGBAYANI*

CFO, Light Rail Manila Corporation

YLA PATRICIA G. ALCANTARA

Head, Corporate Communications

MARIA SUSANA C. BABLES

Head, Corporate Accounting

ROBERT MICHAEL N. BAFFREY*

Head, Product Innovation Development, Manila Water

EMILY C. DE LARA

Head, Knowledge Management

ANTONIO JOSELITO G. LAMBINO II

Head, Public Policy

ERWIN P. LOCSIN*

CIO, Ayala Foundation

GUILLERMO M. LUZ

GABINO RAMON G. MEJIA*

Business Development Director, GN Power Mariveles Coal Plant

ADITAS VIVIAN L. SANTAMARIA

Head, Financial Planning and Analysis

MA. VICTORIA A. TAN

Head, Risk Management and Sustainability

GABRIEL Q. VILLALUZ III

Corporate Finance and Asset Management

MA. MARGARITA G. VILLANUEVA*

Head, Broadband Portfolio Management and Brand Integration, Globe Telecom

RAFAEL NESTOR V. MANTARING*

Head, Design and Development Asia, Integrated Micro-Electronics

CONSULTANTS / ADVISERS

PATRICE R. CLAUSSE

Chief Operations Advisor, AC Energy

VICTORIA P. GARCHITORENA

SIMON C. MOSSESGELD

Consultant, Ayala Foundation

MARCIANO A. PAYNOR, JR.

*Seconded to subsidiaries

OUR PORT

HOW WE
CREATE **VALUE**

KEEP DISTANCE
FROM THE PLATFORM

No Spitting
Behind Durian



DANGER
PANGAMIS



The rail go down to residents
having habitat for fish

FOLIO



LRT 1 ferries over 450,000 commuters from Pasay to North EDSA daily.

OUR PORTFOLIO (G4-7, G4-8, G4-9, G4-17)

Amid the Philippines' economic growth, our unique portfolio of businesses provide various engines for growth and diversification

REAL ESTATE



47.2%*

Leading and most diversified property developer in the country with the largest landbank
(~US\$9.5B market capitalization)



FINANCIAL SERVICES



48.3%*

Pioneering financial institution and one of the most profitable banks in the country
(~US\$7B market capitalization)

TELECOMMUNICATIONS



31%*

Purveyor of the Filipino digital lifestyle, supported by a robust telecom infrastructure
(~US\$4B market capitalization)

WATER



51.6%*

Regional player in water infrastructure services and development
(~US\$1.2B market capitalization)

POWER AND INFRASTRUCTURE



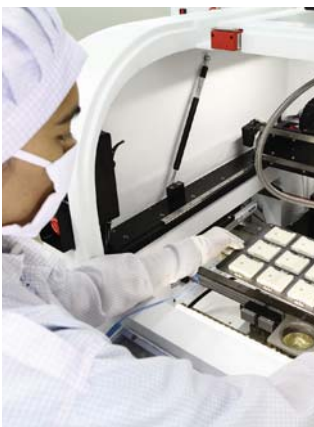
100%*

Emerging major player in power generation in both renewable and conventional technologies



100%*

Growing portfolio of key infrastructure projects and public-private partnerships in the Philippines



INDUSTRIAL TECHNOLOGIES



100%*

Industrial technologies investments focused on electronics manufacturing, vehicle retail, and enabling technologies



50.7%*

Global automotive and industrial EMS; the sixth largest automotive EMS provider and the 21st largest EMS company in the world
(~US\$0.23B market capitalization)



100%*

Key player in Philippine automotive distribution and dealership with Honda, Isuzu, Volkswagen, and KTM motorcycles

SOCIAL INFRASTRUCTURE



100%*

Developing an integrated ecosystem focused on affordable medicine and access to healthcare services



100%*

Investing in educational institutions to deliver affordable high quality education that improves employability of students



SOCIAL COMMITMENT



The conglomerate's social development arm with key program areas in education, youth leadership, sustainable livelihood, and the promotion of arts and culture

*Economic ownership and market capitalization as of end-2016

OUR PERFORMANCE

We continued to deliver strong financial value for our shareholders in 2016 as our portfolio generated ₱26 billion in consolidated net income, growing 17 percent year-on-year driven primarily by our power generation and industrial technology units. In addition, the quality and diversity of these earnings continue to be sound. Return on common equity improved to 12.6 percent and businesses outside of our four core businesses contributed 12 percent of our portfolio's equitized earnings.

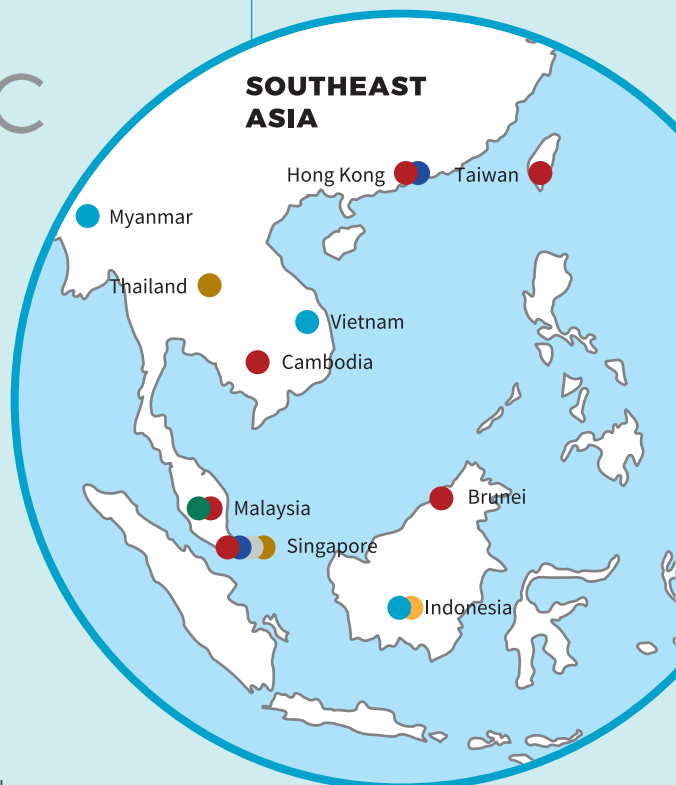
The year 2016 also marked a period of strategic transition as we closed our previous long-term plan on a solid note and began executing on the first year of our 2020 vision. Over the last five years, we made significant leaps in earnings capacity, shareholder returns, and portfolio diversification. Net income almost tripled on the back of overall excellent performance by our businesses and investments. Moreover, the steady maturation of our emerging businesses, particularly AC Energy, also allowed it to begin contributing positively to our bottomline, diversifying our returns beyond the four core businesses. While we fell short of our target of 15 percent return on common equity at the parent level, we achieved double-digit levels of ROCE early in our plan and have sustained this with the help of disciplined capital and cost management.

	2011	2016	2020T
Net income	₱9.2B	₱26B	₱50B
Return on common equity	8.8%	12.6%	15%
% equity earnings from emerging businesses	-3.3%	12.4%	20%
% equity earnings from international businesses	-4.5%	3%	10%

As we enter the second year of realizing our 2020 aspirations, we remain encouraged as our performance remains on track with these targets. If successfully attained, these targets would bookend nearly a decade of exponential growth in Ayala's portfolio. This would represent an over fivefold increase in earnings, a near-doubling of ROCE, and rapid diversification from both strategic expansion beyond the Philippines and the ramp-up of our emerging businesses. Such targets will be challenging to achieve amid the ever-changing market and competitive landscape. In this light, as investment managers, we will continue to employ active measures—such as value realization, capital reallocation, and appropriate degrees of intervention—as we strive to generate consistent value for our shareholders regardless of the prevailing external environment.



The Ayala Group Management Committee meets regularly to review business performance, discuss group-wide issues, and identify areas of possible synergy.

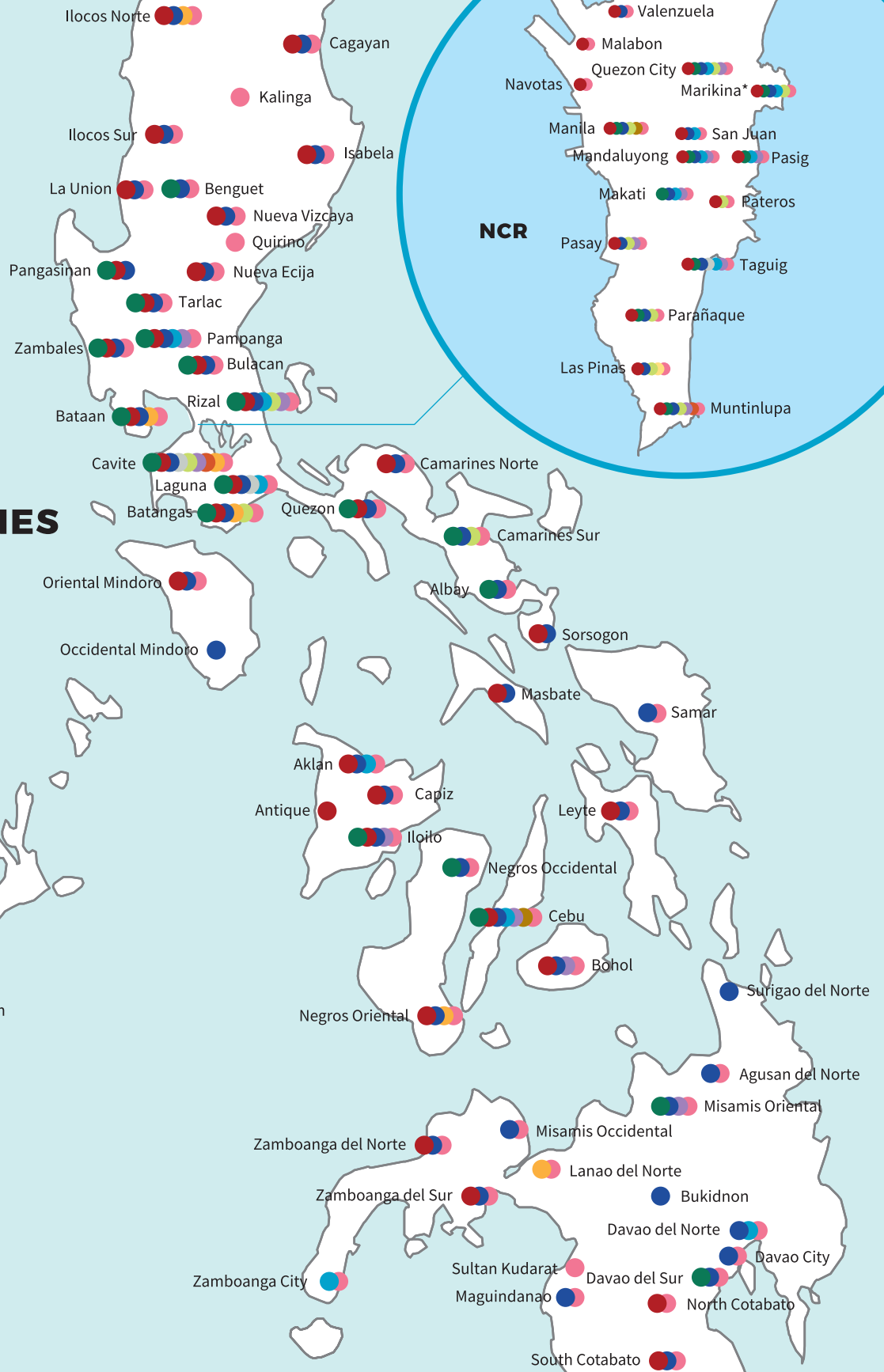


OUR GEOGRAPHIC PRESENCE (G4-6, G4-8)

"While our presence has traditionally been overweighted in the domestic market, we believe that the time is ripe for the Ayala group to begin expanding overseas, particularly in the ASEAN region. ASEAN remains among the most dynamic growth regions in the world and has remained resilient even in the face of a global economic slowdown. With regional integration and greater interconnectivity among markets, as well as a certain alignment in cultures and demographics among member nations, we see tremendous strategic opportunities in ASEAN."

JAIME AUGUSTO ZOBEL DE AYALA
CHAIRMAN AND CEO

PHILIPPINES



LEGEND

● Ayala Land	● BPI	● Globe	● MWC	● AC Energy	● AC Infrastructure
● IMI	● AC Automotive	● AC Health	● AC Education	● AC Holdings	

OUR BUSINESS MODEL

Our value creation process is underpinned and guided by our core corporate values: integrity, long-term vision, empowering leadership, and a commitment to national development.





The respective roles of the Chairman and CEO and the President and COO are complementary and ensure a strategic distribution of leadership functions with clearly defined accountabilities.

WHAT WE DRAW FROM TO CREATE VALUE

FINANCIAL STRENGTH: We are able to reliably source funding through four main sources, in order of priority: regular cash dividends from our operating units, strategic divestments and value realization opportunities, frequent issuances of high-quality corporate debt, and equity that has historically met with keen demand from long-term shareholders.

PHYSICAL ASSETS: As an investment management company, we keep our physical footprint lean. Apart from our corporate headquarters, we continue to invest in the best information technology and corporate infrastructure that allow us to maximize productivity, contain costs, ensure our overall safety, and be nimble and responsive to both opportunities and the needs of our business units.

REPUTATIONAL STRENGTH: We maintain close linkages and strive to balance the individual needs of our many stakeholders – investors, partners, suppliers, customers, employees, and the public sector. We protect their interests and maintain transparency by adhering to the highest standards of corporate governance and sustainability practices.

HUMAN CAPITAL: We recruit, develop, and deploy high performing, motivated employees and leaders who come from diverse backgrounds and have deep knowledge of global and local markets. The diversity of our experience and expertise is further strengthened by regular training and a focus on safety and health.

INTELLECTUAL CAPITAL: The strong and trusted Ayala brand, our deep expertise in key industries as well as experience in Philippine business were derived from 182 years of existence. This allowed us to create and grow businesses positioned for leadership in their sectors both locally and globally. We also apply a transformative approach to any sector we enter and empower synergies from across our group.

HOW WE TRANSFORM CAPITAL AND GENERATE VALUE

Our primary business activity is the active management of a portfolio of long-term, strategic holdings in key industries. We aim to build multiple engines of growth as well as maintain resiliency through the economic cycle, generating returns that are consistently above our cost of capital.



Management has created committees that it deems necessary to ensure that decision making is always made in the best interest of the organization.

While we may have passive interests from time to time, the vast majority of our holdings are in companies where we have significant control and management ability. We make investment decisions aligned with our core corporate values and our current strategy for 2020—prioritizing industries that we believe are important for national development, or those ripe for disruption and innovation.

As we exercise management influence over our long-term interests in key businesses, we deploy a core set of tools and expertise: strategy, finance, organizational excellence, and public engagement. We also nurture synergies between each company in the Ayala group while ensuring that each business can stand on its own as a sustainable entity.

Through this process, we convert our various forms of capital into our key outputs—leading businesses and profitable investments that generate sustainable value, which we strategically realize for the benefit of all our internal and external stakeholders.

HOW WE REALIZE AND SHARE THE VALUE WE CREATE

Through active and disciplined management of our portfolio, we deliver robust financial value—stable profits, regular cash dividends, and above-market capital gains—

at optimized levels of risk to our shareholders. We also ensure that taxes are paid on time to the domiciles we operate in.

Our network of digital and physical infrastructure enables the increased productivity and efficiency of our operations. Through both continuous reinvestment in the best technologies and environmentally sustainable business practices, we strive to be stewards of our planet.

We treat all our stakeholders with dignity, fairness, and respect. Most of our relationships stand the test of time and all are legally, ethically, and economically sound. We care about the communities we operate in, and invest in their continued health and development.

We strive to be the employer of choice—providing a safe working environment, ample opportunities for career advancement, and competitive compensation that motivates our employees and allows them to provide for their families. As the parent company, we also nurture a healthy leadership pipeline for the group.

With our expertise, group synergies, strong brand reputation, our companies maintain dominance in their sectors. Through them, we offer inventive, transformative products and services that make life better for our customers.

OUR FINANCIAL POSITION (G4-13)

As we strive to realize our long-term targets, we continue to maintain a conservative approach in managing our finances. We believe that having a strong balance sheet provides us the best defense to economic downturns and allows us to move aggressively when opportunities for growth and expansion present themselves.

As one of the Philippines' leading conglomerates, Ayala is presented with a variety of investment opportunities. These go through careful and thorough evaluations for the most attractive risk-adjusted returns. Along with financial viability, we place equal consideration on a set of qualitative criteria to establish our suitability in owning such businesses in light of our roles as investment managers and business builders.

At the heart of it, we take into account the long-term prospects of an investment opportunity as it relates to:

- Potential to scale vis-à-vis our overall portfolio
- Ability to gain market relevance
- Ability to transform industries
- Creating synergies within our existing businesses

We are guided by a capital allocation and investment gating process that involves our business development and corporate finance teams, our CFO, our Investment Committee, our Finance Committee, and ultimately, our Board of Directors.

Further, Ayala's corporate finance team is guided by Board policies that cover all aspects of financial stewardship. These include our liability and liquidity levels, foreign exchange exposure, interest rate mix, and the management of debt maturities, among others. Finally, we ensure that the risks—whether from business performance, funding, or with counterparties—are wholly considered and mitigated as best as possible throughout the entire process.

RESOURCE ALLOCATION

Our portfolio consists of companies in various stages of development. Our core businesses Ayala Land, BPI, Globe, and Manila Water are capital self-sufficient and have access to various sources of funding.

Meanwhile, in their early stages, our emerging businesses rely on equity infusion from Ayala. As they grow in size and profitability, they explore other avenues to fund their growth, whether through strategic partnerships, debt, value realization, and eventually, a public offering. Ayala provides critical support beyond equity capital, including strategy, treasury, corporate finance, audit, legal, and human resources.

The most recent example of this is AC Energy. Established in 2011, AC Energy relied on equity infusion from Ayala to execute its investment program. It also formed strategic partnerships with domestic and foreign institutions and secured project financing as it assembled a portfolio of power generation assets.

As the projects came on-stream with developmental risks significantly reduced, AC Energy made strategic and opportunistic moves to partially divest its stake in some of its investments. This has allowed AC Energy to redeploy capital to other investments while still maintaining significant ownership levels in these projects.

With divestment gains, dividend streams, and capital infusions from the parent, AC Energy has been able, and continues, to assemble a portfolio of power investments that will over time enable it to become capital self-sufficient with its own access to financing.

BALANCE SHEET MANAGEMENT

As an investment holding company, cash flows at the parent level are based primarily on dividends received from our investments. These dividends generally cover our parent operating expenses (including interest) and dividends to our shareholders. The excess cash, along

with divestment proceeds, is mainly used to fund new investments or reduce debt. We subject ourselves to tests of liquidity and leverage prior to incurring additional debt.

We believe that the loan to value ratio, which compares our net debt to the market value of our investments, is a good measure of our relative indebtedness and our capacity to take on or service these obligations. At the end of 2016, Ayala's loan to value ratio stood at 11.1 percent, as higher net debt and declines in the stock market affected the market value of our listed investments. Parent company net debt to equity remains comfortable at 0.56 to 1.

	2014	2015	2016
Loan to Value ratio	8.5%	8.8%	11.1%
Total Investments*	544,413	539,962	538,289
Parent Net Debt to Equity ratio	0.44	0.44	0.56
Parent Net Debt**	46,102	47,513	59,580
Parent Debt	102,582	94,797	76,002
Parent Cash	56,480	47,284	16,422

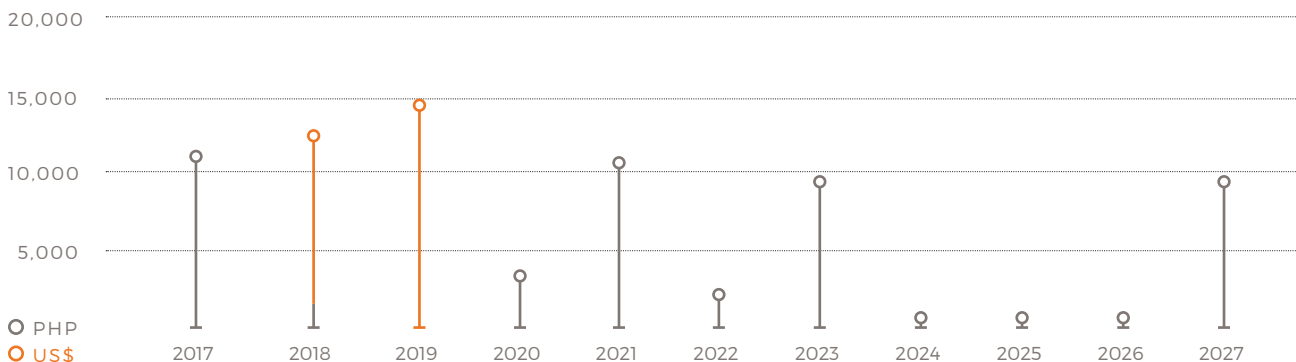
*Investments in listed business units stated at market value while the rest of investments are at carrying value

**Includes AYC Finance Ltd. and AC International Finance Limited

We continue to manage our debt profile so we are not overly exposed to market liquidity, foreign exchange, or interest rate risks. At the end of 2016, our debt maturities remain well-spread out, in compliance with an internal policy to avoid towers in any single year. We monitor our

DEBT MATURITY PROFILE

AS OF DECEMBER 31, 2016
(IN MILLION PESOS)

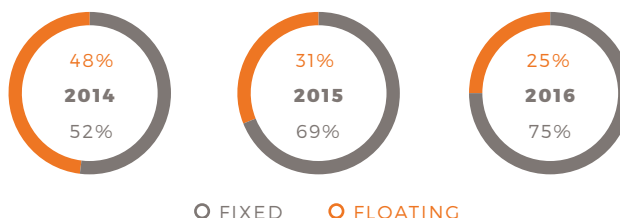


foreign exchange exposure closely both at the parent level and as a consolidated entity, working with our subsidiaries to understand and measure their foreign exchange risk arising from non-peso denominated assets, debt, revenues, expenses, and capital expenditure commitments.

Our fixed to floating rate mix of 75-25 in 2016 puts Ayala in a favorable position under a rising interest rate environment. We also increased our peso obligations to 66 percent of our total obligations. Further, our US dollar-denominated obligations are more than offset by our US dollar cash and long-term foreign currency investments.

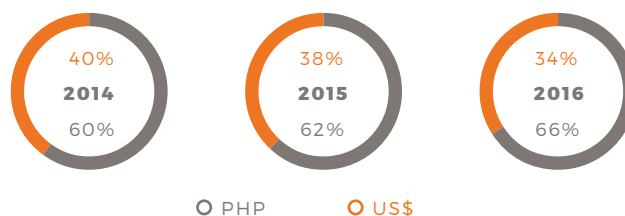
INTEREST RATE MIX

(PERCENTAGE OF TOTAL PARENT DEBT INCLUDING DEBT GUARANTEED BY PARENT)



CURRENCY DEBT MIX

(PERCENTAGE OF TOTAL PARENT DEBT INCLUDING DEBT GUARANTEED BY PARENT)



CAPITAL RAISING

In 2016, Ayala took advantage of new SEC rules and a strong debt market to issue a ₱10 billion, seven-year fixed rate bond with a coupon of 3.92 percent under a ₱20 billion shelf registration program. The shelf registration allows Ayala the flexibility to tap the market more quickly for future bond issuances. The proceeds from this issuance were used to pay obligations incurred from exercising our call option on our ₱10 billion 5.45 percent bond, which was originally due in November 2019. This issuance lowered our interest expenses and smoothed our maturity profile.



Ayala lists the first tranche of its ₱20 billion bond program at the Philippine Dealing and Exchange Corporation.

OUTSTANDING BONDS AND PREFERRED SHARES

ISSUER	TYPE	AMOUNT	COUPON	ISSUANCE	MATURITY	DETAILS
Ayala	7-year puttable bond, fixed coupon	₱10B	7.200%	Apr 30, 2010	Apr 30, 2017	One time put option exercise date April 30, 2015
Ayala	10-year multiple bond, fixed coupon	₱10B	6.800%	May 12, 2011	May 12, 2021	1st put option May 12, 2016 (up to 20% of outstanding) 2nd put option May 12, 2019 (up to 100% of outstanding)
Ayala	15-year callable bond, fixed coupon	₱10B	6.875%	May 11, 2012	May 11, 2027	May 11, 2022 (at 101.000%) May 11, 2023 (at 100.750%) May 11, 2024 (at 100.500%) May 11, 2025 (at 101.375%) May 11, 2026 (at 100.250%)
AYC Finance Ltd. (Guaranteed by Ayala)	Exchangeable bond to Ayala Land Shares	US\$300M	0.500%	May 2, 2014	May 2, 2019	Put option on May 2, 2017 Call option by issuer if ALI share price exceeds 130% of prevailing exchange price
Ayala	7-year callable bond, fixed coupon	₱10B	3.920%	Jul 7, 2016	Jul 7, 2023	Callable on January 7, 2022 (at 100.25%)
Ayala	Preferred shares Pref B Series 1 (ACPB1)	₱10B	5.250%	Nov 15, 2013	Perpetual	10th year repricing: 5yr PDST R2 + 150bps 15th year repricing: 10yr PDST R2 + 300 bps
Ayala	Preferred shares Pref B Series 2 (ACPB2)	₱13.5B	5.575%	Nov 5, 2014	Perpetual	5th year repricing: 5yr PDST R2 + 175bps 10th year repricing: 10yr PDST R2 + 300 bps

SHARE PRICE PERFORMANCE

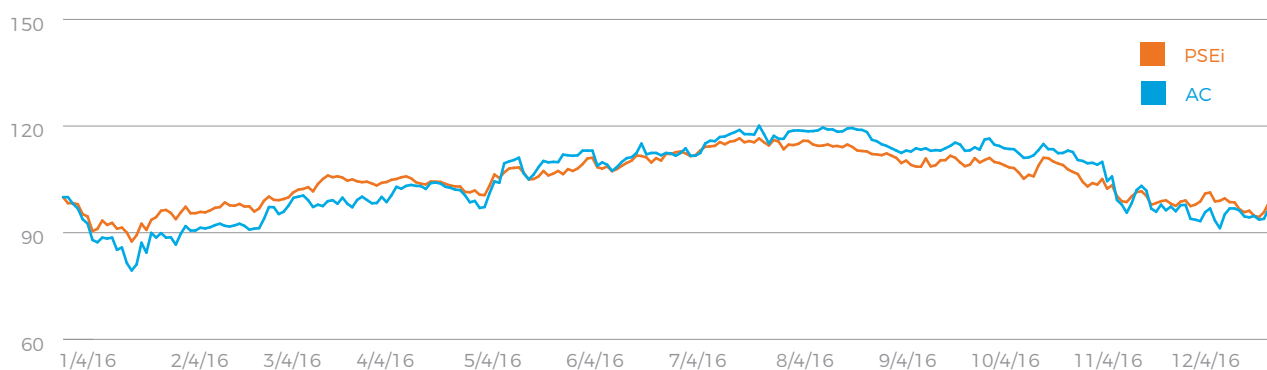
It was a volatile year for the Philippine equities market as investors remained cautious over global and domestic headwinds. The Philippine Stock Exchange Index ended flat in 2016 at 6,840.64 on macroeconomic and geopolitical uncertainties. The share price of Ayala (Stock symbol: AC) tracked the overall market sentiment, ending the year slightly lower compared to its year-ago level.

The first quarter of 2016 saw global share prices fall amid concerns of economic slowdown in the US, China, and Europe. Consequently, both the PSEi and Ayala reached their 52-week lows during this period, falling to 6,084 and ₱600 per share, respectively.

Local share prices started to recover following the peaceful conclusion of the Philippine presidential elections with President Rodrigo Duterte winning by a strong mandate, abating worries of political uncertainty. In addition, President Duterte's 10-point socioeconomic agenda fueled a market rally from May to July in 2016. Similarly, Ayala's share price rallied during this period, reaching a record high at ₱908 per share on July 27.

By mid-August, however, expectations of an increase in interest rates by the US Federal Reserve, implied protectionist programs of US President-elect Donald Trump, and talks of realignment in the Philippines' foreign policy dampened investor sentiment with the benchmark

AC SHARE PERFORMANCE VERSUS PSEI*



*Indexed to 2015 year-end closing prices equal to 100

index as well as Ayala's share price reversing the gains from the post-election driven market rally.

At the end of 2016, Ayala's share price closed at ₱730.50, 3.4 percent lower than the previous year. Its market capitalization stood at ₱453.1 billion, accounting for six percent of the PSEi's total market capitalization. Total volume of Ayala shares traded in 2016 amounted to 98.7 million shares with ₱78.3 billion in value turnover.

DIVIDENDS

Ayala's policy is to provide a fixed-rate, semi-annual cash dividend of ₱2.88 per share for common shares. For voting preferred shares, the dividend rate is 1.875 percent per annum. For non-voting Preferred B Series 1 and Series 2 shares, the dividends are given at 5.25 percent and 5.575 percent per annum, respectively. It is the company's policy to treat all shareholders equally, ensuring payment of dividends in an equitable and timely manner—within 30 days after being declared and finally cleared.

In 2016, we declared total dividends per common share of ₱5.76. We recognize that our shareholders view our dividends as a regular source of both income and capital returns. We strive to maintain consistent distributions from year to year. As we move ahead, we will continue to revisit potential sustainable increases in the regular dividend rate, with the continued capacity to make new or additional investments as the primary consideration.

	2014	2015	2016
DIVIDENDS RECEIVED (IN MILLION PESOS)			
Ayala Land	2,929	2,936	3,358
BPI	1,080	5,131	3,571
Globe	3,025	3,349	3,575
Manila Water	996	1,008	1,096
IMI	31	24	208
Others	72	68	83
	8,134	12,516	11,891

	2014	2015	2016
Cash dividends per common share	4.80	5.76	5.76
Dividend yield - Common	0.9%	0.8%	0.8%
Dividend payout ratio	23%	19%	16%

As we end the first year of our new five-year plan, Ayala remains well-positioned to consistently and sustainably generate value for our shareholders. Our four core businesses are on track to retain leadership and relevance in their respective sectors. We also continue to prioritize growth sectors which we believe will both diversify our portfolio across many fronts, while offering new sources of growth and returns—with a strong, enabling financial position to guide our group toward achieving our long-term aspirations for 2020.

OUR OUTLOOK

While the global economy has seen gradual improvements in recent years, 2016 saw particularly heightened levels of volatility amid geopolitical and economic transitions. The UK's withdrawal from the European Union and the uncertainties from the US presidential elections increased concerns for the global economy.

Despite challenges overseas, the Philippines sustained its growth momentum in 2016, posting the fastest economic growth in Southeast Asia at 6.8 percent. Strong consumption, primarily fueled by overseas remittances and the business process outsourcing sector, remained the country's growth engine.

The Philippines itself was also largely dominated by a critical political transition in 2016. In June, the Philippines elected a new chief executive, President Rodrigo Duterte. Since assuming office, President Duterte's administration has demonstrated commitment to implement fiscal, monetary, and trade policies that are consistent with the pursuit of rapid, broad-based economic growth.

Even with a fairly positive business environment, Ayala remains vigilant in monitoring relevant global and

EVEN WITH A FAIRLY POSITIVE BUSINESS ENVIRONMENT, AYALA REMAINS VIGILANT IN MONITORING RELEVANT GLOBAL AND DOMESTIC MACROECONOMIC INDICATORS AND TRENDS THAT MAY POTENTIALLY IMPACT THE OPERATIONS OF OUR BUSINESSES.

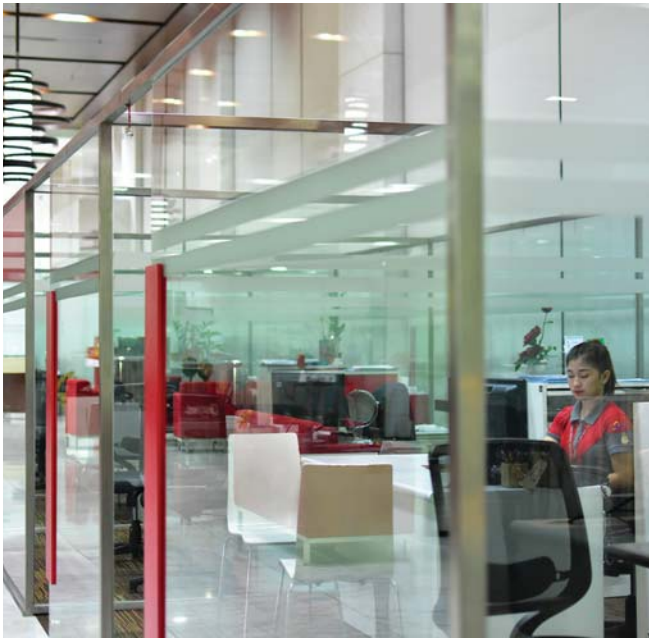


MCX has helped to address congestion in Daang Hari road and Commerce Avenue, likewise resulting in fuel savings for motorists.

domestic macroeconomic indicators and trends that may potentially impact the operations of our businesses. As a conglomerate with interest in various industries, we have always embraced progressive change with calculated risk-taking and a long-term strategy for success. We have a robust risk management system in place that has opened up opportunities for reinvention and helped us navigate the challenges in our businesses.

As an example, we have over time taken a more conscious approach to rebalance our portfolio and ensure it remains healthy and resilient throughout macroeconomic and geopolitical cycles. In particular, in 2011, we entered the power and infrastructure sectors to diversify our exposure from businesses that are vulnerable to economic cycles. Power and infrastructure are sectors that provide stable recurring income, which balances out our real estate and banking units, two of our largest businesses. Today, AC Energy is assembling a robust pipeline of power generation platforms and has started to contribute to the country's energy requirements. Further, AC Energy has started to support our bottomline and will be an important component in achieving our strategic aspirations for 2020.

Last year, we announced our 2020 vision to double our net income to ₱50 billion, premised on strong growth projections of our core businesses in real estate, banking, telecommunications, and water; and our emerging businesses in power and industrial technologies. Along



BPI continues to make investments to improve the customer experience, from expanding its branch network to digitization.

AS A CONGLOMERATE WITH INTERESTS IN VARIOUS INDUSTRIES, WE HAVE ALWAYS EMBRACED PROGRESSIVE CHANGE WITH CALCULATED RISK-TAKING AND A **LONG-TERM STRATEGY FOR SUCCESS.**

with our financial goals, we are committed to balancing economic feasibility with environmental sustainability. AC Energy has set out a goal of assembling 1,000MW of attributable generating capacity from renewable sources by 2020. We are also working to reduce our carbon footprint, and maintain and nurture biodiversity in our areas of operation. As an example, Ayala Land has set out a goal to become carbon neutral by 2022.

Further, AC Infrastructure continues to explore opportunities to help augment the country's infrastructure needs. It exercises responsible oversight over its existing three public-private partnership projects. Moreover, we made a strategic decision to deepen the group's presence in industrial technologies, which we believe can enable gains in competitiveness, efficiency, and innovation both for the country and across the Ayala group. Our manufacturing component will also generate employment with scale. We also continue to upgrade our telecommunications bandwidth, water distribution, and other water services—all of which have an impact on the lives of Filipinos. In particular, Globe plans to deploy fiber optics that will provide ultra-fast internet access to around two million homes in 20,000 barangays nationwide by 2020.

Ayala continues to drive financial inclusion in the country through traditional banking services and microfinance platforms under the Bank of the Philippine Islands. Furthermore, through our financial technology investments, we are providing widespread access to critical financial services to the unbanked population.

Part of our role as a holding company is to identify and develop businesses we believe are underserved, in need of capacity expansion, and are ripe for transformation. We will continue to expand our footprint in providing affordable and quality healthcare and education to reach a wider segment of the population.

We remain committed to deepening the culture of good governance across our group of companies. Various policies and mechanisms are in place to ensure that we continue to strengthen our governance standards.

We remain committed to aligning our business goals more specifically with the developmental needs of the communities we serve. Guided by the UN Sustainable Development Goals, we put in place a set of sustainability imperatives on: greenhouse gas reduction, employment generation, the economic value of infrastructure we build, the economic value we distribute, and the total population we serve across our businesses. These will be integrated into key performance indicators across the Ayala group, while taking into account the key activities of each business.

This commitment to sustainable development will allow us to continue generating, delivering, and sharing value to our stakeholders: creating jobs across the geographies in which we operate, providing quality products and services to a wider market, and contributing to overall national development.

Refer to pages 55 to 57 for a more comprehensive assessment of our Risks, and to pages 58 to 93 for the yearly reviews and value creation of our business units.

RISKS AND OPPORTUNITIES (G4-2, G4-14)






At Ayala, risk management balances risk and reward, science and art, and process and people. Our risk management system aims to ensure that we have the right architecture, strategy, protocol, and process, a detailed discussion of which can be found on pages 151 to 155. We revisit these key factors annually to make certain that we do not only minimize downside risks, but also optimize our performance.

For this year, our risk assessment once again challenged our internal assumptions and gave us a better understanding of the various external factors that affect our operations. While we utilized a scientific approach in

the process, we also relied on our management’s foresight and creativity, realizing that not all risks can be quantified through a model. Our Group Risk Management and Sustainability Unit, in collaboration with our Corporate Strategy Unit, aligned Ayala’s 11 prevailing risks to its five vision pillars namely: Financial Strength, Reinvention and Growth, Geographic Expansion, Stakeholder Empowerment, and Business Leadership.

Risks were grouped into two categories: 1) risks that impact our five vision pillars, and 2) fundamental risks common to all. Presented below are details on these risks and the results of this alignment process.

ALIGNMENT OF VISION PILLARS WITH KEY RISKS

VISION PILLARS						
		FINANCIAL STRENGTH	REINVENTION AND GROWTH	GEOGRAPHIC EXPANSION	STAKEHOLDER EMPOWERMENT	BUSINESS LEADERSHIP
RISK CATEGORIES	Portfolio Management	●	●	●		●
	Political and Regulatory	●		●	●	●
	Funding	●	●	●		
	Capital Market	●	●	●		
	Innovation		●			●
	Synergy		●	●		
FUNDAMENTAL RISKS	BRAND AND REPUTATION					
	GOVERNANCE AND CONTROLS					
	TALENT					
	CYBER AND INFORMATION SECURITY					
	BUSINESS RESILIENCY					

RISK DESCRIPTION	VISION PILLAR	POTENTIAL IMPACT	CURRENT KEY RISKS, ISSUES, OR AREAS OF UNCERTAINTY	RISK EXPOSURE	MANAGEMENT AND MITIGATION
Portfolio Management <ul style="list-style-type: none"> Inability to align portfolio management strategy with business objectives 	<ul style="list-style-type: none"> Financial strength Reinvention and growth Geographic expansion Business leadership 	<ul style="list-style-type: none"> Inability to create value for stakeholders Damaged brand and reputation Expensive funding mechanisms 	<ul style="list-style-type: none"> Aggressive competition Technological disruptions Changes in regulatory policies and frameworks Market saturation ASEAN integration Talent shortage Weak partnerships or collaborations 	Lower by three points from last year ↓	<ul style="list-style-type: none"> Analyze portfolio twice a year (capital management, valuation, investment/ divestment) Cultivate market intelligence (local, regional and global) and compare key metrics with competition using an internal team Conduct deep-dive analysis of portfolio and business unit performance Analyze annual innovation trends and new sectors Strengthen Ayala's gating process, where all possible business ventures are discussed and monitored Strengthen relationships and establish networks with potential business partners and advisers
Political and Regulatory <ul style="list-style-type: none"> Inability to anticipate changes in political and regulatory landscapes 	<ul style="list-style-type: none"> Financial strength Geographic expansion Stakeholder empowerment Business leadership 	<ul style="list-style-type: none"> Reduced income and margins Greater variability of returns Higher cost of compliance Delayed projects Difficulties in management and administration Weaker brand value 	<ul style="list-style-type: none"> New national and local government officials with different mindsets and priorities New tax rulings Advocacy groups with opposing causes 	Lower by one point from last year ↓	<ul style="list-style-type: none"> Be more engaged with national leadership and policy development Establish Ayala Regulatory Council Develop regulatory risk framework for Ayala and its subsidiaries and affiliates
Funding <ul style="list-style-type: none"> Insufficient funding strategy to meet its obligations 	<ul style="list-style-type: none"> Financial strength Reinvention and growth Geographic expansion Business leadership 	<ul style="list-style-type: none"> Increased cost of doing business Delayed investment strategy execution In the long-term, may impact brand and reputation 	<ul style="list-style-type: none"> Capital market dry-up Political instability Business units failing to deliver dividends or income targets Possible impact from Brexit and Trump presidency 	Lower by one point from last year ↓	<ul style="list-style-type: none"> Align funding strategy with budgeted capital expenditure, operating expenses, and dividend payout Control mix of currencies (peso and US Dollar), interest rates (fixed and floating), and types (bank loan, capital market) Establish contingency funds, both short-term and long term lines Monitor major changes in funding requirements Evaluate funding opportunities as necessary Engage in regular banker/lender communication
Capital Market <ul style="list-style-type: none"> Inability to manage adverse impact of market factors that may expose Ayala's financial assets and liabilities 	<ul style="list-style-type: none"> Financial strength Reinvention and growth Geographic expansion Business leadership 	<ul style="list-style-type: none"> Unstable funding requirements and destabilized liquidity position Increased cost of doing business Delayed investment strategy execution Actual cash losses and volatility in profitability 	<ul style="list-style-type: none"> Capital market dry-up Political or social instability Changes in global politics Exposure to market forces such as foreign exchange, interest rates, etc. 	Same ranking from last year ↔	<ul style="list-style-type: none"> Operationalize approved FX risk management policy Manage fixed/floating mix in anticipation of rising interest rates Apply hedging policies as approved by the Board Maintain FX position within approved limits Monitor FX and interest rate risk exposures of publicly-listed business units Guide unlisted business units in managing their FX and interest rate risk exposures

INNOVATION AND SYNERGY RISKS ARE EMERGING RISKS, AND ARE CONSIDERED OPPORTUNITIES FOR THE GROUP.

RISK DESCRIPTION	VISION PILLAR	POTENTIAL IMPACT	CURRENT KEY RISKS, ISSUES, OR AREAS OF UNCERTAINTY	RISK EXPOSURE	MANAGEMENT AND MITIGATION
Innovation Risk <ul style="list-style-type: none"> Failure to remain relevant and cope with rapid changes 	<ul style="list-style-type: none"> Reinvention and growth Business leadership 	<ul style="list-style-type: none"> Loss of market share Lower margins Higher cost of operations Limited business viability and weaker brand Disrupted business model 	<ul style="list-style-type: none"> Fast-paced technological advancements Presence of data analytics and cloud services Mobile applications and OTT players Shift in consumer behavior 	Higher by one point from last year ↑	<ul style="list-style-type: none"> Regularly perform disruptive change assessments for subsidiaries and industries Publish annual trends, with sector-specific input from each business unit Run group-wide Innovation Summit
Synergy Risk <ul style="list-style-type: none"> Failure to collaborate towards one vision and complementary goals 	<ul style="list-style-type: none"> Reinvention and growth Geographical expansion 	<ul style="list-style-type: none"> Loss of additional revenue streams Disrupted business processes Higher cost of doing business Weaker brand or reputation Lost opportunities 	<ul style="list-style-type: none"> Strong cross-selling of services and products by competitors 	Same ranking as last year ↔	<ul style="list-style-type: none"> Strengthen group focus to identify possible synergy opportunities Assign a senior director to spearhead analytics on possible synergy activities Include synergy in the agenda of the Innovation Council

ANOTHER GROUP OF RISKS IS CONSIDERED **FUNDAMENTAL RISKS**, WHICH MAY HAVE AN INDIRECT IMPACT ON ALL FIVE VISION PILLARS.

RISK DESCRIPTION	VISION PILLAR	POTENTIAL IMPACT	CURRENT KEY RISKS, ISSUES, OR AREAS OF UNCERTAINTY	RISK EXPOSURE	MANAGEMENT AND MITIGATION
Brand and Reputation <ul style="list-style-type: none"> Inability to maintain Ayala's stature as a company of choice; this risk also occurs when Ayala's reputation is tarnished by various factors 	<ul style="list-style-type: none"> Financial strength Reinvention and growth Geographic expansion Stakeholder empowerment Business leadership 	<ul style="list-style-type: none"> Difficulty in growing Ayala's portfolio Increased cost of capital Fewer top candidates for vacant positions Higher employee attrition rates Difficulty in maximizing value for stakeholders 	<ul style="list-style-type: none"> Sway of social media Increase in internet-based systems and communications Superior products and services of competitors Good governance issues Shift in customer behaviors Campaigns against AC and business units by competitors 	Lower by two points from last year ↓	<ul style="list-style-type: none"> Regularly engage in meaningful discussion with investors and analysts Analyze local and global news and trends Regularly refresh Ayala's branding position Continue to actively identify opportunities/collaboration with partners
Governance and Controls <ul style="list-style-type: none"> Ineffective and inadequate governance and internal controls become prevalent 	<ul style="list-style-type: none"> Financial strength Reinvention and growth Geographic expansion Stakeholder empowerment Business leadership 	<ul style="list-style-type: none"> Penalties and other fines Delayed investment strategy execution Lower profits Eroded brand and reputation 	<ul style="list-style-type: none"> A more complex operating environment New regulations without clear implementing guidelines 	Lower by three points from last year ↓	<ul style="list-style-type: none"> Strengthen implementation of Code of Ethics and Conduct, Anti-Corruption policy, and Whistleblower policy, among others Regularly review internal controls through the Internal Audit Group Ensure that policies and manuals are in place Form Board-level committees to review critical transactions such as RPTs, mergers, and acquisitions, among others.
Talent <ul style="list-style-type: none"> Lack of the right mix of expertise and skills among employees 	<ul style="list-style-type: none"> Financial strength Reinvention and growth Geographic expansion Stakeholder empowerment Business leadership 	<ul style="list-style-type: none"> Prolonged investment strategy execution Waning confidence in brand Difficulty in achieving business objectives 	<ul style="list-style-type: none"> New generation of incoming employees with differing mindsets and needs ASEAN integration Competitors offering superior compensation and benefit package Inadequacy of the academe's curriculum to address the needs of businesses 	Lower by three points from last year ↓	<ul style="list-style-type: none"> Approach talent management comprehensively at all stages Engage employees in continuing opportunities for development Perform annual benchmarking of compensation and benefits Continuously review and update programs for leadership development based on participant feedback, current issues, and future trends Annual discussion of succession planning by senior leaders
Cyber and Information Security (emerging) <ul style="list-style-type: none"> Failure to ensure strong and adequate information security controls that safeguard confidentiality, integrity, and availability of critical information 	<ul style="list-style-type: none"> Financial strength Reinvention and growth Geographic expansion Stakeholder empowerment Business leadership 	<ul style="list-style-type: none"> Higher cost of operations and compliance Eroded brand and reputation 	<ul style="list-style-type: none"> Rise of social networking, mobile, cloud, and analytics Increasing malwares and viruses Threat from Bring Your Own Device practice Increasing cyber attacks 	Higher by two points from last year ↑	<ul style="list-style-type: none"> Strengthen layers of control on both hardware and software assets Perform vulnerability test prior to first use of hardware, software, and web host Establish centralized 24/7 security operation center Constantly improve knowledge of cyber attacks Regularly cascade IT policies and standards across the organization Benchmark with international companies on mitigating cyber risks
Business Resiliency* <ul style="list-style-type: none"> Inability to restore normal operations following natural/man-made disasters as well as failure of business contingency processes and systems 	<ul style="list-style-type: none"> Financial strength Reinvention and growth Geographic expansion Stakeholder empowerment Business leadership 	<ul style="list-style-type: none"> Loss of lives Damage to properties Delayed business recovery Weaker public confidence 	<ul style="list-style-type: none"> Climate change (higher temperature, rising sea levels, flooding, stronger typhoons) Threat of earthquakes (West Valley Fault) Quick spread of pandemic diseases like SARS and Ebola Heightened terrorism activities whether local, regional, or global 	Higher by seven points from last year ↑	<ul style="list-style-type: none"> Establish a business continuity management system that includes an IT Disaster Recovery Plan, a Crisis Management Plan, and a Business Continuity Plan Regularly review adequacy of insurance coverages Run training programs on crisis communication and disaster management, among others Collaborate with subsidiaries and government agencies towards shared resources and mutual assistance such as PDRF

* During our annual risk assessment, we referred to the World Economic Forum's 2016 Global Risks Report highlighted complex uncertainties that require good anticipation by companies. Societal (involuntary migration, pandemic) geopolitical (social unrest, new leaders), and environmental (climate change) are rising to the fore. In addition, Lloyd's City Risk Index (2015-2025) enumerated the top five risks face by 15 Southeast Asian cities as windstorm, market crash, pandemic, earthquake and flood. Analyzing the economic exposure for 18 threats over ten years, Manila is ranked third in terms of potential losses amounting to US\$91.68B.

Our five emerging businesses in power, infrastructure, industrial technologies, healthcare, and education represent Ayala's diversification into sectors critical to national development. These sectors are challenged by gaps in capacity, affordability, and quality. By leveraging our capacity for scale, innovation, and brand equity, we aim to contribute to the transformation of these spaces to reach more Filipinos, provide critical products and services, and improve lives. In this way, we accelerate growth—not only of our businesses, but also and most importantly, our country.

POWER



Through its investments in conventional and renewable energy platforms, AC Energy is contributing to meeting the country's energy requirements by supplying over 1,000MW of power to the national grid. It continues to scale up with a target to double its attributable power generating capacity by 2020, with 1,000MW made up of renewable energy sources.

INFRASTRUCTURE



AC Infrastructure is upgrading the public's commuting experience through its projects. In LRT 1, it has improved passenger experience by increasing capacity by 30 percent. The Muntinlupa-Cavite Expressway is serving an average of nearly 27,000 vehicles daily as of February 2017. Moreover, the Beep ticketing system has facilitated a faster and more efficient ridership experience in Metro Manila's light rail system and is gaining traction as a payment mode in city buses, toll roads, and retail stores reaching 2.8 million users in 2016.

5 STRA

TO ACCELERATE OUR GROWTH

INDUSTRIAL TECHNOLOGIES



AC Industrials is promoting the revival of the Philippine manufacturing industry as a way to remain globally relevant and to generate employment opportunities for Filipinos with greater scale. By leveraging its strengths in electronics and automotive retail, it is seizing opportunities in the global manufacturing industry amid technological trends and shifting customer needs.

HEALTHCARE



AC Health is broadening access to quality and affordable medicine and primary care. FamilyDOC, its innovative chain of retail community clinics, has a growing customer base, with 16,000 unique patients served since it opened in 2015. Generika, the third largest pharmacy chain in the Philippines, is delivering quality and affordable medicines through 674 stores nationwide.

EDUCATION



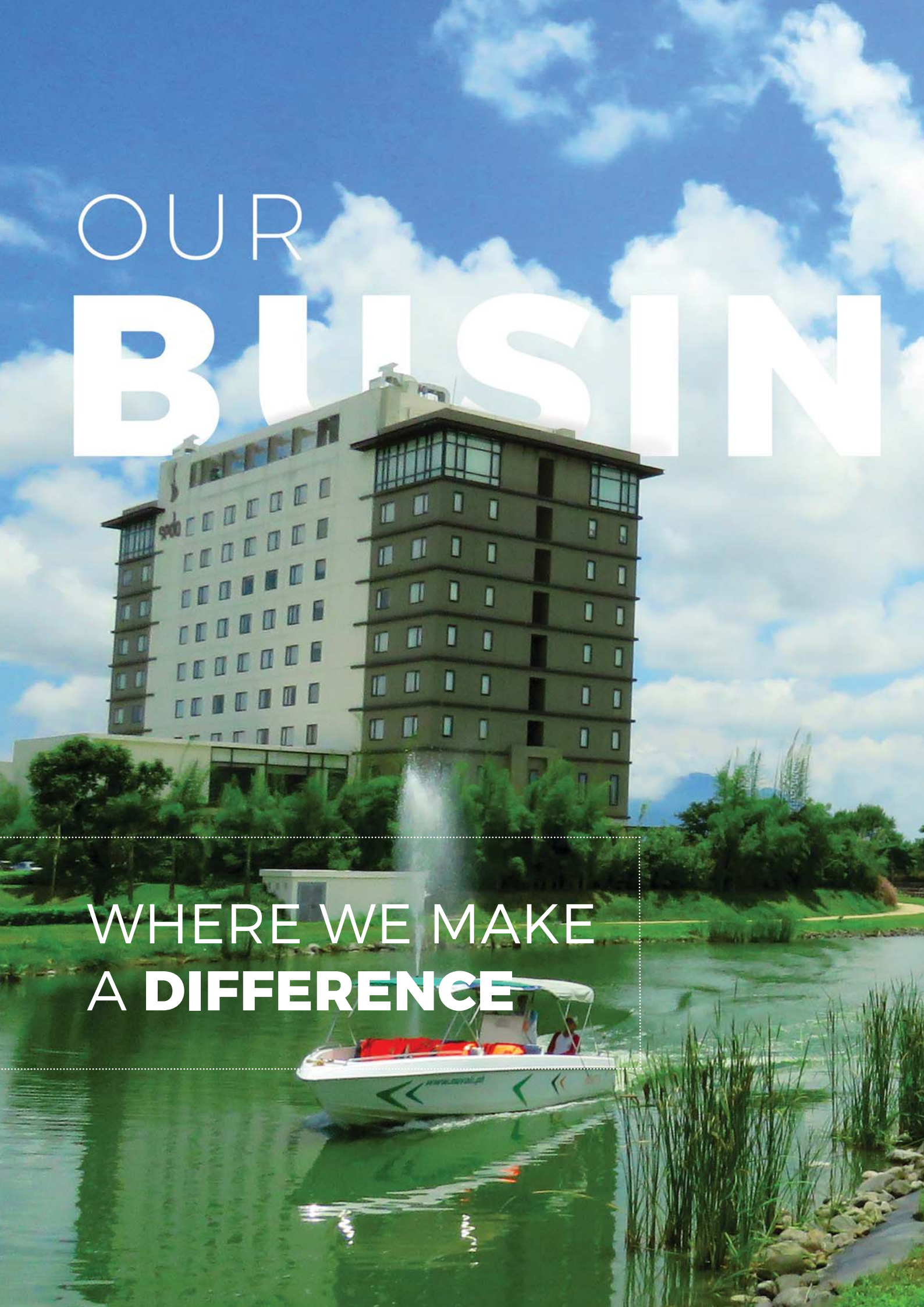
AC Education is delivering quality and affordable education aimed at enhancing the employability of its students. Today, 10,500 students across 27 APEC schools and 7,700 students of the University of Nueva Caceres are benefiting from AC Education's internally developed digital-enabled curriculum. It ensures the high quality of its service through pre- and in-service training programs and mentoring of its teachers.



Since 2015, SLTEC has been powering households and businesses in Luzon.

OUR BUSINESS

WHERE WE MAKE
A **DIFFERENCE**



ESSES



Solenad in Nuvali has become a popular weekend destination for families living in the South.



Ayala Land posted another banner year in 2016, with net income expanding 19 percent to ₱20.9 billion. As it grows its presence across the country, Ayala Land continues to reshape the landscape by developing masterplanned and sustainable mixed-use estates to uplift the quality of life and drive economic progress.

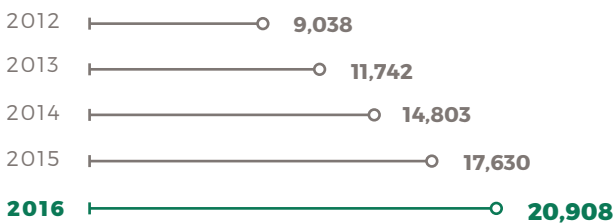
In 2016, Ayala Land launched two new estates: Gatewalk Central in Cebu and Sicogon Estate in Iloilo. A partnership with AboitizLand, the 17.5 hectare Gatewalk Central is Ayala Land’s third mixed-used estate in Metro Cebu. It features office buildings, a range of residential options, family-friendly parks, retail selections, and an Ayala Mall.

In Iloilo, together with Sicogon Development Corporation, Ayala Land launched the Sicogon Island Tourism Estate. This project is expected to drive economic progress in Western Visayas and the entire region as it serves as a tourism hub for surrounding Visayas destinations like Gigantes, Bantayan, and Concepcion

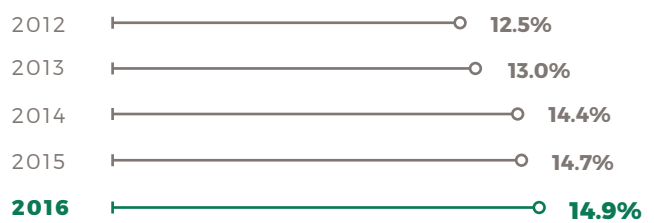
islands. Once fully completed, the 1,100-hectare Sicogon Island will feature a balanced mix of developments such as a resort town center, hotels and resorts, and commercial and residential establishments, supported by an on-site airstrip.

Ayala Land also continues to revitalize established estates. In Makati, it launched the One Ayala project, a new commercial mixed-use development that will transform the entrance of Ayala Center Makati into a modern gateway. It will have an intermodal transport facility designed especially for the commuting public. In Bonifacio Global City, it opened doors to the BGC Arts Center, composed of the Maybank Performing Arts Theater, the Alveo Central Plaza, and the Sunlife Amphitheater. In Vermosa, Ayala Land broke ground in the De La Salle Zobel - Vermosa Campus, while construction of Vermosa Sports and Lifestyle Center’s multiple facilities is ongoing. In Alviara, construction of the Alviara Country Club is in full swing and will be completed by 2018.

NET INCOME (IN MILLION PESOS)



RETURN ON EQUITY (%)





Ayala Land sustained its leadership in property development, while managing fewer project launches. Property development revenues grew by 17 percent to ₱79.2 billion in 2016 mainly driven by higher bookings and the significant completion of various projects. Reservation sales registered at an all time high of ₱108 billion, three percent higher from a year ago.

With the strong consumption driven economy, steady remittances from overseas Filipinos, a thriving BPO sector, and the growing tourism sector, Ayala Land's commercial leasing business continued to post steady growth. Revenues grew eight percent to ₱26.6 billion, with the addition of new malls and office spaces in its key estates and the contribution of its hotels and resorts businesses.

Revenues from shopping centers grew 12 percent to ₱14.97 billion, due to the improved performance of its established malls and the contribution of newer malls. Ayala Land's mall gross leasable area reached 1.62 million square meters at the end of 2016.

Revenues from its offices for lease grew seven percent to ₱5.5 billion from the contribution of newly-opened office spaces. Ayala Land registered a total of 835,742 square meters of GLA with the addition of newly opened offices mainly in Vertis North Tower 1, UP Building, UP Town Center, Ayala Center Cebu, and additional spaces in Bonifacio Stopover in BGC.

Revenues from hotels and resorts registered slightly higher at ₱6.1 billion given its sustained performance as Ayala Land continues to expand its portfolio through the SEDA Hotels and El Nido Resorts brands. Ayala Land recently opened bed and breakfast rooms in Casa Kalaw in Lio, El Nido in Palawan, and Balay Kogon in Sicogon Island Resort, Iloilo, posting a total of 2,027 rooms in operation.

In line with its strategy of developing sustainable estates, it embarked on a plan to reduce the greenhouse gas emissions of its commercial properties, towards becoming carbon neutral by 2022.



HOW AYALA LAND CREATES VALUE

VALUE WE DRAW FROM

Financial

Strong balance sheet

It has a strong balance sheet to support its growth plans and a prudent fiscal policy to maintain the strength of its financial position.

Manufactured

Diversified product lines

Ayala Land has a wide range of products that caters to all markets and segments of the property sector.

Intellectual

Solid track record of building large-scale, integrated, mixed-use estates

Its unique master planning process integrates its product lines to create sustainable and vibrant communities and foster urban development.

Human

Decentralized organization

Its decentralized structure empowers its people and creates the flexibility to execute plans in a fast and efficient manner.

Social and relationship

Highly trusted brand

Ayala Land ensures the quality of its products and services and upholds strict sustainability and corporate governance practices for customers and stakeholders.

Natural

Strategic landbank

Its developable landbank is strategically-located in key growth centers for immediate and long-term development.

KEY STRATEGIES / ACTIVITIES

Estate development

Ayala Land develops large-scale, integrated mixed-use estates that host its property development and commercial leasing products.

Property development

It offers and builds residential, office for sale, and commercial products that address various market segments represented through five brands: Ayala Land Premier, Alveo, Avida, Amaia, and Bellavita.

Construction and property management

Ayala Land develops our projects through its own construction company, Makati Development Corporation, and manages the completed properties through its own property management company, Ayala Property Management Corporation, to ensure quality throughout the entire project life.

Commercial leasing

It develops and operates malls, offices and hotels and resorts across the Philippines represented by Ayala Malls, Ayala Land Offices, branded hotel formats, SEDA hotels, and El Nido, Lio, and Sicogon Resorts.

Other businesses

It holds investments in selected companies that complement its core businesses through Cebu Holdings, Ortigas and Company, Prime Orion Philippines, MCT Bhd, and other ventures in healthcare and retail.



Outlook

Ayala Land looks forward to introducing new projects in 2017 to support its growth targets and sustain its contributions to the local economy. It is also confident that the estates and communities it builds will greatly benefit from the government's 10-point socio-economic agenda.

Factors affecting performance

Strong macroeconomics, favorable demographics, and solid structural tailwinds continue to drive the long-term growth of the Philippine property sector.

2016 PERFORMANCE (OUTPUT-OUTCOME)

TARGET

Financial

Strong balance sheet

- Net Income of ₱20.9 billion, up 19 percent
- ₱108 billion in reservation sales
- ₱127 billion in unbooked revenues
- ₱26.6 billion in leasing revenues
- Raised ₱25 billion in debt with an average cost of borrowing of 4.5 percent to support our ₱85.4 billion capex program
- Net debt to equity ratio of 0.79x

Manufactured

Diversified product lines

- Property development: Completed and turned-over 5,775 residential units to customers
- Malls: completed 173k sqms of GLA for a total of 1.62m sqms of GLA
- Offices: completed 121k sqms of GLA for a total of 836k sqms of GLA
- Resorts: opened 36 rooms for a total of 2,027 rooms in operation

Intellectual

Solid-track record of building large-scale, integrated, mixed-use estates

- Added two more estates in 2016 – Gatewalk Central Cebu and Sicogon Island Resort Iloilo
- Total of 20 estates across the Philippines.
- Additional dedicated walkways in BGC and Makati CBD
- Additional 50,000 sqms of open space

Human

Decentralized organization

- Employs a total workforce of 4,369 direct employees and 54,241 support staff
- Generated 170,000 jobs from developments*
- Provided 104,000 hours of training to all employees
- Achieved an employee engagement score higher than industry standards

Social

Highly-trusted brand

- Sustained market leadership in the residential segment
- One of Channel News Asia's top 100 companies in sustainability
- Included in ROBECOSAM's roster of the world's most sustainable companies
- Recognized as one of the top publicly-listed companies in Corporate Governance in the Philippines by the Institute of Corporate Directors
- Best in IR in the Real Estate Sector in Southeast Asia by IR Magazine

Natural

Strategic landbank

- Total of 9,852 hectares of developable landbank.
- Saved ₱42 million and avoided 1,336.63 tonnes of GHG emissions through energy efficiency initiatives
- Undertook measures to reduce impacts on 34 threatened species in our leisure developments

Financial

It provides consistent growth in shareholder returns and ensures long-term value for investors.

Manufactured

Through its products, Ayala Land provides homes and venues for business and leisure that support the community and catalyze local economic growth.

Intellectual

Through its estates, Ayala Land provides spaces for business and community engagement that are site resilient, pedestrian-friendly, public-transport connected, and eco-efficient, uplifting living standards for Filipinos.

Human

It contributes to local employment, skills development, and career growth.

Social

With sustainable practices and strict corporate governance standards, Ayala Land is able to protect the interest of all its stakeholders and ensure the value of their investment.

Natural

Through its landbank, it protects Philippine biodiversity and ecosystem services.

P40 billion

net income target by 2020 at 20 percent annual growth on the back of a more balanced contribution between its property development and commercial leasing portfolio

To be carbon

neutral from its owned and directly controlled areas by 2022

*Includes 111,300 employees of Ayala Land's locators



Bank of the Philippine Islands posted a record net income of ₱22.1 billion, jumping 20.9 percent from the previous year, on the back of strong revenue growth. The bank's total revenues climbed 12.1 percent to ₱66.55 billion.

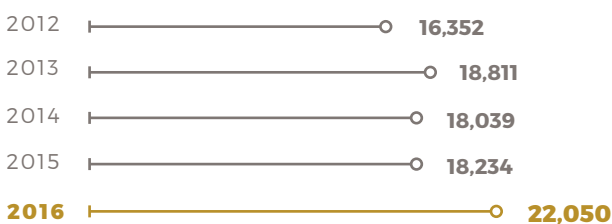
BPI expanded its franchise in step with the growing Philippine economy, with a sharper focus on the fast-evolving financial needs of Filipinos. Net interest income grew 9.7 percent to ₱42.4 billion, largely driven by a 12.7 percent expansion in average assets.

Non-interest income increased 16.7 percent to ₱24.2 billion boosted by the bank's securities portfolio and fees generated from its payments, remittance, insurance, and underwriting businesses. This was lifted by foreign exchange flows and trading profits.

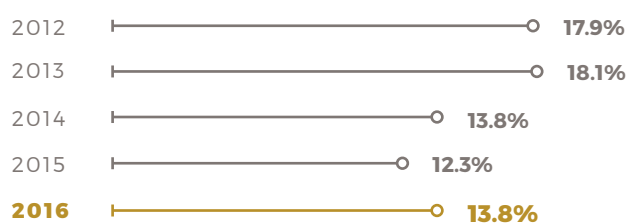
BPI continues to reap the fruits of its investments in its client franchise. Net loans rose 19.2 percent to ₱1 trillion, as corporate customers continued to choose the bank to finance major capital projects, particularly in energy and infrastructure. Total deposits grew 12.2 percent, to ₱1.4 trillion. Loan to deposit ratio increased to 73.7 percent. The bank expanded its client base to 7.9 million and continues to lead the market in using technology to integrate and broaden the reach of its channels, while lowering the unit cost of service.

BPI retained its disciplined approach to risk. Non-performing loans ratio dropped from 1.64 percent to 1.46 percent of total loans. Similarly, the bank increased loan loss provisions by 20.7 percent, to ₱4.8 billion. As a result, reserves now cover the outstanding principal amount of NPLs by 1.19x, while the bank also holds significant levels of collateral against its NPLs.

NET INCOME (IN MILLION PESOS)



RETURN ON EQUITY (%)





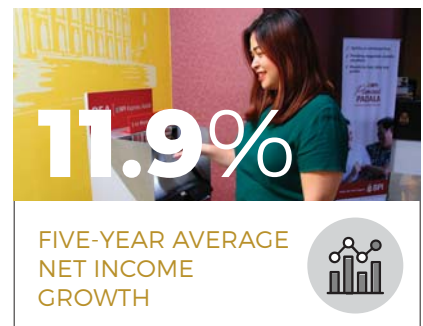
E ISLANDS

BPI also maintained its cost discipline. In 2016, it launched the highly successful Defined Contribution program, allowing employees greater flexibility in accessing and managing retirement savings, while reducing the bank's exposure to potentially volatile liabilities typical of the legacy Defined Benefits program.

Total resources grew 13.8 percent to ₱1.7 trillion, while total capital funds rose 9.8 percent to ₱167.7 billion. The bank's Common Equity Tier 1 and Capital Adequacy ratios stood at 12.1 percent and 13 percent, respectively—well above the Bangko Sentral requirements.

Return on equity stood at 13.8 percent, 1.4 percent higher than the previous year. Return on assets improved to 1.4 percent, from 1.3 percent in 2015. The bank paid cash dividends of ₱1.80 per share or a total of ₱7.1 billion.

BPI continued its leadership in providing critical financial services to Filipinos by reaching out to a wider segment of the population. It consolidated a 100 percent stake in BanKo, its microfinance unit, to improve access for unbanked Filipinos and support this base of underserved clients. The bank also bolstered its presence in microfinance through the acquisition of a minority stake in Rizal Bank, a long-time BPI client that addresses the emerging financial needs of Filipinos in the lower quintiles.



BPI addresses its client's evolving financial needs through traditional and electronic platforms.

HOW **BPI** CREATES **VALUE**

VALUE WE DRAW FROM

Financial

Total deposits: **₱1.43 trillion**
Total loans (net): **₱1.04 trillion**

Manufactured

Branches and kiosks, head offices, business processing, cash centers, ATMs and CAMs, online, phone, and mobile banking

Intellectual

2016 Best Domestic Bank in the Philippines by Finance Asia

2016 Best Bank in the Philippines by The Corporate Treasurer

Human

Employees: **15,201** (includes banking and insurance)

Social and relationship

2016 most recognizable local brand in the Philippines by Campaign Asia (**17th** out of 100 local and international brands in the Philippines; highest ranking in the financial services sector in the Philippines)

Partnerships with suppliers and vendors, regulators, and industry associations

Natural

Electricity consumption:
52.6 million kWh

KEY STRATEGIES/ ACTIVITIES

Building financial wellness

Help individuals, communities, and business grow their funds through innovative programs and accessible investment options

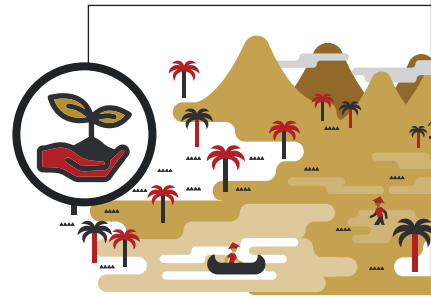
Fostering financial inclusion

Widen reach for underserved segments through customized products and services

Sustainable development financing

Priority financing of projects that have a significant impact on advancing sustainable development of the country

Operations and resource efficiency



Outlook

BPI aims to lead the way towards digitizing the Philippine financial landscape, resulting in improved access by its clients to financial services and focused service and fulfillment.

Factors affecting performance

Macroeconomic performance, new technology, demographic structure, social structure, and natural environment

2016 PERFORMANCE

TARGET



Total number of clients: **7.9 million**
 Average account size for Save Up: **15 percent increase** vs 2015
 Average account size for Jumpstart: **9 percent increase** vs 2015
 Number of investment customers: **5 percent increase** vs 2015
 Customers from Overseas Filipino segment: **21 percent increase** vs 2015

Positioning BPI as a trusted financial advisor



Total number of microfinance clients: **2,300**
 Average account size for Easy Saver: **19 percent increase** vs 2015

Banking the lower income Filipino



Top three industries capitalized: energy, conglomerates, and government (**68.8 percent** of total capitalization)
 Distribution of investments through corporate client loans: **19.1 percent** to provinces; **80.9 percent** to metropolitan areas
 Potential GHG emissions reduction through SEF-financed projects: **120 percent increase** vs 2015 (4,420.3 thousand tonnes CO₂e/year)
 Total loans through agribusiness: **72 percent** vs 2015
 Total disbursed loans through Sustainable Energy Finance: **₱86.3 billion**

Boosting sustainable and equal distribution of development through geographic expansion and prioritizing countryside development



Electricity consumption intensity: **35,316 kWh/branch**
 Distribution of transactions by channel: **12.6 percent** traditional channels; **87.4 percent** electronic channels
 Number of personal clients with Express Online accounts: **33 percent**
 Number of corporate clients with E-link accounts: **29 percent**

Reengineering operations and digitizing the bank to become more efficient and to reduce its environmental footprint



Globe Telecom registered topline growth, with consolidated service revenues at ₱120 billion, six percent higher than the previous year. Strong growth in data-related products across all segments sustained Globe's revenue momentum, complemented by healthy subscriber growth.

Mobile revenues slightly grew at ₱91.9 billion on the back of a continued shift from core voice and SMS to data, with more Globe customers adopting the digital lifestyle. TM, Globe's mass-market brand, and Postpaid revenues increased three percent and one percent revenue growth, respectively. This was partly offset by Globe Prepaid revenues, which posted a year-on-year decline of one percent.

Globe ended 2016 with a mobile subscriber base of 62.8 million, a 12 percent growth driven by record-level prepaid gross acquisitions during the year despite the increased blended churn rates. Mobile data is now the biggest contributor to total mobile revenues, despite

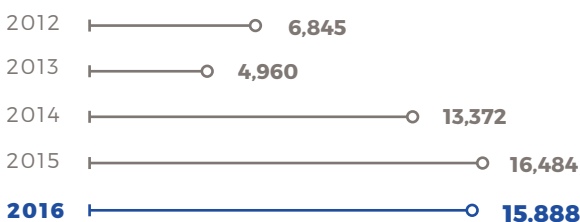
industry aggression in data pricing in the second half of the year. Mobile data service revenues expanded ₱34.6 billion, representing a 25 percent increase from a year ago.

The home broadband business likewise sustained its momentum in 2016, with revenues climbing 28 percent to ₱14.5 billion, with total subscriber base at 1.13 million.

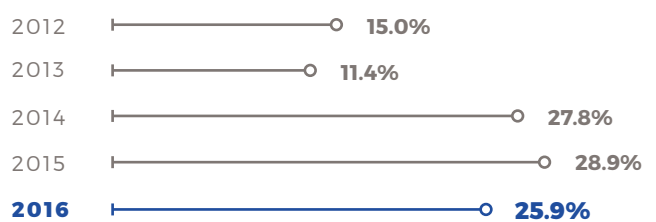
Globe's continued efforts to innovate and create partnerships with global content providers kept it a step ahead of the competition. For content, Globe forged new strategic partnerships with world-class leaders in their respective categories to complement its HOOQ, Disney, and NBA partnerships. These are Netflix, Turner, Sports Illustrated, Astro, Smule, and Tribe.

As part of its commitment to address the demand for constant connectivity, Globe launched GoWiFi, a premium open national WiFi network open to any customer with a WiFi-enabled device. GoWiFi hotspots include the major airports and bus terminals, Manila Metro Rail Transit

NET INCOME (IN MILLION PESOS)



RETURN ON EQUITY (%)





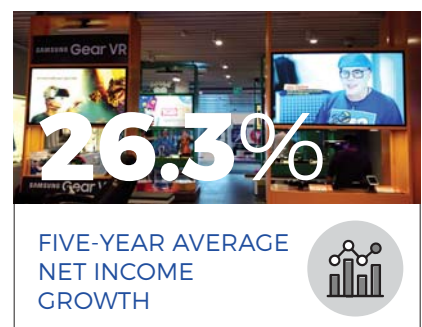
System stations, Ayala Malls, the Starbucks coffeehouse chain, select convenience stores, and fast food chains. Globe is also the country's first telecommunications company to provide free Wi-Fi services in all 20 LRT and all 13 MRT stations along EDSA.

Complementing the growth of the mobile and home broadband segments, Globe's corporate data business likewise improved year-on-year at ₱9.9 billion or 28 percent higher than 2015, as demand for data connectivity continued to surge. Bayan's corporate data revenues contributed to this growth.

Globe posted another record-level consolidated EBITDA, ending the year with close to ₱50 billion, up nine percent from a year ago. EBITDA margin was at 42 percent, higher than the previous year's margin of 40 percent.

Despite EBITDA growth, the increase in non-operating expenses, as well as higher depreciation expenses recognized during the year led to a four percent decline in Globe's net income to ₱15.9 billion. This was a result of the increase in non-operating expenses, including ₱1.1 billion of costs related to the acquisition of Vega Telecom, including Globe's share in net losses of joint venture, spectrum amortization, and interest expenses related to the additional debt incurred from the transaction.

Following the acquisition of Vega Telecom's telecommunications assets, Globe began the deployment of LTE sites using the 700MHz band, allowing it to hit its target of deploying 500 LTE sites in this band. It plans to deploy more LTE sites in 2017 using the additional spectrum assets to further accelerate its network build and stay ahead of growing demand. Globe also plans to deploy fiber optics that will provide ultra-fast internet access to around two million homes nationwide in 20,000 barangays by 2020. Deployment of fiber broadband technology was completed in selected areas of Metro Manila, North and South Luzon, Cebu, and Davao.



HOW **GLOBE** CREATES **VALUE**

VALUE WE DRAW FROM

Financial

Total cash capital expenditures: **₱36.7 billion** (approximately US\$772 million)

₱120 billion consolidated service revenue (up six percent from 2015)

₱50 billion EBITDA (up nine percent from 2015), **₱16 billion** Core NIAT (up six percent from 2015)

Manufactured

Base stations: **32,846**

Intellectual

The Globe brand
Market research results

Human

7,180 regular employees

Social and relationship

Singapore Telecommunications
Bridge Alliance
Content providers
Global carriers
Data technology providers

Natural

Radio spectrum
Bandwidth
Electricity

KEY STRATEGIES/ ACTIVITIES

1 Digital nation

2 Care for the environment

3 Care for people

4 Positive societal impact



Outlook

Globe Telecom has risen to become the country's leading mobile brand, driving highly customer-centric value with a keen focus on enriching Filipino lives in the digital age. True to its nature of innovation and going beyond achieving business success, Globe sought and found a purpose larger than itself to serve customers more meaningfully. Its new purpose is expected to further enhance its Circle of Happiness philosophy: that happy and engaged employees deliver wonderful customer experiences and strong business growth for happy shareholders. As a purpose-led organization, Globe is poised to create wonderful, positive, and sustainable impact on society.

Factors affecting performance

Availability of technology, spectrum regulation, population growth, and consumer changing behavior and demands

2016 PERFORMANCE (OUTPUT-OUTCOME)

TARGET



- a. **32,846** base stations
- b. **₱36.7 billion** (approximately **US\$772 million**) spent in 2016 for network expansion and enhancement
 - 500 700MHz cell sites
 - 1200 2600MHz cell sites
 - 264,000 high speed fixed lines
- c. Free high speed WiFi access in **500** public areas nationwide:
 - Airports
 - Bus terminals
 - Ayala Malls
 - Starbucks chain
- d. **361 Petabytes** mobile data traffic
- e. **165 million** spam/scam messages blocked
- f. **65.17 million** Globe customers
 - 2.49 million postpaid
 - 60.31 million prepaid
 - 1.13 million home broadband (fixed wireless; wired)
 - 1.24 million fixed line voice
- g. **22 percent** net promoters score

Building a digital nation by 2020

Leadership on digital transformation and digital technologies

- a. **1,294.55 tonnes CO₂** reduced since 2014 from 1,833 sites with green solutions
- b. **141,833.69 kg** of e-waste recycled (up 14 percent from 2015)
- c. **2,575,918** customers on paperless billing (up 47 percent from 2015)
- d. Approximately **500,000** seedlings planted since 2010

- a. **7,180** regular employees: 53 percent male and 47 percent female
- b. **91 percent** (net of retention score) engagement score
- c. **3,222** unique volunteers
- d. Average of **24.61 training hours** per headcount
- e. **0** fatality rate or manhours lost

- a. **80** public schools with Global Filipino Schools program
- b. **4,962** students trained on Digital Thumbprint Program
- c. Employment opportunities for **1,559** DSWD beneficiaries in six regions
- d. **5,809** health-related consultations through KonsultaMD (up 508 percent from 2015)
- e. **US\$55 million** invested in 28 start-up businesses through Kickstart
- f. **₱4.62 billion** monthly transactions in Mynt
- g. **₱35,810 million** spending for local suppliers



Manila Water posted a consolidated net income of ₱6.1 billion in 2016, up two percent from a year ago driven by the continued expansion in the Manila Concession, as well as higher contributions from businesses outside Metro Manila.

Billed volume in the Manila Concession reached a record high of 478.9 million cubic meters, a four percent improvement from the previous year, boosted by the expansion areas of Marikina, Pasig, Rizal, and Taguig.

Outside the Manila Concession, Manila Water’s new businesses are increasingly gaining traction. Manila Water Philippine Ventures, its vehicle for domestic expansion, reached net earnings of ₱570 million, a 96 percent jump from the previous year. This was mainly driven by the steady growth in the Laguna, Boracay, and Clark operations, as well as the successful market entry of

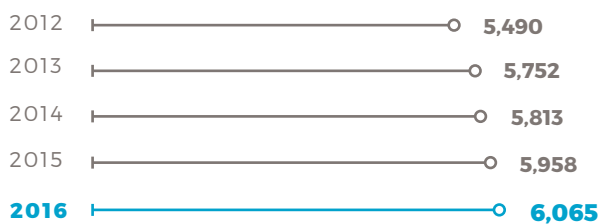
Estate Water. Estate Water achieved a net income of ₱217 million in its first year of operations.

Estate Water posted a billed volume of 2.1 mcm after it took over 47 brownfield Ayala Land developments in 2016. For greenfield developments, Estate Water spent ₱500 million in capital expenditures, mostly for the development of water and used water networks in the new estates being developed by Ayala Land.

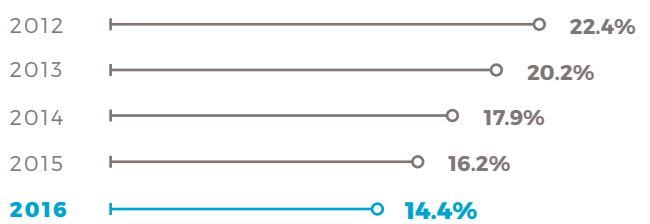
Overseas, Manila Water Asia Pacific, comprising Thu Duc Water, Kenh Dong Water, and Saigon Water, which are all located in Vietnam, contributed a total of ₱278 million in net income.

Earnings contribution from Manila Water’s vertical expansion initiatives under Manila Water Total Solutions nearly tripled to ₱110 million as its provision of technical and network services gained traction during the year.

NET INCOME (IN MILLION PESOS)



RETURN ON EQUITY (%)





Altogether, net income from Manila Water’s non-Manila Concession businesses accounted for 17 percent of Manila Water’s net income in 2016.

Last year, Manila Water won a 25-year concession to develop and operate the water supply system in Calasiao, Pangasinan. Further, it won another 25-year concession to rehabilitate, operate, and manage the water supply system, and provide water sanitation services in Obando, Bulacan. In addition to this, it signed an agreement with the SM group to provide water and used water services under Estate Water, initially covering its horizontal real estate projects.

Overall, it was a year of transformation for Manila Water as it deepened its efforts to diversify not just geographically but by introducing new business models, products, and services.

In 2015, Manila Water announced its aspiration of doubling its net income and generating 50 percent contribution from new businesses by 2020. With all the developments in 2016 coupled with the continuing business development initiatives across the enterprise, Manila Water is tracking well against this trajectory.



Manila Water’s Integrated Usedwater Solutions provides critical used water management services, which likewise contribute to its environmental sustainability goals.

HOW MANILA WATER CREATES VALUE

VALUE WE DRAW FROM

Financial

Total assets: **₱85.5 billion**
 Cash and cash equivalents: **₱4.07 billion**
 Capex disbursed: **₱8.71 billion**

Manufactured (including Vietnam operations)

5 dams and impounding reservoirs
16 water treatment facilities
6,241 water distribution network
479 km sewer network
53 used water treatment facilities

Human

Employees: **1,753**

Natural (including Vietnam operations)

Umiray-Angat-Ipo-La Mesa Water Resource System (Metro Manila)
 Aquifers of Central Luzon (Clark)
 Aquifers west of Laguna Lake (Laguna)
 Matang Tubig Spring (Laguna)
 Nabaoy River in Malay, Aklan (Boracay)
 Luyang River (Cebu)
 Hijo River (Tagum)
 Dong Nai River and Sai Gon River (Ho Chi Minh)

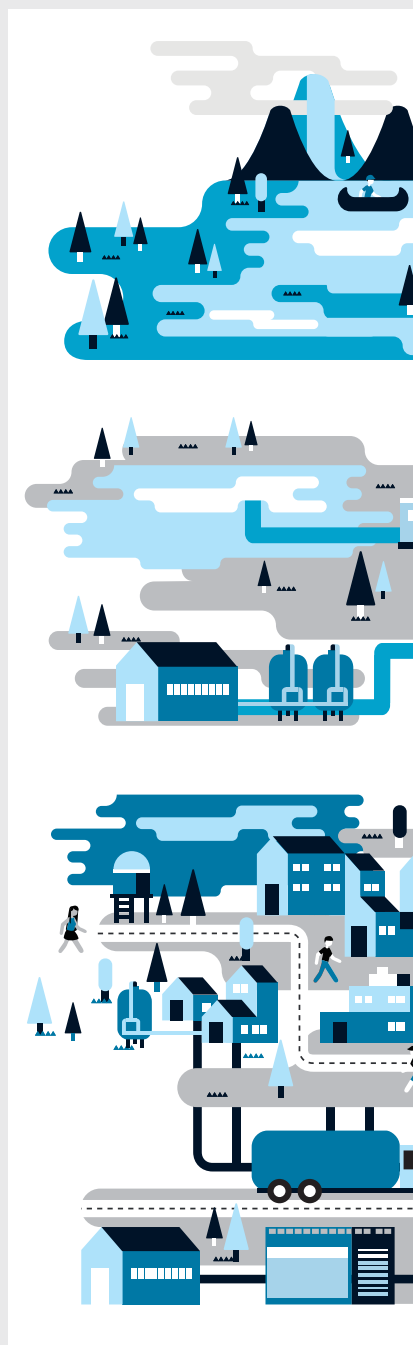
KEY STRATEGIES/ ACTIVITIES

1 Water sources management and development

2 Raw water transmission and bulk water treatment

3 Water distribution, non-revenue water reduction, purified water, and pipelaying services

4 Used water collection and treatment



Outlook

Manila Water looks at the medium term as a period of growth. By 2020, its goal is to become an enterprise earning twice as much as it did in 2015. It aims to achieve this by keeping the Manila Concession steady, while aggressively growing new businesses to contribute as much as 50 percent of consolidated net income by 2020. From being a monolith organization, Manila Water aspires to be a more expansive, diverse, multi-national, and multi-service water company.

Factors affecting performance

Business continuity, investment plan execution, raw water availability and quality, new business development and operations, talent management, public private partnership agreements, and other contracts with local governments and private sector partners, regulatory compliance, and organizational enhancement

2016 PERFORMANCE (OUTPUT-OUTCOME)

TARGET



Enrichment planting in La Mesa Watershed: **262 ha**

Tree nurturing in Ipo Watershed: **5.8 ha**

Completion of the Laguna Wellfield Project

No raw water shortages reported for all operating units

Completion and 'first water' for the 35 MLD bulk water supply for northern and central portions of Cebu City

6.6 million customers in the Manila Concession

Water Service connections: **1,008,918** (Manila Concession), **6,501** (Boracay Water), **1,994** (Clark Water), **128,734** (Laguna Water)

Enterprise billed volume: **719.2 million cu.m** (including Vietnam operations)

10.8 percent NRW in Manila Concession, 4.6 percent in Clark, 19.9 percent in Laguna, 12.6 percent in Boracay (2016)

3.54 percent NRW reduction in Zamboanga, 54 percent to 14 percent in Yangon, Myanmar, 59 percent to 23 percent in Bandung, Indonesia

Take-over by Estate Water of **44** water supply systems of brownfield projects of Ayala Land

Enterprise used water treated: **51.52 million cu.m**

Organic pollutants removed as Biochemical Oxygen Demand: **9,003 tonnes**

Sewer connections as of 2016: **133,327** (Manila Concession); **1,990** (Clark Water); **176** (Laguna Water); **1,001** (Boracay Water)

Completion of Marikina North STP (100 MLD) and Taguig North STP (75 MLD)

Completion of Manoc Manoc STP (5 MLD) in Boracay

Manila Water Total Solutions installed seven used water treatment plants in 2015-2016 for clients

Take-over by Estate Water of seven used water systems of brownfield projects of Ayala Land

Enrichment planting in 1,400 ha in La Mesa Watershed from 2017-2021

Tree nurturing in 5 ha in Ipo Watershed in 2017

Meet raw water requirements corresponding to customer demand

Completion of the Rizal Province Water Supply Improvement Project (50 MLD expandable to 100 MLD water treatment plant) that will source water from Laguna Lake by 2017

Completion of a 38 MLD bulk water treatment plant in Tagum City to serve 19 barangays in 2021

96 percent water supply coverage of Manila Concession area by 2022; 99 percent by 2037

Non-Revenue Water targets:

Manila Concession: **12 percent**

Clark Water: **10 percent**

Boracay Water: **8 percent**

Laguna Water: **12 percent**

100 percent used water coverage by end of Manila Concession in 2037

100 percent used water coverage in Clark Freeport Zone in 2017; expansion of Clark Used Water Treatment Plant by 2021

Completion of Yapak STP by 2020

Completion of Pasig North and South STP (100 MLD) by 2018



In 2016, AC Energy exceeded its target of achieving 1,000MW in attributable capacity across its conventional and renewable energy platforms. It posted a net income of ₱2.7 billion in 2016, climbing 25 percent from a year ago. Gains were derived from enhancing the efficiencies of its five operating plants, which saw marked improvements in availability across the board.

AC Energy's GNPower portfolio continues to add to the company's market footprint. The GNPower Mariveles power plant recently reported an increase in its generation capacity from 604MW to 632MW. GNPower Kauswagan achieved financial close for the fourth unit of its 4 x 138MW net capacity thermal power plant. By operating as a baseload plant to support the increasing power demand in Mindanao, GNPK will contribute to the economic development of the region. Similarly, the 668MW GNPower Dinginin project in which AC Energy has a 50 percent economic stake, successfully secured debt

financing during the year. The construction of both plants is in full swing.

Furthermore, AC Energy acquired an additional 17.79 percent stake in NorthWind Power in 2016. This increased AC Energy's effective ownership interest from 50 percent to 67.8 percent. NorthWind Power, which developed the country's first commercial wind farm, owns and operates the 52MW Bangui wind project in Bangui, Ilocos Norte.

AC Energy realized value during the year with the sale of a portion of its ownership stake in South Luzon Thermal to Marubeni Corporation's subsidiary, Axia Power. The sale brought PHINMA Energy's ownership in SLTEC to 45 percent, and AC Energy's to 35 percent. The Marubeni group has extensive experience in thermal power, which would further strengthen the joint venture.

The sale also allows AC Energy to reinvest more aggressively in new projects as it aims to double its portfolio to 2,000MW by 2020. More importantly, AC Energy



AC Energy's power facilities are managed by highly-skilled professionals.



is targeting to ramp up its renewable energy portfolio to 1,000MW by 2020.

AC Energy has started to establish a footprint overseas. Through a consortium, AC Energy capped the year with the acquisition of Chevron Geothermal's assets and operations in Indonesia and the Philippines. In Indonesia, Chevron subsidiaries operate the Darajat and Salak geothermal fields in West Java, with a combined capacity of 235MW equivalent of steam and 402MW of electricity. In the Philippines, Chevron subsidiaries have a 40 percent equity interest in the Philippine Geothermal Production Company, which operates the Tiwi and Makban geothermal field in Southern Luzon and supplies steam to power plants with a combined name plate capacity of around 700MW.

In addition, AC Energy invested in the development of a 75MW wind farm in Sidrap, South Sulawesi, Indonesia. The Sidrap project is targeted for completion by the end of 2017, and will be the first utility-scale wind farm project in Indonesia. The Sidrap project is the first greenfield offshore investment of AC Energy, through its affiliate, AC Energy International Holdings, a Singapore private limited company. With these developments, AC Energy tripled its renewables portfolio to over 260MW.

AC Energy also secured its Retail Electricity Supplier license, allowing it to become an active participant in retail electricity.



SLTEC recorded over one million safe manhours in 2016.

HOW AC ENERGY CREATES VALUE

VALUE WE DRAW FROM

Financial

Capital allocation from Ayala: **₱3.7 billion**

Manufactured

Seven power plants at approximately
1000MW attributable generation capacity

Intellectual

Technologies for power plant efficiency

Human

Direct employees: **450**

Social and relationship

Fenceline communities
Government regulators

Natural

Wind and solar energy
Coal: **17.3 million GJ**
Water: **223.5 million cu.m**

KEY STRATEGIES / ACTIVITIES

1 For brownfield: acquisition of plants (Operational or under construction)

Due diligence and permitting
Partner negotiations and closing

For greenfield or new projects (Pre-development)

Due diligence and permitting

2 Development and construction

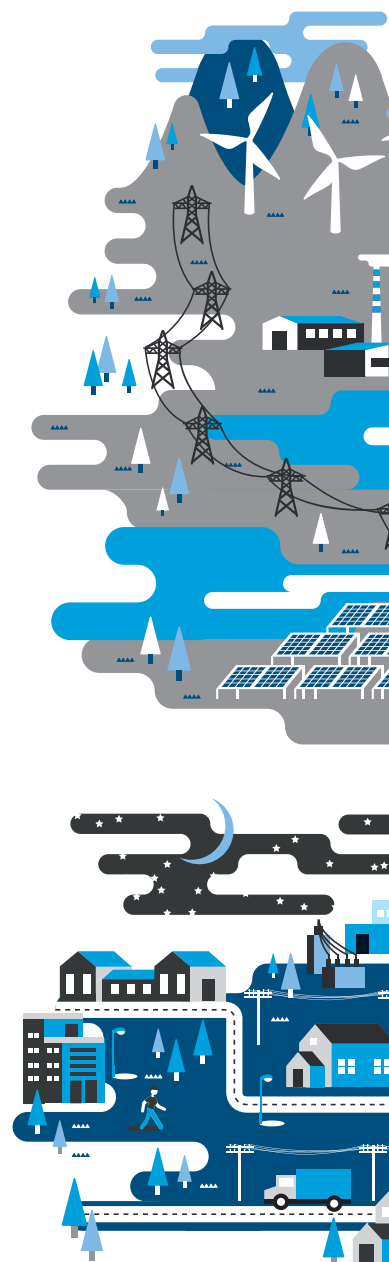
Supplier
Partnership with community

3 Commercial operations

Power generation
Transmission to National
Grid Corporation of the
Philippines
Retail electricity

4 Expansion

Determine viable energy mix
Explore expansion of
renewable energy platforms



Outlook

AC Energy will focus on enhancing efficiencies of its operating plants, as well as expand its existing platforms. It will also seek out acquisitions and develop greenfield projects, both in the Philippines and select Southeast Asian markets. It will do so in a responsible manner by balancing an energy mix with disproportionate new investments in renewable energy

Factors affecting performance

Supply and demand, energy mix policy, cost of each energy generating type, competitive dynamics, supply chain, and transmission constraints

2016 PERFORMANCE

TARGET

Operational and under construction power plants have **1,095MW** attributable net capacity.

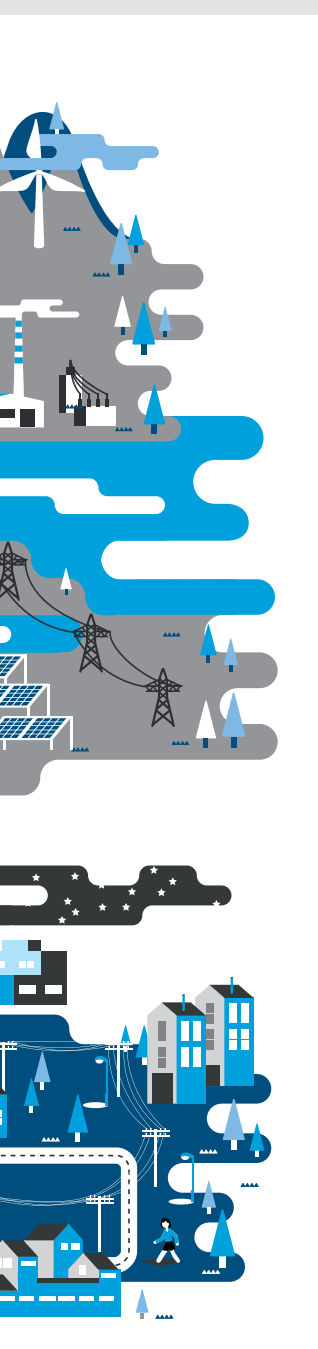
- Operational power plants contribute **81MW** from renewable energy, and **211MW** from conventional power plants.
- Power plants under construction will contribute **803MW** of conventional power.

In addition, **182MW** of renewable energy were acquired in 2016 and will be operational by 2017/2018.

Attain **1,000MW** of attributable capacity from renewable sources by 2020

6,180 GWh energy was generated from both conventional and renewable power plants resulting in **₱4 billion** revenue, and **₱2.7 billion** net income.

Total direct emissions of **1,643 kilotonnes CO₂e** were emitted from using conventional power. However, **164 kilotonnes** of emissions were avoided by generating renewable energy.





AC Infrastructure’s projects in operation gained momentum in 2016. AC Infra’s payment solutions platform, Beep, focused on increasing card usage and acceptance in other transport modes in 2016. By year-end, there were 2.8 million Beep cards in circulation. It is increasingly gaining traction as a payment mode in city buses, toll roads, and retail stores. To ensure convenience for card holders, more than 280 top up stations were activated in strategic locations around the metro. Beep also sealed its first partnership in the retail sector with the FamilyMart chain of convenience stores. All of its 80 branches in Metro Manila were rendered Beep capable for purchase and reloading.

During the first full year of operations of the Muntinlupa-Cavite Expressway, traffic ramped up consistently from a monthly average of 21,179 vehicles in January to 28,891 vehicles by December. This exceeded MCX’s first full year average daily traffic forecast of around 24,000 vehicles. As a result, revenues in 2016 hit ₱154 million, while EBITDA reached ₱50 million.

Since taking over LRT 1 15 months ago, Light Rail Manila Corporation has increased available Light Rail Vehicles by 30 percent to 100 LRVs to serve more than 450,000 daily commuters. In December 2016, average daily ridership breached the 500,000 mark multiple times. LRMC also began to replace the dilapidated 32-year old rails, with 45 percent completed by the end of the year.

The full repair and replacement of rails is expected to be completed in 2017. These improvements are expected to increase the speed of the system from 40 kph to 60 kph, which will significantly reduce passenger waiting time.

Station improvements are likewise underway to provide passengers a more comfortable riding experience. In February 2017, LRMC inaugurated the first completed station improvement project at Doroteo Jose—a critical station in the rail network, as it is where LRT 1 connects to LRT 2. All station refurbishment works are expected to be complete in 2017. To date, LRMC has invested more than ₱1.5 billion to upgrade the system.

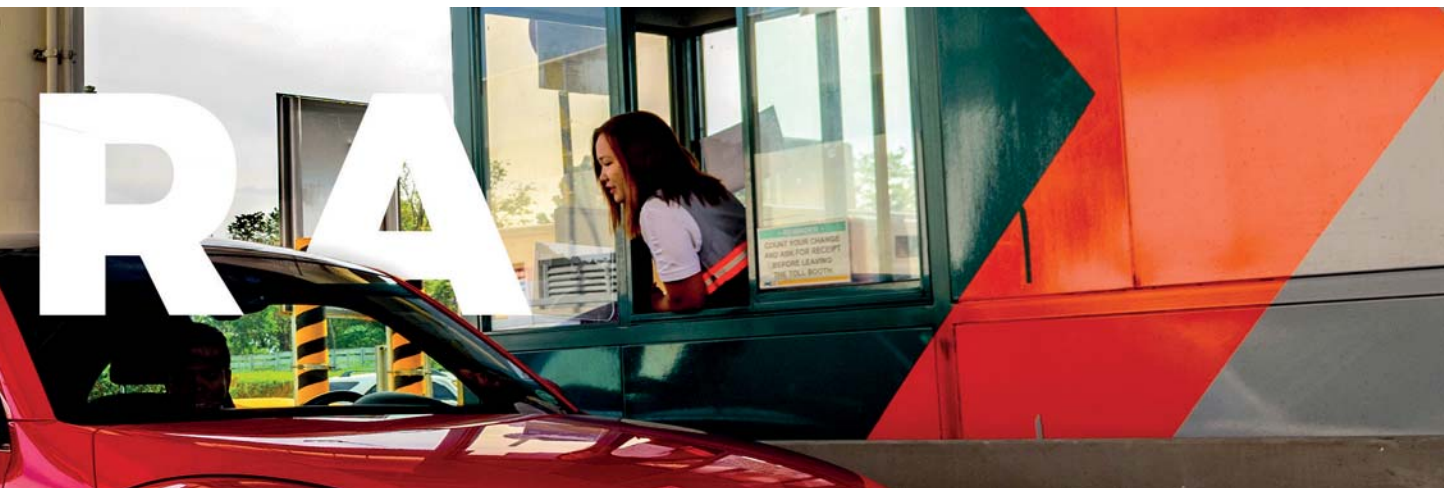
LRMC plans to undertake preconstruction works to prepare for the extension of the rail line to Cavite. LRMC had secured the financing and the engineering, procurement and construction contract for the Cavite extension as early as March 2016, and should be ready to begin construction soon after the right of way is delivered.

An agreement has likewise been signed by various stakeholders involved in the development of a common station that will serve as a transfer point for passengers using LRT 1, MRT 3, and MRT 7.

With these developments, AC Infra posted a net income of ₱50 million in 2016, a turnaround from the previous year. AC Infra plans to build on its current portfolio and continues to be on the lookout for opportunities to develop infrastructure-related businesses.



The Beep has 2.8 million users across all light rail lines, select buses, and is accepted as a payment platform in all 80 FamilyMart stores.



Outlook

Transporting people and goods present challenges for the existing infrastructure of our country. AC Infrastructure aspires to drive mobility and connectivity by contributing to the Philippines' infrastructure needs.

Factors affecting performance

Uncertain time frame for PPP process in the Philippines, construction and completion risk, right of way issues, operating risks, demand risk, force majeure and change in laws, and social risk

VALUE WE DRAW FROM	KEY STRATEGIES/ ACTIVITIES	2016 PERFORMANCE	TARGETS
<p>Financial</p> <p>Capex: ₱0.3 billion</p>	<p>1 Project development</p> <p>Due diligence Partners identification Business model development</p> <p>2 Construction / rehabilitation</p> <p>3 Operation and maintenance</p> <p>Operation of MCX, a 4-km toll road</p> <p>Operations and maintenance of the existing LRT 1</p> <p>Improvement of procurement system</p>	<p>No new projects in 2016</p> <p>Station improvement of LRT 1, LRVs increase by 30 percent (from 77 to 100)</p> <p>MCX serves an average of 24,000 vehicles a day in 2016</p> <p>Cut travel time by an average of 30 minutes</p> <p>Saves approximately ₱219 million of fuel</p> <p>Saves approximately 889,000 manhours (₱139 million)</p> <p>Increased train punctuality: By December 2016: 99.39 percent</p> <p>Increased passenger accommodation: January 1 to December 31 2016: 148 million passengers</p> <p>Purchase order served: from 19 percent in June 2016 to 78 percent in December 2016</p> <p>Purchase order delivered: from one percent in June 2016 to 58 percent in December 2016</p>	<p>Identify and develop projects (both regulated and unregulated)</p>
<p>Manufactured</p> <p>Light rail vehicles Existing stations and rails Toll plazas</p>			
<p>Human</p> <p>1,492 employees</p>			
<p>Social and relationship</p> <p>Joint venture partners: MPIC, PINAI Fund, Ayala companies</p> <p>Partnerships with: EPC contractors, banks, government, LGU regulators, subcontractors for toll collection and road maintenance, consultancy firms, host communities, public ridership/motorists</p>			



AC Industrials is Ayala’s newest subsidiary, housing its existing and future assets in industrial technology. Disruptions taking place across several sectors – highlighted by automotive – have opened several avenues for Ayala to build its industrial arm. AC Industrials plans to capitalize on these opportunities by entering new businesses, fostering synergies with Ayala companies, and building on the strengths of its existing business units – Integrated Micro-Electronics and AC Automotive.

The combined abilities of our manufacturing and distribution groups will allow AC Industrials to scale its presence in the automotive value chain while also offering more comprehensive partnership opportunities for global brands. We believe that this emerging business model can be applied not just to automotive, but also eventually to other sectors where similar opportunities exist for disruption and targeted entry.

INTEGRATED MICRO-ELECTRONICS, INC.

Despite the challenging global environment, IMI posted topline, year-on-year growth of four percent to US\$843 million (₱40 billion) in 2016, lifted by its Europe and Mexico operations as well as new subsidiary VIA Optronics. Net income, however, fell two percent from its year-ago level to US\$28.1 million (₱1.3 billion), owing to transaction and financing costs related to strategic acquisitions and foreign exchange headwinds from the Chinese Renminbi.

IMI has over time built up its presence in the automotive and industrial segments, both of which are undergoing disruption. This has created opportunities for IMI’s further growth and expansion. IMI’s automotive business rose 10 percent in 2016, and now accounts for 45 percent of total global revenues. Its growing capabilities in developing and manufacturing advanced driver assistance systems (ADAS), sensors, and steering systems allow it to take advantage of disruptive trends and significantly impact the business. Produced by IMI



AC Industrials will leverage IMI’s unique portfolio of capabilities and AC Automotive’s extensive distributorship network.



for greater safety, ADAS accounts for 15 percent of its total automotive revenues. Meanwhile, IMI's industrial segments posted double-digit growth at 19 percent, primarily driven by industrial sensing and safety solutions, outdoor luminaires, network power, and access controls.

In September 2016, IMI completed the acquisition of Germany-based VIA Optronics, a leading provider of optical bonding display solutions. VIA adds several key elements to IMI's current offerings for ADAS and mirror replacement systems, allowing for a fuller package of solutions for its customers.

Looking ahead, IMI continues to maintain its leadership as a global manufacturer. It now ranks as the sixth largest automotive EMS provider and 21st-largest EMS company in the world. It continues to expand its footprint in higher complex offerings such as box-build, while making disciplined investments to fund its growth initiatives. Last year, IMI spent US\$52.2 million in capital expenditures to build more complex and higher value-add manufacturing capabilities and growth platforms.

AC AUTOMOTIVE

The Philippine automotive industry continued its upward trajectory, as sales exceeded 400,000 units for the first time. It generated total sales of 402,463 units, 25 percent higher than a year ago. This was driven by demand for midsize SUVs, subcompact sedans, multipurpose vehicles, SUVs, and mini personal cars.

AC Automotive, AC Industrials' distributorship and dealership group, recorded a net income of ₱493 million in 2016. This fivefold surge was driven by higher returns from Isuzu and Honda, reflective of market growth and the increasing presence of key models.

Isuzu Philippines posted a 21 percent growth in vehicle sales, driven by demand for its commercial trucks and the MU-X, which continues to hold its ground amid an all-new array of competitors. Its Isuzu dealerships, led by Pasig, increased its collective share of sales.

Honda Cars Philippines reported unit sales growth of 20 percent on the back of sustained demand for the Laguna-manufactured City subcompact sedan and the Mobilio subcompact MPV. In 2016, Honda introduced the seven-seater BR-V in line with its thrust to align with the market's fastest-growing segments. Ayala's dealerships retained its leadership across the network.

Volkswagen Philippines was the country's best-selling European marque, with sales growing more than 75 percent amid the introduction of new, more competitive models. It also garnered 14 industry awards for its various models and corporate citizenship efforts.

Finally, KTM Philippines, a strategic partnership with Europe's largest motorcycle manufacturer, also began operations last year. The factory, set to serve domestic and export demand, started production in the first quarter of 2017. Ayala also relaunched the KTM brand locally in September 2016, taking charge of 17 existing dealerships and opening its first flagship store in Bonifacio Global City.

HOW IMI CREATES VALUE

Outlook

IMI is well-positioned to participate in the evolving trends and opportunities in technology and automation. New innovations such as next generation mobile networks, advanced sensors, the Internet of Things, the Connected Home ecosystems, assisted driving and driverless cars, among others, will inevitably feature IMI's expertise as products develop.

The demand for high-tech products will increase as the middle class in Asia will reach three billion by 2030 and account for 80 percent of the global middle class. Growing aging populations in developed countries present new opportunities for telemedicine and medical electronics.

Urbanization will usher in a growth of smart cities and smart homes that will use more than 1.6 billion connected devices in 2018.

Factors affecting performance

Foreign market performance particularly in China and Europe, demand for devices such as automotive cameras, security, and access control devices, and innovations in process design and development and manufacturing

VALUE WE DRAW FROM	KEY STRATEGIES/ACTIVITIES	2016 PERFORMANCE	TARGETS
<p>Financial</p> <p>Capital/Equity: US\$180.8 million Borrowing: US\$180.7million</p>		Revenue: US\$842,966,424	Enter into other non-traditional segments such as aerospace, defense, and medical
<p>Manufactured</p> <p>Assets: US\$635.9 million Manufacturing plants in Europe, North America, Asia Pacific: 14 Surface Mount Technology lines: 118 Information and Communication Systems Capex: US\$52.2 million</p>	<p>1 Design and engineering</p> <p>Core focus on Advanced Driver Assistance Systems</p> <p>Simultaneous engineering with customers</p>		Invest more in research and development, software, new technologies, new materials, and systems
<p>Intellectual</p> <p>Capabilities in automotive, industrial, telecommunications, medical, consumer, etc.</p> <p>Research and development Geographic presence in: US, China, Bulgaria, and the Philippines</p> <p>Technical personnel in engineering oriented services: 195</p>	<p>2 Materials management</p> <p>Greening the supply chain</p> <p>Adherence to conflict-free sourcing initiative</p> <p>Hazardous substance process management</p>		Increase non-electronics manufacturing services like automotive plastics, display monitors, and motorcycle assembly and manufacturing
<p>Human</p> <p>Global employees: 14,146* Competency-based trainings: 161</p>	<p>3 Manufacturing</p> <p>Industrial excellence</p> <p>Lean manufacturing</p> <p>IMI's business excellence program</p> <p>Green manufacturing</p>	<p>Philippine data:</p> <p>Energy savings: 389,109kWh</p> <p>Industrial water savings: 7.27 percent</p>	
<p>Social and relationship</p> <p>Key customers: 16 Regulatory agencies Suppliers Industry associations Academe</p>	<p>4 Order fulfilment and other services</p> <p>Employee training through IMI University</p> <p>Community development</p> <p>Academe and international funding institutions engagement</p>	<p>Auto camera: 1.96 million units</p> <p>Security or access control devices: 2.2 million units</p> <p>Dosimeters: 172,000 units</p> <p>Audited six local suppliers on sustainability</p>	Explore new business models (partnerships with OEM's, JVs with Tier 1 suppliers)
<p>Natural (Philippine data)</p> <p>Fuel: ~910,400 liters Electricity: 50.4 million kWh Water: ~823,300 cu.m</p>			Capital expenditures in 2017: US\$51.5 million

*Does not include headcount from Via Optronics

HOW AC AUTOMOTIVE CREATES VALUE

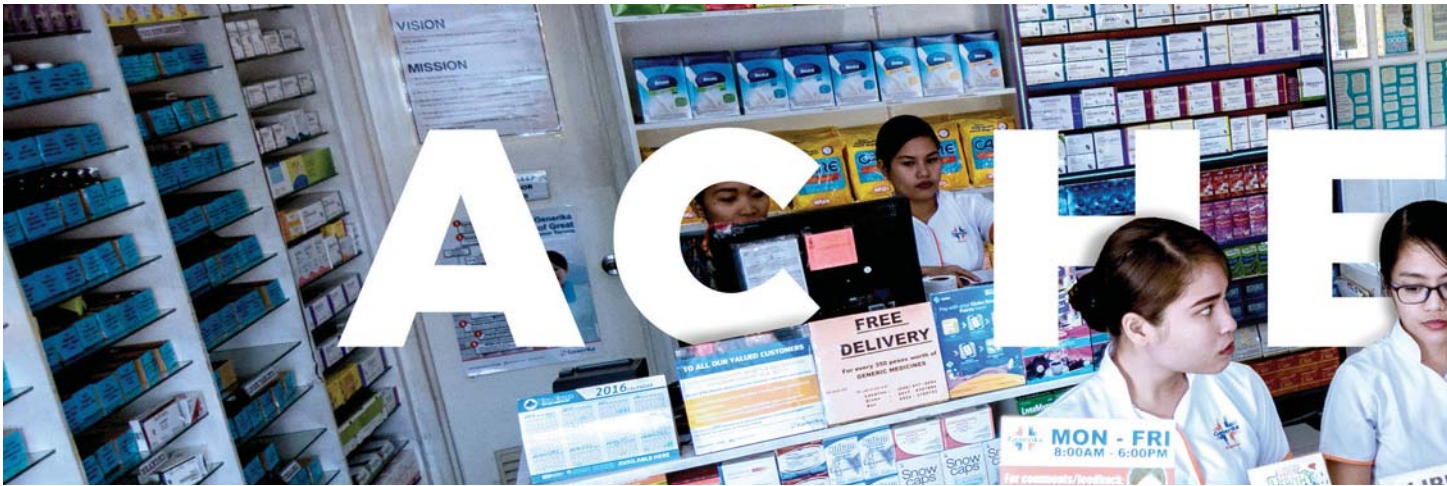
Outlook

AC Automotive will strengthen its position in the market through the introduction of more competitive products and strategic dealer expansion. While challenged by competitors' similar reasonable offers and the entry of new brands and competitor dealers, AC Automotive's competent sales team and proficient operations will help achieve planned objectives.

Factors affecting performance

Purchasing power of customers, brand value, pricing and cost structure

VALUE WE DRAW FROM	KEY STRATEGIES/ ACTIVITIES	2016 PERFORMANCE	TARGETS
<p>Financial</p> <p>Capital</p>	<p>1 Sales, service, marketing, and brand management</p> <p>Market leadership</p> <p>Expansion of network footprint</p> <p>Availability of a wide array of services</p> <p>Best in customer market experience</p> <p>2 Human resource management</p> <p>Effective talent management and development</p> <p>3 Environmental impact management</p> <p>Energy, emissions, and hazardous waste management</p> <p>Optimized use of resources</p>	<p>28 percent growth in net revenue</p> <p>Sales and service CSAT scores: met standards</p>	<p>Increase market share by 50 percent</p>
<p>Manufactured</p> <p>Inventory</p>		<p>Exceed customer satisfaction standards</p>	
<p>Intellectual</p> <p>Brand value of AC Automotive products and services</p>		<p>Maintain employee engagement score at par with Philippine benchmark</p>	
<p>Human</p> <p>269 servicemen</p> <p>418 salespersons</p>		<p>15 percent decrease in electricity intensity (MWh/revenue)</p>	
<p>Social and relationship</p> <p>Partnerships with brand owners</p>		<p>13 percent decrease in GHG emission intensity (tonnes CO₂e/revenue)</p>	
<p>Natural</p> <p>Electricity: 7.1 million kWh</p> <p>Fuel: ~14,300 GJ</p>			



AC Health continues to pursue its vision of making quality healthcare more accessible and affordable to Filipino families.

In the pharmacy space, Generika achieved a record expansion of its retail network in 2016. It opened 116 stores, surpassing its target of 100 stores. This brings Generika’s total network to 674 stores nationwide. In addition, it strengthened its brand equity through the Gabay Generika campaign, which highlights the distinctive services of Generika’s pharmacists, who provide additional guidance to customers. Generika also grew its Actimed house brand line to a total of 76 products, including 32 new products in the past year. Actimed is its own brand of generic medicine sourced from reputable, standards-compliant manufacturers both here and abroad. Generika is the third-largest pharmacy chain in the Philippines and will continue to expand its footprint to 1,000 pharmacies by 2020.

Following the success of its first two pilot clinics, FamilyDOC opened four new community-based retail clinics in Bacoor, Dasmariñas, and Imus in Cavite and in Las Piñas City. In its first full year of operations, FamilyDOC served over 16,000 unique patients in 2016. To improve convenience and accessibility to primary care, FamilyDOC adopted a three-in-one format where it combines consultations, diagnostics, and a retail pharmacy in its clinics at an affordable cost. AC Health is targeting to build 100 FamilyDOC clinics in residential communities across the Greater Manila Area by 2020.

In line with its goal of establishing an ecosystem of healthcare businesses, AC Health continues to pursue synergies across the Ayala group, including the provision of medical services such as the setting up of a Generika pharmacy at the Globe headquarters. It also continues to explore partnerships with Ayala Land’s Qualimed and Globe’s Konsulta MD, in line with its goal of strengthening its portfolio and redefining healthcare for Filipinos.



AC Health makes quality medicines and healthcare accessible in communities through FamilyDOC and Generika.



Outlook

With the growth of the middle class, AC Health anticipates healthcare spending will increase as patients and consumers continue to look for accessible and affordable options. For FamilyDOC, primary care utilization can be increased through targeted marketing and health education. Generika will continue to support key programs in rational drug use and antimicrobial resistance. House brand sales can be increased as product lines are expanded.

All AC Health's operations will continue to be compliant with the Department of Health and Food and Drug Administration standards. It will also improve its recruitment and training programs to ensure it attracts and retains healthcare professionals.

Factors affecting performance

Primary care utilization, generic medicine usage, healthcare spending, healthcare regulatory factors, health human resources (pharmacists and doctors)

VALUE WE DRAW FROM	KEY STRATEGIES/ACTIVITIES	2016 PERFORMANCE	TARGETS
<p>Financial</p> <p>Capex investments</p>	<p>1 Expansion and business development</p> <p>Focus on increasing accessibility and affordability in healthcare, beginning with pharmacies and primary care clinics:</p> <p>FamilyDOC: Expand in hub and spoke clusters across the Greater Manila Area</p> <p>Generika:</p> <ul style="list-style-type: none"> Expand store network nationwide Expand key accounts Leverage existing franchisees and attract new franchisees Grow house brand (Actimed and Nutrawell) sales <p>2 Sourcing</p> <p>Increase availability of quality affordable generic medicines in the country</p> <p>Sourcing of healthcare professionals</p> <p>3 Retail and distribution and operations</p> <p>Value-added services: Gamot Guide, MedPadala, Libreng Konsulta, community engagement activities (Gabay Kalusugan), electronic medical record</p> <p>Primary care services: consultation, laboratory, basic imaging, pharmacy</p> <p>4 Portfolio management and compliance</p> <p>Build portfolio around affordable and accessible healthcare</p> <p>Ensure compliance with Department of Health, Food and Drug Administration, and Department of Environment and Natural Resources policies and regulations</p>	<p>FamilyDOC: six clinics (four new clinics in 2016)</p> <p>Generika: 674 net existing stores (116 new stores in 2016), with 618 franchise-owned</p> <p>House brand: 32 new house brand products in 2016; increase in house brand sales contribution to total distribution sales to 16 percent in 2016 from 12 percent in 2015</p>	<p>100 clinics by 2020</p> <p>Over 1,000 pharmacies by 2020</p> <p>Build a synergistic healthcare ecosystem</p> <p>Expand Actimed and Nutrawell house brand lines</p> <p>Improve customer satisfaction ratings</p> <p>Improve brand differentiation</p> <p>Expand revenue streams from point of sale platform, key accounts, innovation services, Ayala synergies</p>
<p>Manufactured</p> <p>Clinics Pharmacies Distribution of medicines</p>		<p>Generic SKUs: 41 percent</p> <p>Proportion of generic sales to total revenue: 75 percent</p> <p>Price: up to 85 percent more affordable</p>	
<p>Intellectual</p> <p>Actimed and Nutrawell house brands Generika brand FamilyDOC brand AC Health brand Electronic Medical Record</p>		<p>FamilyDOC: Approximately 16,000 unique patients; 90 percent satisfied or highly satisfied*</p>	
<p>Human</p> <p>Generika: 572 employees FamilyDOC: 47 employees AC Health: 18 employees</p>		<p>FamilyDOC: 10-40 percent savings on consultation and treatment when compared to other private outpatient healthcare facilities</p> <p>Generika: Basic diagnostics (free BP check and blood sugar monitoring for ₱25) and mobile clinic (packaged diagnostics for ₱250 plus free consult) leading to access to basic health services and early detection</p> <p>Compliance with DOH, FDA, and DENR</p>	
<p>Social and relationship</p> <p>Affiliation with Ayala brand; partnerships with franchisees, medicine manufacturers, suppliers, healthcare professional groups, NGOs, government</p>			

*Based on patients surveyed in October 2016



AC Education continues to deliver accessible, quality education that enables significantly improved employability of its high school and college graduates. To date, it has approximately 18,000 students in the Affordable Private Education Center Schools, its chain of low-cost private high schools, and the University of Nueva Caceres in Naga City.

In basic education, APEC Schools continued to expand its footprint in Metro Manila and nearby provinces. From 3,300 students in 2015, it now has 10,500 students across 27 branches in Metro Manila, Rizal, Cavite, and Batangas. APEC Schools employs an innovative and progressive approach to learning and employability at affordable price points.

In 2016, APEC deepened its presence in secondary education with the launch of its Senior High School program, Learning with Industry Collaboration. LINC applies experience-based learning through its custom-developed and flexible Accountancy, Business, and Management strand. The program features immersive English training, technology-powered learning, and industry links through AC Education's employer partner network.

In higher education, despite the drought in freshman enrolment brought about by the shift to the K to 12 program, UNC recorded a four percent increase in enrolment with almost 7,700 students in the last school year. It continues to implement LINC and AC Education's final-semester college program, Professional Employment Program, which has successfully placed graduates in both supervisory and entry-level professional jobs with employer partners and with starting salaries at a significant premium compared to their peers.

UNC continued its tradition of excellence in board examination performance. UNC delivered national board placers for SY 2016-17 in Architecture (8th place), Master Electricians (9th place), and the Licensure Examination for Teachers (10th place). Three UNC students were also included in the Ten Outstanding Students in Bicol, two students were recognized in the Ten Outstanding Student Teachers of Bicol, and one student was named to the Ten Outstanding Jose Rizal Model Students of the Philippines.

AC Education will continue to serve families and reach communities to help harness the potential of the Filipino youth through innovation, technology, and the unique resources of the Ayala group, as well as its industry-honed expertise in training that contributes to employability.



Both students and teachers benefit from AC Education's drive to improve learning.



Outlook

The improving Philippine economic outlook will encourage more families to invest in the education of their children. AC Education will support its rapid expansion through a quality pool of teachers, augmented by various pre and in-service training programs as well as continuous coaching and mentoring of its teachers. AC Education works towards providing quality and relevant programs at competitive rates. Since its senior high school is technology-based, the continued decline in technology costs will allow it to further its differentiation.

Factors affecting performance

Economic situation of students/parents, academic and mental readiness of students, teacher quality, recruitment, and training, competition from public sector, regulatory, cost of technology, and real estate

VALUE WE DRAW FROM	KEY STRATEGIES/ ACTIVITIES	2016 PERFORMANCE	TARGETS
<p>Financial</p> <p>Capital from Ayala and Pearson Affordable Learning Fund</p>	<p>1 Marketing, sales, and expansions</p> <p>Continue to expand APEC Schools network in highly dense, low-cost areas, targeting the broad C/D/E markets</p> <p>2 Teacher training and recruitment</p> <p>Supportive, collaborative environment to drive continuous development</p> <p>Continuous recruitment and differentiated training of teachers</p> <p>3 Content and curriculum development</p> <p>Supports brand that is equated with quality, accessibility, and employability</p> <p>Collaborative and nurturing learning environment</p> <p>Internally developed content focused on knowledge, skills and values, enhanced with global best practices that comply with regulatory standards</p> <p>4 Operations</p> <p>Targets growing demand for private schools funded by increasing income levels</p> <p>Safe and secure learning environment in Greater Manila Area and Naga City</p> <p>Rolled-out differentiated LINC SHS with 1 academic strand in APEC Schools (ABM) and 3 academic strands in UNC (ABM, STEM, GAS)</p> <p>Provides scholarships to deserving public school graduates</p>	<p>APEC: (10,500) students); 46.8 percent come from broad D/E markets;</p> <p>UNC: 2016: 7,700 students</p> <p>Teachers, professors and administrative staff are comprehensively trained in ESL, constructivist methodology, and committed to the values and objectives of AC Education.</p> <p>PEP:</p> <p>Enabled 412 PEP graduates to find compelling jobs, and 85 percent landed jobs within 90 days post-graduation with average salaries at premium of 30 percent versus a control group of non-PEP college graduates.</p> <p>Linc:</p> <p>Enabled 30 graduates at LINC SHS (SYs 2014-15 and 2015-16 batch) to find compelling jobs and 87 percent landed jobs within 90 days post-graduation with average salaries at premium of seven percent versus a control group of non-PEP college graduates.</p> <p>JHS tuition (APEC Schools): ₱26,250 to ₱32,500 per year (regular shift) and 30 percent discount on JHS tuition fee for the afternoon shift (₱19,000 to ₱30,500/year).</p> <p>SHS tuition (APEC Schools): ₱32,500 for regular shift, and ₱22,500 for the afternoon shift which graduates can pay for with DepEd vouchers</p>	<p>Equip students with knowledge, skills, and values as well as excellent English communication skills to promote self-confidence, preparing them for future employability and college readiness</p> <p>1 million students and graduates in rewarding careers over a decade</p>
<p>Manufactured</p> <p>School facilities and classrooms that are compliant with regulatory requirements</p> <p>APEC sites: 27 in 2016</p>			
<p>Intellectual</p> <p>JHS and SHS Curriculum that is progressive, constructivist, and computer-based delivering strong elements of employability and English language capability of students</p>			
<p>Human</p> <p>Number of employees</p> <p>AEI: 32</p> <p>UNC: 502</p> <p>APEC: 561</p> <p>TOTAL: 1095</p> <p>2016 average training hours: 26.62</p>			
<p>Social and Relationship</p> <p>Shareholder: Pearson Affordable Learning Fund</p> <p>Industry partners: Accenture, Ayala companies</p> <p>NGO partners: PBed, IBPAP, PBSP, AFI</p> <p>Private school associations: COCOPEA, PACU</p> <p>Stakeholders: students, parents, community</p> <p>Regulatory: DepEd, CHED, TESDA</p>			



Ayala Foundation continues to align its programs, harness group synergies, and nurture its partnerships to have a greater impact within the Ayala group, its communities, and the Philippines.

In education, Global Filipino Schools brought technology-enabled learning to nine schools and 9,502 students. The program is now being prepared for mainstreaming by Globe and the Department of Education.

The foundation's Training Institute empowered 374 teachers and principals to become more effective and empathetic educators to the 14,000 students they handle. The Center of Excellence in Public Elementary Education continued to provide quality education for children in Tondo, Manila, and Bauan, Batangas.

For youth leadership, together with its partners, Ayala Foundation expanded the Basilan Young Leaders Program—Leadership Communities to cover all ARMM provinces. Now called the Bangsamoro Young Leaders Program—LeadCom, the leadership program covered 35 young Muslim leaders. Each participant will recruit other youth to undertake community programs. LeadCom Kauswagan, in partnership with GNPowder Kauswagan, is also helping young leaders from two barangays become change agents.

The annual Ayala Young Leaders Congress gathered 80 student leaders from all over the country for the congress under the theme, "Kabataan: Sabay-Sabay sa Bayan."

Under sustainable livelihood: Project Lio was Ayala Foundation's documented prototype for community development. Covering Barangay Villa Libertad and

Pasadeña in El Nido, Palawan, the five year project engages local communities in preparation for a transition to an Ayala Land-led sustainability plan.

In Calauan, Ayala Foundation's partnership with Makati Development Corporation helped establish MDC Greens, through which communities grew ornamental plants for Ayala properties. MDC Greens expanded its planting area from two to four hectares. The foundation also sustained its work with the Iraya-Mangyan community in Puerto Galera, including nurturing the tradition of nito weaving.

For arts and culture, visitors to the Ayala Museum rose 13 percent to 130,784 in 2016, patronizing exhibitions featuring artists like Ang Kiukok, Fernando Zobel, and Tetsuya Noda, among others. Ayala Museum's Traveling Exhibitions reached 1.36 million Filipinos in Metro Manila, Nueva Ecija, Negros Occidental, and Davao City.

On its 20th anniversary, the Filipinas Heritage Library made available 1,168 rare books and documents on Filipiniana Online. FHL also conducted special exhibits and lectures, including its anniversary exhibit "Color in History."

USES OF FUNDS 2016	IN MILLION PESOS	%
Education	44.1	15%
Youth Leadership	13.0	4%
Sustainable Livelihood	16.1	5%
Arts and Culture	96.5	32%
Disaster Rehabilitation and Special Projects	86.1	29%
Corporate Support	45.5	15%
Total	301.3	100%



Ayala Foundation has strengthened its education programs through multiple platforms.

FOUNDATION

Outlook

Ayala Foundation sees itself as a leader in community development, paving opportunities for the different Ayala businesses to create shared value in communities they serve.

To become an expert in community development, Ayala Foundation is strengthening its internal systems while gearing up program offerings that have greater reach and impact, as well as aligning to the needs of the conglomerate, the community, and the country.

Factors affecting performance

- Relevance of strategies and programs to the Ayala conglomerate, community and country
- Buy-in from donors, partners, and community
- Adequate talent pool with the right skill set aligned with the foundation's objective to become leaders in community development
- Performance of financial markets and their impact on funding source of the foundation
- Natural disasters with massive impact resulting in a change in the priorities of the foundation and its partners.

VALUE WE DRAW FROM	KEY STRATEGIES/ ACTIVITIES	2016 PERFORMANCE (OUTPUT-OUTCOME)	TARGETS
<p>Financial</p> <p>2015 resources raised: ₱212.4 million</p> <p>2015 endowment: ₱2.4 billion</p> <p>Investment income: ₱95 million</p>	<p>1 Resource mobilization</p> <p>Find ways to provide added value to companies within the Ayala group and strengthen stakeholder management</p>	<p>Resources raised for Education, Youth Leadership, Sustainable Livelihood, Arts and Culture, and Special Projects: ₱158 million</p> <p>2016 Endowment: ₱2.3 Billion</p> <p>Investment income: ₱181.7 million</p>	<p>Improve the lives of people in its communities through increased alignment with stakeholders and through programs with greater focus and impact.</p>
<p>Manufactured</p> <p>Ayala Museum</p>	<p>2 Cultural promotion</p> <p>Ayala Museum</p> <ul style="list-style-type: none"> • Organize special events and exhibits, and open ArtistSpace • Online and offline shop catalogue • Partner with the Ayala group for tokens, gifts and souvenirs • Strengthen museum membership campaign <p>Traveling exhibitions</p> <ul style="list-style-type: none"> • Hold exhibits in Ayala Malls to help increase foot traffic and capture a larger audience in promoting Philippine arts and culture 	<p>Increased audience engagement across all platforms through admissions (13 percent), membership (78 percent), and social media (84 percent Facebook and Twitter)</p> <p>Increased foot traffic for travelling exhibitions: 2,000 percent</p>	
<p>Intellectual</p> <p>Project/training concepts and modules</p>	<p>3 Project implementation on sustainable livelihood</p> <p>Connect community enterprises to Ayala businesses</p>	<p>Improved sustained income for individuals engaged in sustainable livelihood initiatives (Calauan farmers: 137 percent; El Nido women weavers: 46.7 percent; Iraya Mangyan: 36 percent)</p>	
<p>Human</p> <p>78 regular employees</p> <p>9 project-based</p> <p>9 consultants</p> <p>64 contractual/service providers</p>	<p>4 Project implementation on education</p> <p>Partner with Globe in providing technology and internet connection to public elementary schools, thus improving brand perception and brand loyalty among partner schools</p>	<p>Provided access to high quality education resources for 24,512 students and provided training for 674 teachers through Global Filipino Schools, CENTEX, and Training Institute</p>	
<p>Social and relationship</p> <p>45 private partners</p> <p>34 public partners</p> <p>49 community beneficiaries</p> <p>2500 Ayala group volunteers engaged</p> <p>Amount of community investment</p>	<p>5 Project implementation on youth leadership</p>	<p>Trained 281 young community and student leaders who launched 89 community projects through AYLC and LeadCom</p>	
<p>Natural</p> <p>Calauan Property (12ha land)</p>	<p>6 Human resource development</p> <p>Ensure continuous growth and development of employees to become community development experts through training, various employee engagements, compliance with standard safety and health measures, and regular performance review and recognition</p>	<p>Improved attrition rate through people development and various strategic engagement activities</p>	



OUR

VALU

CREA

WHAT WE **COMMIT** TO

An aerial photograph of a lush green watershed with a city skyline in the distance. The sky is a clear, vibrant blue with a few wispy white clouds. The foreground is dominated by a large body of water, likely a reservoir or lake, which reflects the sky and the surrounding greenery. The middle ground is filled with dense, vibrant green trees and vegetation. In the background, a city skyline is visible, with various buildings and structures. The overall scene is bright and clear, suggesting a healthy and well-maintained environment.

EFFLUENT TREATMENT PROCESS

Manila Water is committed to preserving and nurturing the watersheds from which it draws raw water.

OUR SUSTAINABILITY PHILOSOPHY AND FRAMEWORK (G4-14)

At Ayala, we align our objectives with the United Nations Sustainable Development Goals. As we operate in various sectors of the economy, we have increasingly realized the importance of creating value not only for our businesses, but also for a wider ecosystem: our stakeholders, the communities in which we operate, and the environment. As our businesses grow, so too does the impact that we have on the country.

In 2012, our group management committee approved our sustainability philosophy. Over time, we have taken a more deliberate approach to integrate sustainability into our strategy and operations, anchored on the SDGs.

We commit to creating shared value and improving the impact of our businesses on society and the environment in the following areas:

MANAGEMENT APPROACH

We continue to improve our economic value while managing our impact on the environment and society. We practice good governance and remain responsive to stakeholders' inputs and expectations on sustainability. We continuously pursue opportunities to improve operating efficiencies and further satisfy shareholder requirements.



Water used in SLTEC's operations is cooled before being discharged into Balayan Bay.



Globe myBusiness days expose SMEs to resources on how to drive the growth of their enterprises.

BUSINESS SUSTAINABILITY

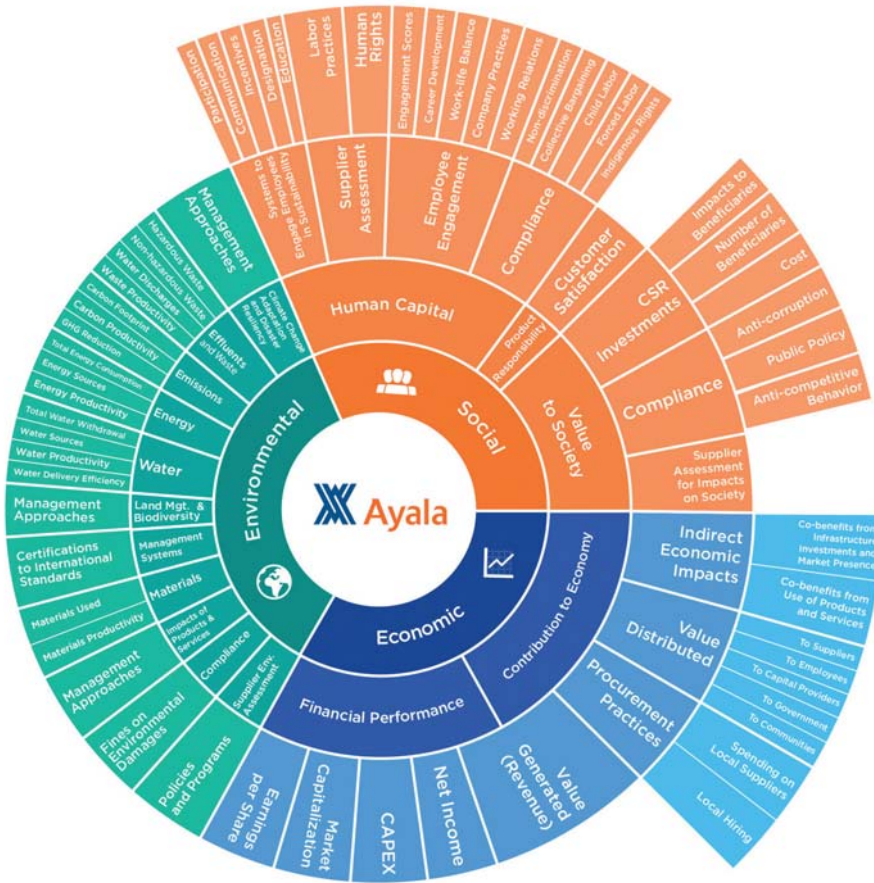
We continue to broaden our market presence while exploring new business opportunities. We apply synergies within our group and our strategic partnerships to improve margins, reduce costs, and increase efficiency. We continue to make value-accretive investments in sectors critical to accelerating economic development.

OPERATIONS

We are committed to optimizing energy and water consumption and controlling solid waste and greenhouse gas emissions. We integrate environmental parameters into business operations and establish green practices in the workplace. We aim to go beyond regulatory compliance, apply best practices, and adopt global voluntary standards on environmental and social responsibility.

PRODUCTS AND SERVICES

We take innovative approaches to increase customer value and enhance customer experience; empower more customers, including those with limited access to essential goods and services; and improve the quality of life of communities. We fully bear in mind environmental



This 360 degrees sustainability framework is the result of the materiality process described on pages 98 and 370 to 371. It gives a comprehensive look on the aspects, indicators, and metrics that we focus on.

and social factors when developing our products and services, and design these in ways that lessen their environmental impact and increase our support for community development.

SUPPLY CHAIN

We shall establish social and environmental parameters when we engage with suppliers, and shall prefer suppliers that observe sustainability practices. We shall support community development by providing opportunities to community-based entrepreneurs and cooperatives with the use of our buying volume.

HUMAN RESOURCES

We put prime importance on employees' well-being. We ensure that they work in the safest and healthiest environments, and provide a work environment that encourages professional and personal growth. We promote employees' initiatives to enhance sustainable business practices.

COMMUNITY INVOLVEMENT

We promote quality education, gainful microenterprises, a healthy environment, and cultural development in our communities.



The Ayala group regularly holds trainings, workshops, and team-building activities for all employees.



Manila Water Foundation participates in initiatives to promote the good health and hygiene of Filipinos.

MATERIALITY

Ayala uses different sets of material aspects for each of its businesses. This report uses a framework based on a group-wide perspective that considers the conglomerate’s numerous stakeholder groups and sustainable development challenges both in the Philippines and abroad. In addition, external factors

that affect our operations were identified and adaptation management strategies were developed to balance risk and opportunity.

The succeeding table details our materiality process and aspect boundaries based on GRI G4 Sustainability Reporting Guidelines:

DEFINING OUR MATERIAL ASPECTS AND BOUNDARIES (G4-18)

STEPS AND GOVERNING PRINCIPLES	OUR PROCESS
IDENTIFICATION	
Sustainability context	As we entered the education, healthcare, infrastructure, and energy spaces, we reviewed local and global sustainability topics relevant to our businesses using the UN SDGs as a framework Defined our aspect boundaries considering the diverse value chains of our businesses and identified subsidiaries that have the most impact
Stakeholder inclusiveness	Used our existing stakeholder engagement platforms to understand our stakeholders’ areas of concern
PRIORITIZATION	
Materiality and stakeholder inclusiveness	Prioritized key material issues based on the extent that these affect our businesses, stakeholders, and the sustainable development of the country
VALIDATION	
Completeness and stakeholder inclusiveness	Considered stakeholder interests and concerns in contrast with our list of material aspects and identified topics to emphasize in the report
REVIEW	
Sustainability context	Analyzed three-year data to determine performance and areas for improvement
Stakeholder inclusiveness	Reviewed relevance to our organization’s overall sustainability performance to help improve our list of material topics for the next reporting cycle

Refer to pages 370-371 for a list of material aspects and boundaries

STAKEHOLDER ENGAGEMENT

(G4-24, G4-25, G4-26, G4-27)

We uphold our commitment to integrity, transparency, and accountability in policies and practices that affect all our stakeholders. We continue to develop a space for the creation of shared value by actively engaging with our stakeholders and leveraging our collective strengths.

SHAREHOLDER MEETING AND VOTING PROCEDURES

Stockholders are informed at least 28 days before the scheduled date of meetings. The notice of regular or special meetings contains the agenda and sets the date, time, and place for validating proxies, which must be done at least five business days prior to the annual stockholders' meeting.

Each outstanding common and voting preferred shares of stock entitles the registered holder to one vote.

Since 2014, Ayala has provided an electronic voting platform to enable stockholders to execute their voting rights during the annual stockholders' meeting. The company also provides non-controlling or minority shareholders the right to nominate candidates for board of directors.

SHAREHOLDER AND INVESTOR RELATIONS

It is our policy to encourage active participation and regular dialogues with institutional and retail investors. Through Investor Relations, a unit under the Corporate Strategy and Development Group, information requirements of the investing public and minority shareholders are fully disclosed to securities regulators on time.

The Investor Relations Unit holds quarterly analysts' briefings, supports the annual stockholders' meeting, and engages with institutional and retail investors through one-on-one meetings, conference calls, and e-mail. In 2016, four analysts' briefings were held to discuss the 2015 year-end results and 2016 first quarter, first half, and first nine months financial and operating results. The briefings were made accessible to overseas analysts via a conference call facility.

We hold regular briefings and meetings with investment and financial analysts, during which they are given access to senior management. In addition, the Investor Relations Unit together with senior management regularly attends investor conferences and holds non-deal roadshows to update Ayala's local and foreign institutional investors and overseas-based shareholders on corporate objectives, including long-term goals and financial targets. In 2016, we participated in 12 institutional investor conferences and non-deal roadshows held in Asia, Europe, the US, and the Philippines. Furthermore, we engaged in nearly 100 one-on-one sessions with visiting overseas institutional investors and analysts to discuss company updates and developments.

Ayala regularly updates its website to ensure that disclosures to regulators and presentations at analysts' briefings and annual stockholders' meetings are immediately made available online to provide easy access to the investing community. In 2016, we launched our Investor Relations mobile application, through which users can access the company's financial, operating, and stock information from their mobile devices.

We continue to strengthen our investor relations framework. In 2016, the Investor Relations Unit organized the second Ayala Group Investor Relations Forum to keep management abreast of the best practices, global trends, and external perspectives on the evolving role of investor relations. The forum was attended by senior leadership and investor relations officers of Ayala and its listed subsidiaries, who listened to international speakers share their thought leadership on topics around the increasing role of investor relations in environmental, social, and corporate governance, and integrated reporting, among others.

We have an Investor Relations Council composed of investor relations officers from our publicly-listed units. The council meets regularly to flesh out ideas and share updates to ensure the alignment of our investor relations programs. We also hold regular group-wide investor engagements, such as Ayala group non-deal roadshows attended by senior management across the group to provide investors a top-down view of the conglomerate.

BUSINESS PARTNERS, AFFILIATES AND CREDITORS

In all our business partnerships, we look for joint capability building to create value through complementing skill sets and expertise, to produce the best combination for a business or project.

In engaging with potential partners, we perform due diligence either through an internal team or through a third party to assess their reputation, track record, financial capacity, and technical and operating capabilities. By running our businesses professionally, adhering to high standards of governance, with the ability to bring synergies across our various businesses, we have attracted the best and most respected partners.

Open dialogue and transparency in our dealings allow us to maintain good relations with our partners. We address varying levels of issues in a fair and collaborative manner at the management, committee, or board level.

In addition, we keep our partners in mind when we explore new opportunities, and endeavor to complement each other as we mutually explore value-accretive ventures.

We also protect the rights of our creditors by complying with all positive, affirmative, and negative debt covenants.

REGULATORS

We ensure compliance with government rules and regulations. We provide timely disclosures and reports of material transactions, undergo internal and external audits, and maintain open communication with regulators through official channels or consultations. We regularly participate in regulators' public consultations, policy dialogues, and learning events that we are invited to.

CUSTOMERS

Creating customer touch points is a priority in our businesses. We conduct regular engagement activities through hotlines, surveys, plant visits, and marketing events. We acknowledge that customers demand product and service quality, value for money, and reliability. Similarly, consumers value accessible and responsive customer support, easier payment channels, and our level of compliance with regulations and standards. In response, we have customer feedback and grievance mechanisms in place that guide us in our product and service development initiatives.

EMPLOYEES

For a discussion on our employees, please refer to pages 106 to 108, 122, and 126 to 127.

CUSTOMER SATISFACTION PERFORMANCE (G4-PR5)

COMPANY	METRIC	2015	2016
Ayala Land	APMC CSAT (Target: 80%)	92.67%	93%
	Service Level Agreement (Target 80%)	93%	93%
	Recommendation score from buyers of residential properties	3.42	3.33
BPI	CSAT	95.47%	No survey
	Net Promoter Score	53.14	No survey
Globe	Net Promoter Score	17%	22%
Manila Water	C1 (service related complaints)	99.05%	98%
	C2 (billing related complaints)	98.44%	96%
IMI	CSAT ¹	4.36	4.61
AC Automotive	Ratings for sales: brands' average	94.13%	94%
	Ratings for service: brands' average	93.87%	93%
Livelt	AffinityX: NPS	7.7	7.7
	HRMall: CSAT	93.70%	97% (Q1)
HCX	Integreon: CSAT	8.80	NA
	CSAT (6 Keys Attainment)	NA	79.80% (Q4)

¹ From Laguna facility only

COMMUNITIES

We ensure a strong engagement with the communities we operate in. We have various capacity building activities across our organization for skills development and livelihood, as well as disaster preparedness and response. We make an effort to include local communities in our core business activities either as employees, indirect employees, or suppliers. Our business units engage their employees in different life-improving programs through volunteerism activities. Our social commitment arm, Ayala Foundation, spearheads various programs that respond to specific community needs.

OTHER STAKEHOLDERS

Through press briefings and conferences, media events, interviews, social media, and other communication platforms, we keep other stakeholders informed on our financial, environmental, and social performance. We also ensure that they are updated on our new businesses, products, and services. To further extend the reach of this information, we maximize our websites and publications, conferences, and expositions. We also share material updates and market trends through industry association forums, workshops, and studies.



1



2



3



4



5

1. Global industry experts share best practice with senior management and IROs across the group at the 2nd Ayala Group Investor Relations Forum.
2. Ayala conducts press briefings to keep the public apprised of developments in its businesses.
- 4, 5. Ayala holds quarterly analysts' briefings to report its financial and operating performance for the period.

ECONOMIC SECTION

CREATING GREATER VALUE FOR MORE FILIPINOS



Promote sustained, inclusive, and sustainable economic growth, full and productive employment and decent work for all.

While more Filipinos are now enjoying rising incomes, millions continue to live in poverty.¹ According to the Philippine Statistics Authority, as of 2015, around 22 percent, or one in every five Filipinos, continue to live below the poverty line.

Eradicating poverty is one of the most urgent priorities of the UN SDGs, and it continues to be one of our underlying objectives at Ayala. In recent years, we have created platforms where social issues are integrated into and made central to the strategies and operations of our businesses, believing that we have a responsibility to help address the Philippines' development challenges.

We believe that businesses have at their disposal some of the best tools to fight poverty. The premium that the private sector gives to efficient and effective processes, good governance, and strategic thinking, coupled with a spirit of innovation, enable people to help create economic solutions at a wider scale.

Ayala will continue to advocate sustainable and inclusive growth and gainful employment to help more Filipinos to live productive and more meaningful lives.

SUSTAINABLE ECONOMIC GROWTH (G4-EC1)

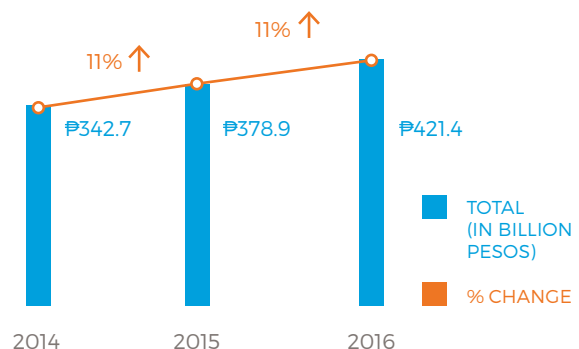
Ayala contributes to promoting sustainable economic growth by ensuring that its partners in the business are duly compensated for their contributions in helping the business grow and thrive. Our five-year cumulative group-wide capital expenditures are now at ₱720 billion.

FROM OUR OPERATING BUSINESSES

Our significant economic impact comes from our companies which operate in various industries. These companies directly conduct business with suppliers, hire employees, generate shareholder return, pay loan providers, remit taxes, and enable and empower communities through its social programs.

CONSOLIDATED ECONOMIC VALUE GENERATED BY AYALA COMPANIES (G4-EC1)

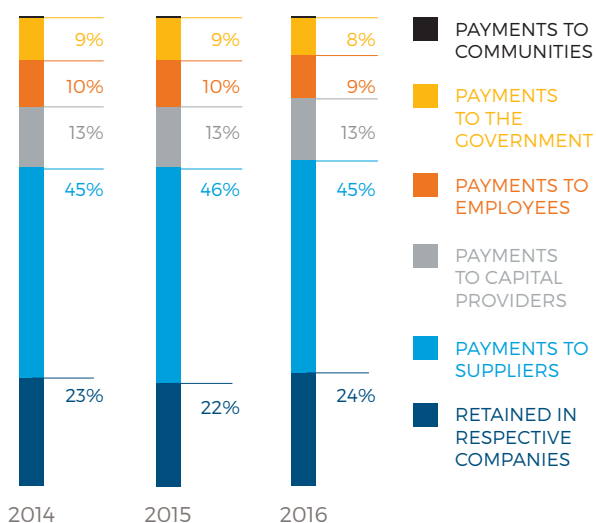
Consolidated revenues in 2015 increased by 11 percent to ₱378.9 billion. This further increased by 11 percent in 2016 to ₱421.4 billion.



¹ Based on recent GDP and GNI per capita figures of PSA—psa.gov.ph

BREAKDOWN OF CONSOLIDATED ECONOMIC VALUE DISTRIBUTED AND RETAINED BY AYALA COMPANIES (G4-EC1)

Over the past three years, our companies have distributed around 75 percent of their revenues to their key stakeholders. In 2016 alone, 45 percent was paid to suppliers, 21 percent to government and capital providers, nine percent to employees, and 0.1 percent to communities. To sustain the operations of our respective companies, 24 percent of the total economic value generated was retained and reinvested.



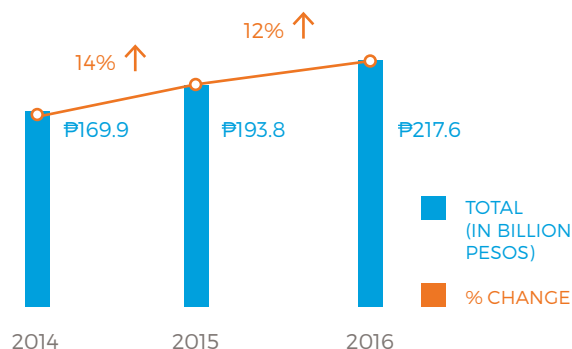
AT THE PARENT COMPANY LEVEL

At the parent company level, our total economic value generated reached ₱217.6 billion, 12 percent higher compared to ₱193.8 billion in 2015. This excludes foreign exchange gains, insurance claims, recoveries of account written off, and mark-to-market gains.

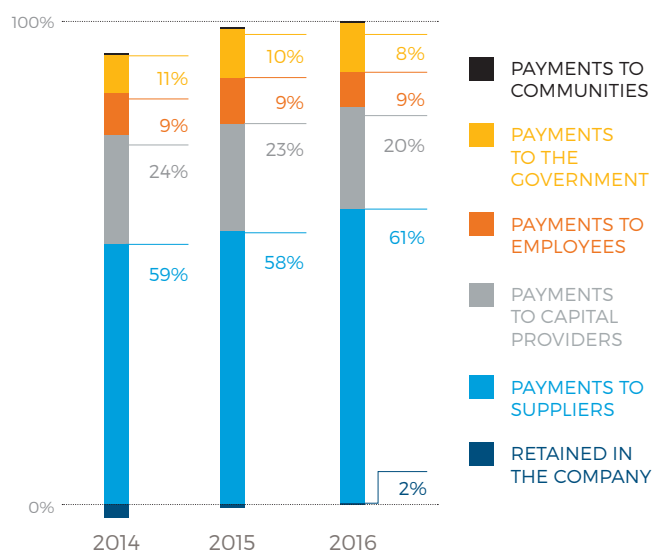
From this total, Ayala disbursed approximately 99 percent or ₱216.5 billion as payments to its key stakeholders, an 11 percent increase from ₱195.5 billion of total economic value distributed in the previous year.

For operating costs, 61 percent was disbursed to local and international suppliers. About 20 percent was paid to government in the form of taxes and license fees. Nine percent was paid to capital providers as dividends and interest and financing charges. Another eight percent was disbursed as salaries and benefits to employees, including the personnel costs of Ayala Foundation. Ayala's donations and contributions and project implementation expenses for Ayala Foundation amounted to ₱452.1 million, which went to direct local community investments.

ECONOMIC VALUE GENERATED BY AYALA (G4-EC1)



BREAKDOWN OF ECONOMIC VALUE DISTRIBUTED AND RETAINED BY AYALA CORPORATION (G4-EC1)

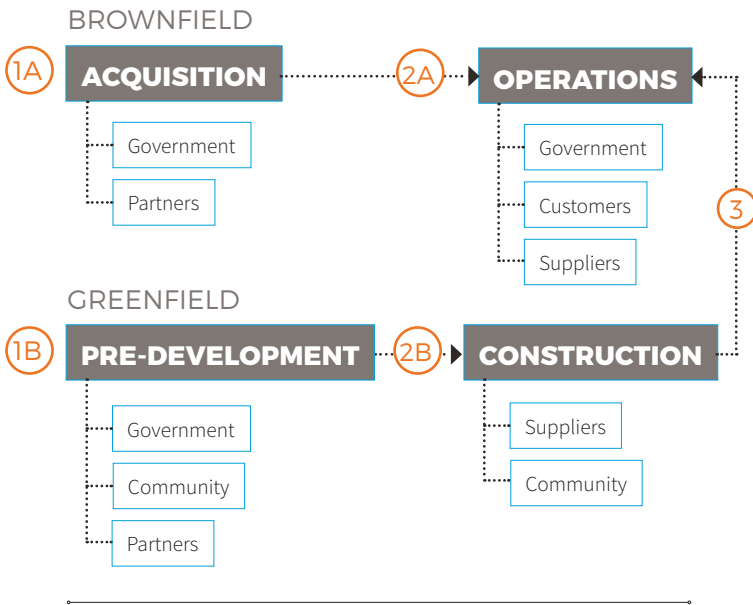


SUPPLY CHAIN MANAGEMENT (G4-12, G4-EC9)

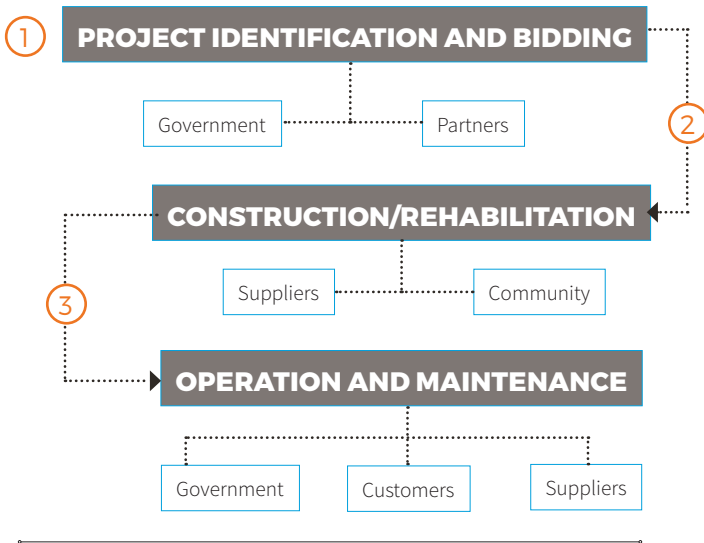
As one of the biggest conglomerates in the Philippines, Ayala's supply chain represents one of the country's most extensive business networks, with thousands of suppliers, vendors, employees, and various groups benefitting directly from our operations.

We aim to grow and manage our supply chain in a way that enables more value to reach the bottom of the economic pyramid. This includes integrating locally based community enterprises and small businesses in our supply chains to boost growth not only in major

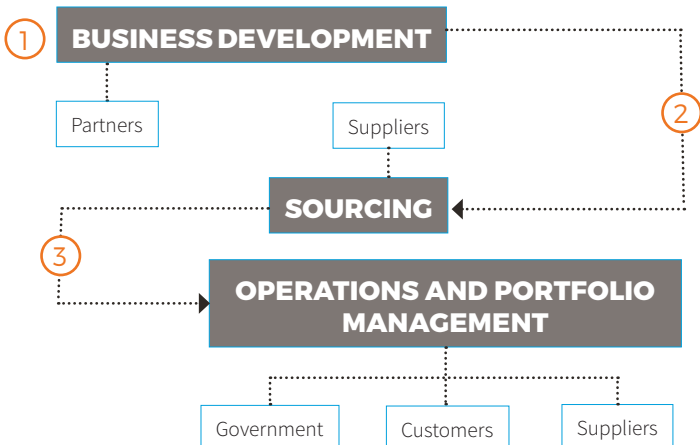
AC ENERGY SUPPLY CHAIN



AC INFRASTRUCTURE SUPPLY CHAIN



AC HEALTH SUPPLY CHAIN



urban centers. In 2015, ₱80.63 billion was spent on local suppliers. This nearly doubled to ₱152.13 billion in 2016.¹

We also favor suppliers and contractors that observe sustainability practices. Engaging with suppliers requires careful consideration. We consider potentially harmful environmental impacts in procuring supplies. We also require our suppliers to go through an accreditation process that tests for safety, health, and environmental concerns. With this, we can guarantee that our suppliers strictly follow laws and best practices in quality control.

We likewise conduct regular vendor assessments to maintain the good quality of our suppliers and talent pool. Through a digital platform called Ayala ProcurementNet, we address the negative performance of vendors by ensuring we have an updated list of erring suppliers available across the conglomerate.

In our emerging companies, we work with key stakeholders from development to operations, ensuring that we are fully compliant with regulations, accepted by our host communities, and able to give quality products and services to our customers.

Shown here are examples of supply chains from some of our emerging companies with key stakeholders in each step. The supply chains of our mature subsidiaries and affiliates can be found in their independent reports.

OPTIMIZING OUR ECONOMIC BENEFITS (G4-EC8)

Apart from the direct financial value that we distribute to our suppliers and investors, we also manage our businesses to optimize their economic benefits and positive impact on society.

From conceptualization to execution, our businesses are designed to maximize the capacity of entrepreneurship to benefit more markets, achieve wider geographical scale, and reach those who still lack access to proper services.

SPREADING PROGRESS: BPI CORPORATE LOANS

BPI continues to support Filipinos' entrepreneurial spirit through various loan programs. In 2016, it extended loans worth over ₱773 billion to advance the economic conditions of the bank's stakeholders.

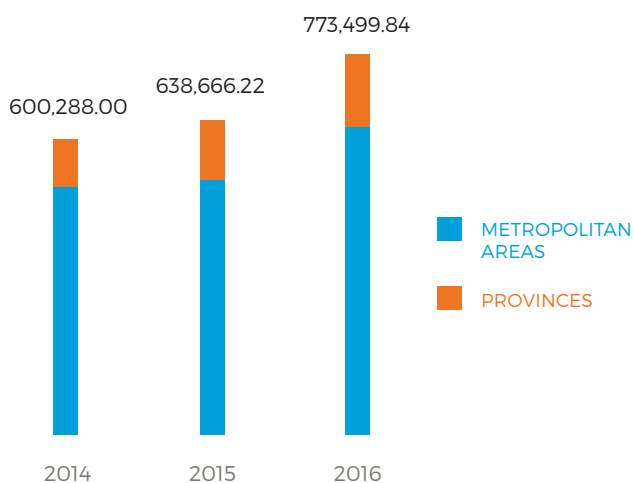
¹ Reporting Companies: Globe, AC Energy, Ayala Land, IMI, Manila Water

Apart from lending to large business houses and for-profit groups, the bank has targeted platforms meant for micro to small businesses, including enterprises that place more premium on social over monetary values. BPI also became the exclusive local equity partner of CARD-MRI through the acquisition of a 10 percent stake in Rizal Bank.

BPI's comprehensive range of lending products includes short term inventory and trade financing, term facilities for the financing of capital expenditures or acquisitions, and project financing. These are aimed to drive growth in both urban centers and the countryside. We have evolved from being a mere conduit of funds to being a financial coach and mentor of our clients. We also offer alternative financing for clients who are raising capital through IPOs and through the issuance of bonds and corporate notes.

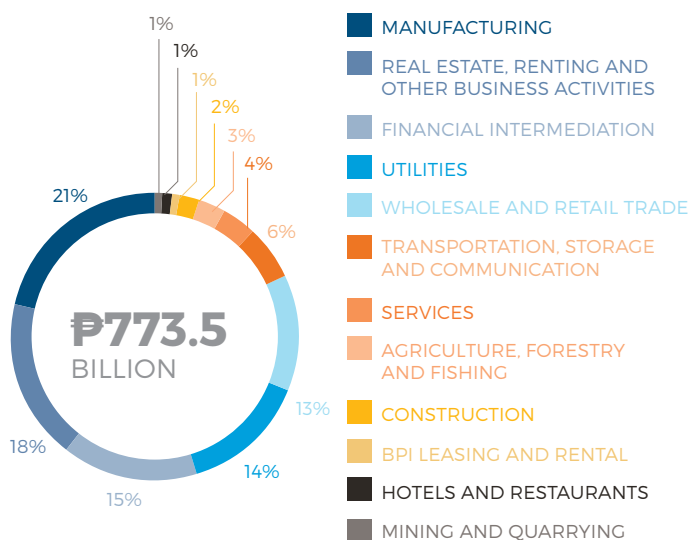
In 2016, the total outstanding loans availed by our corporate clients grew by 21 percent from ₱638.7 billion to ₱773.5 billion. About 80 percent of this was facilitated in metropolitan areas, while the remaining 19 percent was financed through our provincial business areas.

GEOGRAPHICAL DISTRIBUTION OF OUTSTANDING CORPORATE LOANS (MILLION PESOS)



Approximately a fifth of our loan portfolio is availed by partners in the manufacturing sector (21 percent). The remainder is broken down as follows: a) real estate, renting, and other related businesses (18 percent), b) financial intermediation (15 percent), c) utilities (14 percent), and d) wholesale and retail trade (13 percent). Seven other sectors constitute the remaining 19 percent of our loan portfolio.

PERCENTAGE BREAKDOWN OF OUTSTANDING CORPORATE LOANS BY SECTOR



Kabuhayan Para sa Barangay works with local communities and cooperatives to operate sustainable businesses.

KABUHAYAN PARA SA BARANGAY: MANILA WATER

Manila Water Foundation continues to promote livelihood programs to help uplift the living conditions of many communities.

Its Kabuhayan Para sa Barangay, which translates into livelihood for the community, extends business opportunities and financial aid to numerous community groups and cooperatives that show a strong entrepreneurial drive.

From only 15 cooperatives in 2013 and 64 cooperatives in 2014, the program has assisted 195 more new cooperatives in 2015. This figure further increased in 2016 when KPSB assisted 153 more cooperatives, bringing the program's total reach to 427. The program envisions reaching 2,000 more cooperatives in the next five years.

DEVELOPING LAND AND IMPROVING LIVES

Ayala Land’s mixed-use estates and new developments are designed to maximize economic opportunities for all sectors. From big businesses to small enterprises—from prosperous urban enclaves to burgeoning rural communities—it embraces diversity and works for the welfare of everyone in communities, wherever it builds.

This commitment is evident in Lio, Ayala Land’s new ecotourism estate in Palawan. In partnership with Ayala Foundation, Ayala Land is pursuing a five-year development plan for the communities living around Lio, with the goal of fully integrating them into the economic activities of the estate.

Ayala Land and Ayala Foundation conducted a comprehensive evaluation of the current socio-economic profiles of the communities. The study revealed various opportunities for advancement while simultaneously identifying barriers to progress.

A majority of the target communities are on subsistence levels, with 17 percent living below the poverty threshold. Insufficient social services and weak infrastructure, moreover, add to the obstacles faced by communities in achieving significant growth. This is evident in the communities’ educational levels, which is 16 percentile points lower than the national average.

Ayala Land and Ayala Foundation believe that through the right shared-value approaches, these communities can grow alongside the progress of Ayala’s businesses in the province.

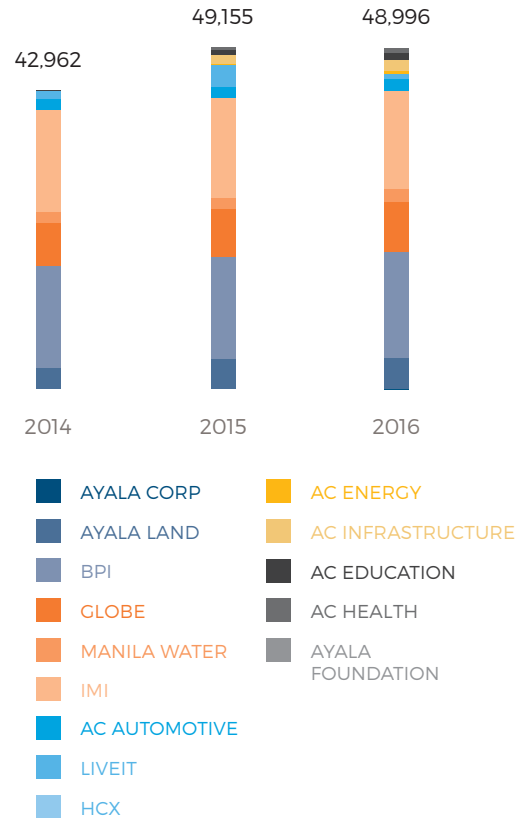
It remains confident about the possibility of positive change in Lio’s neighboring communities through innovative shared value programs that bring about livelihood streams, coupled with new ventures in infrastructure, healthcare, and water services.

PROVIDING GAINFUL EMPLOYMENT

One of the major positive economic impacts of businesses is the creation of jobs. Over the past years, our continued expansion into socially inclusive business models has resulted in the creation of gainful employment. This is seen in the 14.3 percent rise of our employee headcount in 2015 as compared to 2014.

About 10 percent of the economic value that we generated was distributed to our employees in 2015. In 2016, this decreased slightly to nine percent, while still impacting the lives of about 49,000 individuals, distributed across different age ranges, and genders (see pages 378 to 379).

EMPLOYEES BY COMPANY (G4-9, G4-10)

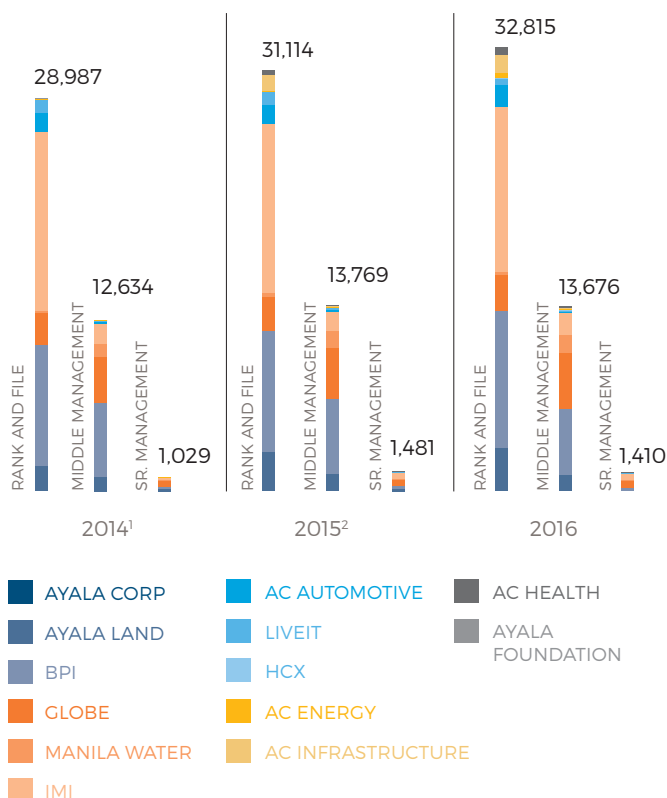


In 2015, the group employed 49,155 individuals.¹ In 2016, this went down to 48,996 primarily due to the divestment of both Integreon and IQ Back Office, the holding company of HRMall. Ayala Corporation carved out HR support operations from HRMall and created HCX.

EMPLOYEES BY POSITION (G4-9, G4-10)

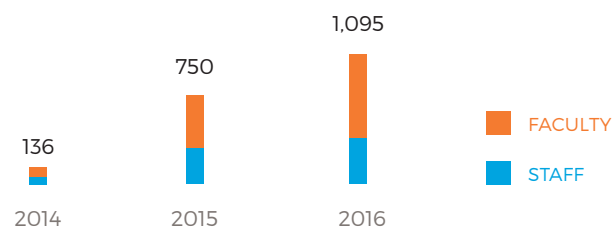
In 2015, 67.1 percent of employees were rank and file, 29.7 percent middle management, and 3.2 percent senior management. In 2016, 68.5 percent were rank and file, 28.6 percent middle management, and 2.9 percent senior management.

¹ In 2015, Liveit (Integreon, HRMall) and IMI provided global numbers. In 2016, only IMI provided global figure.



AC EDUCATION

With the expansion in AC Education’s operations, the number of AC Education’s employees increased by 46 percent from 750 to 1,095 individuals in 2016.



EXTENDING EMPLOYMENT TO SUPPORT STAFF (G4-10)

We also provide gainful employment to numerous indirect employees who benefit from the activities of our partners. These comprise support staff who are not core to our operations, but remain essential to our business: providing security; building, operating and maintaining our facilities; and acting as frontliners in our services.

In 2016, our total support staff reached 75,617. We aim to include more companies in our next report.

HEADCOUNT OF SUPPORT STAFF	2016
Ayala Land	54,241
Globe	17,090
BPI ³	2,634
Manila Water	647
IMI	413
AC Energy (SLTEC)	308
AC Education	104
AC Infrastructure (MCX)	91
Ayala Foundation	64
Livelt	14
HCX	11
Total	75,617

HEALTH AND SAFETY

Ayala continues its health programs by ensuring that their employees and dependents have periodic medical and dental care, annual check-ups, and executive check-ups. The vaccination program is held annually to combat flu, hepatitis B, cervical cancer, and pneumonia. To further assist employees with their medical needs, the company maintains an on-site medical clinic managed by a nurse and doctors; it is supervised by one of the top hospitals in the country. First-aid support and over-the-counter medicines are given in this clinic.

EMPLOYEE ENGAGEMENT

Acknowledging the importance of work-life balance, the company gives opportunities for employees to engage in sports or non-work related activities. The company holds an annual foundation day, summer company outing, and special holiday celebrations such as Halloween and Christmas. Most of the events are open to the dependents of the employees. To further promote healthy living, Ayala supports the gym memberships of AC employees and encourages them to participate in sports through the JZA Cup. The JZA Cup is a year-long tournament in golf, bowling, badminton, volleyball, and streetdance. Every four years, the group holds its Ayala Olympics where employees from the different companies enter sports tournaments like track-and-field, cheerdance, and more.

1 Variance with 2014 total workforce is due to lack of breakdown of employees per position from AC Education (136), Manila Water subsidiaries (172), four from AC Infrastructure, and non-inclusion of Livelt global employees.
 2 Variance with 2015 total workforce is due to non-inclusion of Livelt’s global employees and AC Education employees. AC Education employees are categorized differently and their population may be found in the subsequent graph.

3 Figure is composed of 2,305 security personnel (nationwide) and 329 utility personnel (Metro Manila count only).

SAFE MANHOURS: SAFE WORKING ENVIRONMENT (G4-LA6)

In providing gainful employment, we also ensure a safe working environment that increases productivity while reducing costs related to illness and injuries.

COMPANY	2016
Manila Water	
Manila Concession	7,634,043
Clark Water	86,352
Laguna Water	799,907
Cebu Water	23,520
Boracay Water	348,760
Kenh Dong	545,300
Thu Duc	172,919
IMI	11,531,520 ¹
AC Energy	1,159,113 ²

PERCENTAGE OF EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREEMENT (G4-I1)

We recognize our employees' right to organize themselves. A portion of our workforce is engaged in collective bargaining agreements with our companies. This lays the foundation for negotiations and the amicable settlement of disputes, while ensuring that our employees receive the right economic value befitting their contribution and work.

	2015	2016
BPI	95%	84%
Globe	3%	3%
Ayala Land	5%	4%



Ayala recognizes the hard work and achievements of its employees through the employee service awards held annually.

¹ Includes three IMI sites in the Philippines

² Includes SLTEC employees only

AYALA FOUNDATION: MANAGING FUNDS FOR SOCIAL INNOVATIONS

Ayala Foundation, one of the first corporate foundations in the Philippines, serves as the social commitment arm of the Ayala group. Its work also includes museum and library programs to influence positive social change through education and the arts.

The foundation derives funding from donations, investment income, and various social enterprises. In the past three years, the foundation's general administrative expenses have been less than 15 percent of its total expenses. This is below the 30 percent cap set by the Philippine Council for NGO Certification.

The foundation's revenue grew by nine percent from 2015. This was driven by the higher realized earnings from the organization's investments in the previous year. Project spending considerably decreased due to lower pass-through programs and release of one-off grants in 2014.

ECONOMIC HIGHLIGHTS

MILLION PESOS	2014	2015	2016
Revenues	427.8	427.8	380.2
Project expenses	376.7	376.7	255.8
General administrative expenses	44.0	44.0	45.5
Total expenses	420.7	420.7	301.3
Year-end balance	7.1	7.1	78.9

The funding sourced is used to promote and operate youth leadership programs, disaster relief, cultural advocacies, and many others. For an overview of its programs, please refer to pages 92 to 93.



Twelve thousand employees of the Ayala group engage in healthy competition at the 8th Ayala Olympics.

INFRASTRUCTURE SECTION

STANDING ON THE BEDROCK OF POSITIVE CHANGE (G4-EC7)



Ensure availability and sustainable management of water and sanitation for all



Ensure access to affordable, reliable, sustainable and modern energy for all



Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation



Make cities and human settlements inclusive, safe, resilient and sustainable

The development of efficient and accessible infrastructure is essential to truly achieve environmental sustainability and inclusive socioeconomic growth.

As one of the countries most susceptible to climate risks, we need to invest in resilient, energy-efficient, low-carbon, and high quality infrastructure.

While Ayala may be a relative newcomer in the energy and infrastructure sectors, we have already made considerable headway in these spaces. We continue to thrive in the business of water, telecommunications, and the development of sustainable estates.

PROVIDING WATER AND USED WATER SERVICES (G4-EN8)

Access to safe drinking water and sanitation services is a precondition to sustainable development and decent quality of life. The UN continues to uphold this basic right in its statement for SDG 6: Clean Water and Sanitation, explicitly incorporating items on equitable access to water, water-use efficiency, and inclusive management of water and sanitation.

Ayala contributes to the attainment of this SDG through Manila Water, which builds the necessary infrastructure to sustain its successful water delivery network in the country. For an overview of its operations and goals, please refer to pages 74 to 77.

Crucial to the sustainability of Manila Water's operations is the rehabilitation of old pipe networks and the laying down of new and stronger infrastructure to meet tomorrow's demands. To ensure the reliability of Manila Water's service, it continues to invest billions in water infrastructure and rehabilitation programs. The company had over one million water connections, disbursed ₱5.78 billion in capital expenditures, and had a total length of 5,733.4 km of water distribution pipes in 2015. In the following year, it had 1.2 million service connections, released ₱8.71 billion in capex, and refurbished and laid 381.6 km of water distribution pipes, bringing total length to 6,115 km.

Due to greater demand, Manila Water increased the volume of water it supplied by 4.1 percent in 2015 as compared to 2014. It increased supply volume further by 7.1 percent in 2016.

WATER SERVICE CONNECTIONS	2015	2016
Manila Concession	976,321	1,008,918
Clark Water	1,978	1,994
Laguna Water	107,263	128,734
Boracay Water	6,379	6,501
TOTAL	1,091,941	1,146,147

WATER DISTRIBUTION PIPES (KM)	2015	2016
Manila Concession	5,049	5,094
Clark Water	12.90	58.11
Laguna Water	666	932
Boracay Water	5.50	30.66
TOTAL	5,733.40	6,114.77

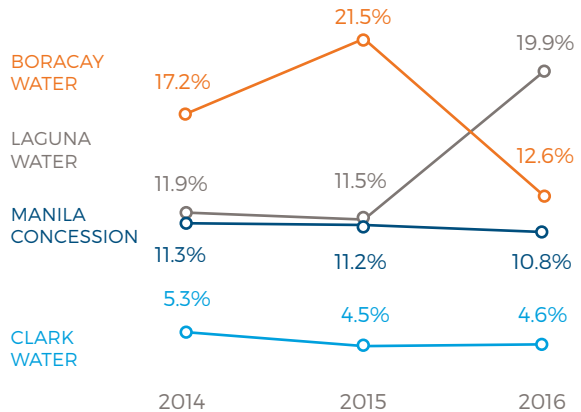
NON-REVENUE WATER

Chronic water losses due to faulty pipes, pilferage, and weak water management may translate to millions or even billions of pesos lost from both private and public funds. As such, steady investments into water infrastructure through non-revenue water reduction programs are a key concern.

Manila Water is already renowned worldwide in water utility circles for its success in solving huge water shortage challenges through the reduction of system losses wherever it operates.

In the Manila Concession, also known as the East Zone, the improvement in water availability as well as growth of new water service connections over the past 18 years was largely due to the NRW reduction initiatives that resulted in about 700 million liters of water saved per day.

NON-REVENUE WATER



In 2016, the Manila Concession achieved an all-time low in NRW of 10.8 percent due to demand based management. This entailed optimizing facility production and pressure in the business areas.

In 2015, Boracay Water's NRW increased to 21.5 percent due to suspected commercial losses, meter tampering, illegal connections, and leaks in aged pipes. It formed a District Metered Area and a dedicated NRW team to monitor and conduct leak repairs and meter replacements. Through these measures, Boracay Water's performance improved dramatically to 12.6 percent NRW in 2016.



Manila Water continues to invest in infrastructure in order to ensure the highest quality of its services.

In 2016, Clark Water successfully maintained an NRW below the 10 percent target with the formation of DMAs, continuous leak detection, repair, and maintenance, right-sizing and calibration of water meters, and intensified key accounts management.

Laguna Water's NRW increased in 2016 due to deteriorated pipes from turned-over subdivisions. In response, it has intensified NRW initiatives such as active leak detection, pressure management, and pipe replacements.

METRO MANILA

With 976,321 service connections, approximately 6.3 million Manila Water customers in Metro Manila had access to clean, safe, and affordable water in 2015. This increased to 1,008,918 service connections for 6.6 million in 2016. All customers enjoy 24/7 water supply, and 99.56 percent of all areas we serve have a minimum water supply pressure of 7 psi.

METRO CEBU

Our work in the Visayas through Cebu Water aims to replicate our company's success in Metro Manila. Our immediate goal in Metro Cebu is to provide 35 million liters per day of bulk water to the cities of Cebu, Talisay, Mandaue, and Lapu-Lapu through the Metropolitan Cebu Water District, as well as the municipalities of Consolacion, Liloan, Compostela and Cordova. We have so far reached a delivery rate of 36 MLD covering 50,000 households.

In 2016, Cebu Water supplied 11.6 million cubic meters of potable water sustainably sourced from Luyang River for the customers of Metro Cebu Water District.

ZAMBOANGA CITY

In partnership with the Zamboanga City Water District, Manila Water has embarked on a 10-year non-revenue water reduction contract which started in 2015.

This project will replace old infrastructure, strengthen the city's water lines, address perennial problems in pilferage and leakage, and ultimately save 10 million cubic meters of potable water.

The NRW reduction project in Zamboanga has commissioned 19 District Metering Areas which covers about 40 percent of the project area. This initiative recovered 162,000 cubic meters, equivalent to a 3.54 percent reduction in NRW.

ESTATE WATER

Estate Water was created in 2016 to provide water and used water services to real estate developments. It partnered with Ayala Land to take over the water systems of its 47 brownfield developments nationwide.

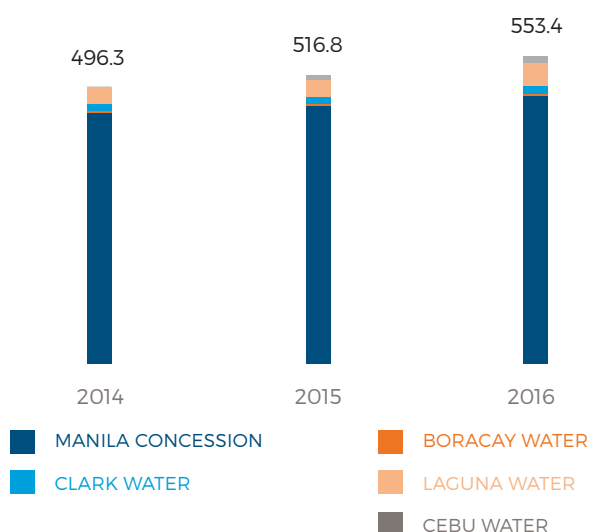
To date, the company has established 9,684 water service connections and 2,998 sewer connections. It has achieved a billed volume of about two million cubic meters and removed 1,706 tonnes of organic pollutants in its wastewater operations. Estate Water targets to reach more than 19,000 water service connections and more than 5,000 sewer connections by 2020.

INTEGRATED USED WATER SOLUTIONS

One of Manila Water's latest ventures addresses the unserved market in need of used water management services. As customers in the commercial and industrial sectors continue to struggle with finding cost-effective means to sustainably comply with environmental regulations, IUS provides holistic customer-specific solutions that have been developed through value-engineering and integration of various technologies.

The venture installed four used water treatment plants in 2015 and added three more in 2016. It treated approximately 50 cubic meters of used water per day on completed projects last 2016. IUS' target is to install 10 plants in 2017 and 20 more in 2018.

WATER SUPPLIED (MILLION CUBIC METERS)



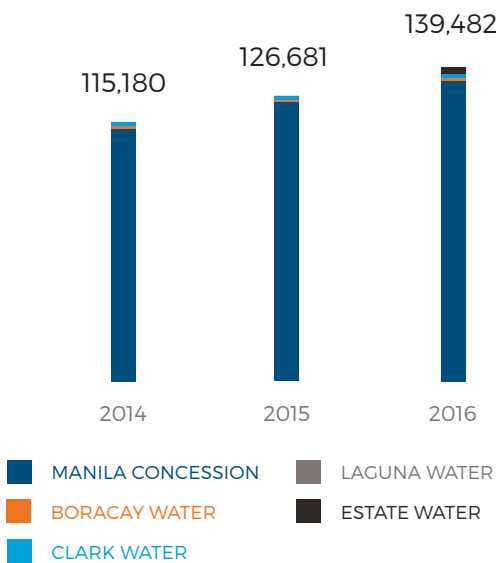
As a result of our infrastructure programs, we have reached an even greater number of Filipinos, resulting in the continued rise of the volume of water we have supplied over the past three years.

USED WATER SERVICES

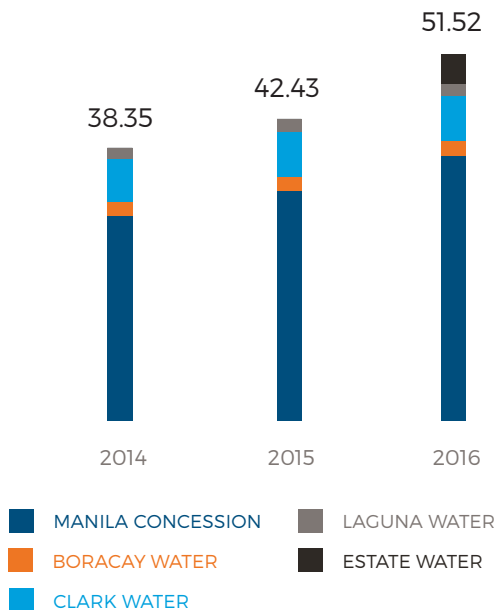
In line with its business goals and SDG 6, Manila Water continues to strengthen and expand its used water services to ensure sanitation and high levels of hygiene for more communities. It increased sewer connections while treating more used water.

The company is also in complete support of the SDG's thrust to drastically reduce untreated wastewater and minimize the release of organic pollutants into water streams.

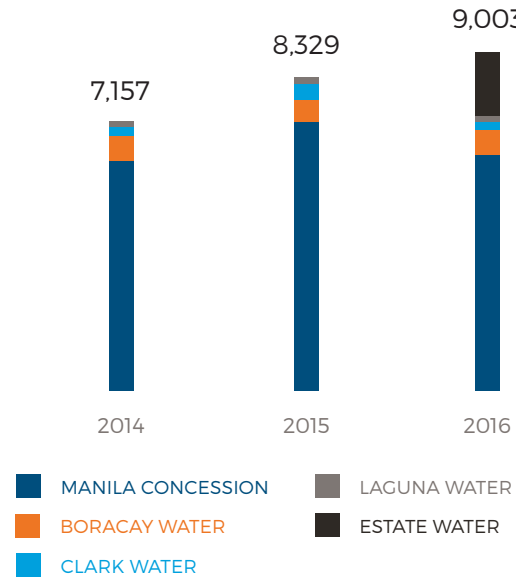
TOTAL NUMBER OF SEWER CONNECTIONS



USED WATER TREATED (MILLION CUBIC METERS)



ORGANIC POLLUTANTS REMOVED (TONNES BIOCHEMICAL OXYGEN DEMAND)



PROVIDING ENERGY

Through AC Energy, Ayala is building a portfolio of power generation assets using renewable and conventional technologies, with the goal of supporting the country's energy requirements and spurring the nation's progress.

TYPE	GROSS CAPACITY (MW)	NET CAPACITY (MW)	ATTRIBUTABLE CAPACITY TO AC ENERGY (MW)	
			2015	2016
Conventional				
GMCP	660	632	126	126
SLTEC	270	244	122	85
GNPK ¹	604	552	469	469
GNPD ¹	725	668	-	334
Subtotal	2,259	2,096	717	1,014
Renewable Energy				
NLR	81	81	41	29
NorthWind	52	52	26	35
Montesol	18	15	17	17
Subtotal	151	148	84	81
Total	2,410	2,244	801	1,095
Percent Renewable Energy	6.3%	6.6%	10.5%	7.4%

¹ Under construction

While the company continues to tap conventional energy sources to help secure energy availability in the country, AC Energy remains firmly committed to exploring innovations in power.

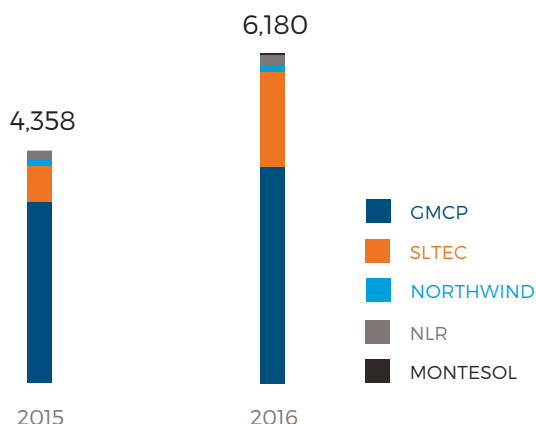
AC Energy currently has a total attributable capacity of 1,095MW in conventional and renewable projects. This figure is a 36.7 percent increase from its 801MW attributable capacity in 2015 as the company invested into GN Power Dinginin. In 2011, AC Energy has committed US\$800 million in equity to build its power portfolio.

Divestments from North Luzon Renewables resulted to a 3MW decrease in attributable renewable energy capacity in 2016. However, AC Energy invested in the developing 75MW Sidrap Wind Farm Project, and won the bidding for the acquisition of the existing 637MW Chevron Geothermal, both located in Indonesia. With these developments, it is well on its way to its goal of ramping up its renewable energy portfolio to 1000MW. The company also works to reduce plant outages, achieve maximum occupational safety and healthcare figures among its workforce, and achieve its target of 15 percent in ROE by 2017. In 2016, energy generated increased by 42 percent with the addition of Montesol and increased production from all the other plants.

To keep its environmental impacts at a minimum, the company's conventional plants use the best available technologies and management approaches to reduce the accumulation of fly ash, and air and coal dust emissions. SLTEC, which uses atmospheric fluidized bed combustion, has an eight percent reduction of CO₂ emissions per electricity produced compared with conventional power plants.¹

In addition, SLTEC is responsibly monitoring its impact on Balayan Bay's biodiversity. For more details on this, please refer to page 131 under Biodiversity Studies.

ENERGY GENERATED (GWH)



GLOBE: LEADERSHIP IN DIGITAL TRANSFORMATION

Globe aims to advance its industry leadership by developing resilient and sustainable infrastructure that provides affordable telecommunications services for more Filipinos.

The company's investments in telecommunication infrastructure over the past years allowed Globe to anticipate the need for faster and more efficient digital and technological solutions, resulting in a stronger competitive advantage. For an overview of its business and goals, please refer to pages 70 to 73.



Through continued investment in world-class telecom infrastructure and innovative partnerships, Globe maintains its leadership as the purveyor of the Filipino digital lifestyle.

¹ Pembina Institute. A Comparison of Combustion Technologies for Electricity Generation. 2006. <https://www.pembina.org/reports/Combustion_CCS_Final.pdf>



Globe is poised to continue its success by exercising leadership in digital transformation and technologies and covering more communities, especially in areas where digital solutions are needed most.

In 2015, Globe considerably upgraded internet speeds resulting in an 89 percent increase in data consumption and traffic over 2014-2015. The company's acquisition of Bayan, alongside various network upgrade projects, resulted in bandwidth expansion and 100 percent 3G and wider 4G coverage.

Globe's extensive market and customer activities resulted in a higher network quality index of 78.62 in 2015. More corporate clients employ Globe's data centers, resulting in ₱700 million in revenues. Aside from supporting startups and micro enterprises, Globe also actively supports new entrepreneurs through its inclusive value chain approach to retail sales through Autoload MAX, which now provides steady income to over 1.1 million retailers nationwide.

With its go-to-market activities, Globe's NQI remained high in 2016, with the following indices for mobile – postpaid: 73.86, prepaid: 81.57, and TM: 83.43; and the following results for broadband – DSL: 72.50 and LTE: 68.39. It also received a net promoter score of 22 percent. The company also hit ₱7.3 billion in revenues from data centers and retained its AMAX retailers to over 1.1 million.

BUILDING TOMORROW'S TRANSPORT STRUCTURES

LRMC: CATALYZING PROGRESS

Through AC Infrastructure, Ayala is seeking to establish long-term solutions to the country's transport and infrastructure problems. For an overview of its business and goals, please refer to pages 82 to 83.

While still in its early stages, the company has already made headway in improving existing transport



LRMC continues to upgrade the LRT 1's facilities and light rail vehicles in order to facilitate a safe and convenient riding experience for over 450,000 daily commuters.

infrastructure. The first phase of the rehabilitation of the Doroteo Jose Station was completed in early 2017, with overcrowding during peak hours expected to lower to 85 percent, from 120 percent.

These achievements were realized, in part, through LRMC's improvement in workforce development and procurement. A code of ethics and clear cut processes for vendor management are resulting in greater savings and streamlined operations. Employee training has also increased system efficiencies and logistics management.

Team performance has likewise considerably improved. Purchase orders served increased from 19 percent in June 2016 to 78 percent in December 2016. PO delivered went up from a low one percent in June 2016 to 58 percent in December 2016. Sourcing lead time also remarkably improved from 88 to 24 days over a span of seven months, representing a 72 percent rate of improvement.

MCX: LINKAGES TO GROWTH

Inaugurated in July 2015, AC Infrastructure's Muntinlupa-Cavite Expressway is the first transport project of the Ayala group under the public-private-partnership framework. It is also the first fully interoperable toll road between concessionaires outside the Philippine National Construction Corporation franchise.

MCX, which spans four kilometers, has created the linkages necessary to ease traffic in the area.

On its first full year of operations, MCX has generated an annual savings of ₱219 million in fuel consumption, and ₱139 million or approximately 889,000 manhours saved from improved traffic. It currently serves an average daily traffic of 24,000 vehicles per day.

CREATING SUSTAINABLE GROWTH CENTERS

Our investments in infrastructure are meant to complement each other towards creating thriving growth hubs across the country.

Ayala Land works to enrich the value of land while improving the quality of life of more people. Today, the company is actively developing new growth centers and more sustainable estates.

Using its Makati and Bonifacio Global City estates as benchmarks, Ayala Land is using its decades of best

infrastructure through LRMC, its joint venture with Metro Pacific Light Rail Corporation, and the Philippine Investment Alliance for Infrastructure's Macquarie Infrastructure Holdings (Philippines) PTE Ltd.

AC Infrastructure's work has already resulted in marked improvements for LRT 1, the oldest line of the city's railway system. It has increased the number of working light rail vehicles from 77 to 100, accommodating significantly more passengers. When it started operations in the last quarter of 2015, the line ferried over 43 million passengers. For the whole of 2016, there were 148 million passengers accommodated.

Punctuality of the trains likewise improved, from 95.71 percent as of December 2015 to 99.39 percent in December 2016. More trips were achieved to meet demand during peak hours.

The company continues to rehabilitate the line to further reduce overcrowding and strengthen

practices and experience in new properties that are not only socially inclusive and eco-efficient, but are also well interconnected through efficient public transport infrastructure.

BGC's bus system is a prime example, now serving over 34,000 people daily, while easing traffic congestion.

PUTTING PEOPLE FIRST: IMPROVING PEDESTRIAN AND TRANSIT CONNECTIVITY

Ayala Land prioritizes pedestrians and ensures that all its developments are walkable and well-connected to transit points in consideration of the needs of all markets, including those at the bottom of the pyramid. Today, all of its estates have secure, well-defined, and easy to navigate pathways, and are at most two to three rides away from major hubs. All Ayala properties, malls included, have integrated public transport terminals.

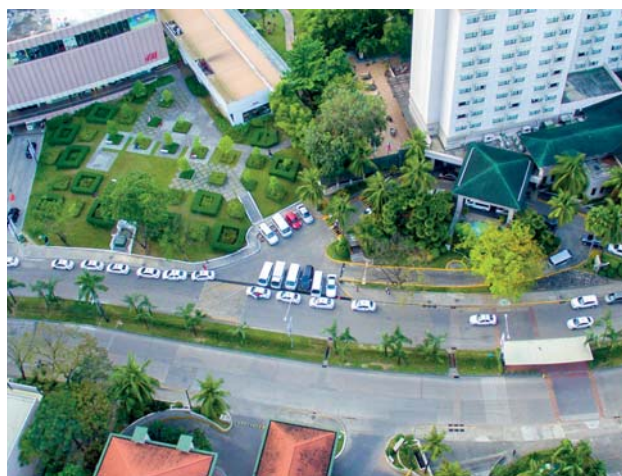
For example, Ayala Land's Cebu development, through subsidiary Cebu Holdings, elevates the pedestrian experience by enforcing a pedestrian-first mindset through priority signs and tighter security. This benefits about 10,000 pedestrians who use the crosswalks at Cebu Business Park and Cebu I.T. Park each day.

To further ease commuter access, transit stops and public utility vehicle terminals are provided in both CHI estates, serving an average of 10,500 daily commuters.

Arca South, the company's new mixed-use estate in Taguig City, will offer pedestrian features that allow easy access to different districts of the estate. These will include dedicated bike lanes, wider walkways, and an integrated parking system.

On the other hand, Vermosa is a 700-hectare estate in Cavite offering a total of 60 hectares of public space and a 14-kilometer greenway. The main roads will have wide pedestrian lanes and will feature a 1.5-meter wide bike lane. This will enable Vermosa's Central Business District to be accessed within 10 minutes either by walking or biking.

Ayala Land continues to strengthen its already successful infrastructure improvement programs in Makati and BGC. The elevated walkway system in Makati is now the longest in the country, and the Greenway Park in BGC is now the longest urban park in Metro Manila.



The Cebu Business Park and Cebu I.T. Park are two examples that highlight the pedestrian-friendly nature of Ayala Land's mixed-use estates, with connectivity to public transport and facilities such as walkways and bike lanes

SOCIAL SECTION

ADDRESSING INEQUITIES THROUGH INCLUSIVE BUSINESSES



End poverty in all its forms everywhere



End hunger, achieve food security and improved nutrition and promote sustainable agriculture



Ensure healthy lives and promote well-being for all at all ages



Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all



Achieve gender equality and empower all women and girls



Reduce inequality within and among countries

Social exclusion and inequity continue to deny many Filipinos opportunities for advancement. This is why Ayala continues to explore business approaches and strategies that create opportunities to bridge social divides.

In working towards a progressive and socially inclusive society, we have used entrepreneurship to engage Filipinos. We have intensified our focus on solutions that deliver social goods at a minimal additional cost, while aligned to our core business, and we continue to engage more partners and develop synergies with different industries.

We believe that our businesses are in a good position to contribute to key sections of the Sustainable Development Goals: giving assistance for good health and well-being, providing clean water and sanitation, reducing poverty, hunger, and inequality, and giving quality education. Our work centers around these social dimensions, for the simple reason that they are critical to improve human development and ensure a higher quality of life. They are also designed so that our success in one impacts our ability to deliver in another.

HEALTH AND WELL-BEING

A predominantly healthy population is vital to both sustainable development and the growth of our businesses. According to the UN, significant steps have already been taken by key stakeholders in meeting the global health targets of the previous Millennium Development Goals. There remains, however, enduring health gaps, as well as emerging issues, that threaten our collective ability to effectively provide equitable quality healthcare.

Ayala's new healthcare business, as well as our group's ongoing push to make technology work for health and safety, have been developed in full consideration and support of the UN's and our government's goals toward healthcare for all.

DEMOCRATIZING ACCESS TO MEDICINE AND HEALTHCARE

Basic affordability and access to quality healthcare and medicine remain challenges in the Philippines. Pharmaceutical products are sometimes 30 times more expensive than in other developing countries, and our research shows that 45 percent of the middle class have not seen a primary care doctor in a year.



As a community-based clinic, FamilyDOC strives to build relationships based on trust with the families it serves.

AC Health invested in Generika and FamilyDOC precisely to meet that basic need.

By exploring innovations that lower the cost of delivering health services, AC Health is poised to change the way primary care and pharmaceutical services are delivered in the country.

AFFORDABLE QUALITY MEDICINES THROUGH GENERIKA

Generika continues to enlarge its impact and scale through the sale of quality and affordable generic medicine. For an overview of its operations and performance, please refer to pages 88 to 89.

All Generika stores are FDA compliant and ensure the constant availability of supplies by keeping inventory levels at their optimum. The serve rate, or the percentage of orders delivered or fulfilled for all branches, was at 97.6 percent in 2016. The proportion of generic medicine sales to total revenue was at 74 percent in 2015 and 75 percent in 2016.

To promote preventive medicine and early detection, Generika also offers basic diagnostic services, such as blood sugar monitoring for only ₱25 and free blood pressure checks. It also has mobile clinic services offering a twice-a-month package of diagnostic services with free doctor consultations for only ₱250. An average of 231 mobile clinics are deployed monthly across the country.

Further exploring how pharmaceutical services can create a more inclusive healthcare system, Generika pioneered two programs at no cost to clients. The first is Gamot Guide, a patient-friendly tool that provides

customers with basic drug information such as the available names, indication, dosage, and proper storage of the medicines they purchased. The second is Gabay Kalusugan, a series of community events that keep people up-to-date on how to achieve a healthier life.

AFFORDABLE PRIMARY HEALTH CARE THROUGH FAMILYDOC

FamilyDOC is AC Health's chain of community-based, primary care clinics manned by doctors, nurses, and pharmacists. All branches offer diagnostic, pharmaceutical, clinical, and laboratory services. For an overview of its operations and performance, please refer to pages 88 to 89.

"The Doctor is Always IN" at FamilyDOC clinics, from Monday to Saturday, 7:00 a.m. to 10:00 p.m. Follow-up or second consultations with doctors are free of charge.

Clinics started using the Electronic Medical Records system in 2015, allowing physicians quick and secure access to patient records from any FamilyDOC branch. Envisioned to be used on a wider scale, the EMR system has the potential to generate analytical reports that will benefit not only the chain of clinics, but also the country's public health system.

FamilyDOC has served approximately 16,000 unique patients to date. Compared to other outpatient health facilities, the company estimates a total of 10-40 percent patient savings due to the early detection and treatment of their health concerns.

FOSTERING SAFETY THROUGH TECHNOLOGY (G4-PR1)

Improving public safety in various settings is the sustainability focus areas of some of our companies such as IMI, Globe, and AC Automotive.

IMI plays a paramount role in ensuring driver safety through its work in Advanced Driver Assistance Systems. Using its core focus on assisted driving with customized safety solutions as leverage, the company assembled 1.19 million safety camera units in 2015 and 1.96 million in 2016 for various car makers. These cameras prevent road accidents by assisting drivers through lane departure warnings, road signage recognition, and collision avoidance.

AC Automotive continues to champion road safety in the Philippines. The company's Honda, Isuzu, and Volkswagen dealerships implement a host of customer-care programs on defensive driving, traffic rules and regulations, basic car care, troubleshooting, and fuel efficiency.

In 2015, AC Automotive sent periodic maintenance service reminders to 60,321 customers resulting in 34,480 clients who submitted their vehicles for road worthiness checks. In 2016, the company sent 58,914 PMS reminders that resulted in 37,512 actual vehicle checks. From 2015 to 2016, AC Automotive likewise conducted 46 driver trainings that improved the driving knowledge and skills of 1,207 people and resulted in an average training rating of 4.5/5.



As part of the service it provides, AC Automotive's dealerships hold seminars to educate customers on road safety and other relevant topics.

In addition, IMI and Globe prioritize radiation safety as integral aspects of their businesses. IMI assembles safety devices, such as dosimeters, to protect various work groups against radiation exposure. The company assembled 86,000 dosimeters in 2015 and 172,000 units in 2016. Globe, on the other hand, employs 10 Radio Frequency Safety Officers certified by the Department of Health to conduct Radiation Measurements at Globe sites. Globe cell sites have received radiation-safety certificates from the DOH and do not pose any negative health impacts on its staff and communities.

Finally, IMI also develops security devices to help protect against criminal activities for buildings and residences. In 2015, IMI developed 1.91 million units of such devices, and 2.2 million units more in 2016.

HEALTH OUTREACH AND MEDICAL MISSIONS

Other Ayala companies that do not have a direct health proposition to their business models contribute through medical missions and donation of free medicines.

These programs include NLR's medical mission in Ilocos Norte, SLTEC's health program for the aged in Calaca, Batangas, and IMI's continuing medical outreach program for its host community in Laguna. Through these programs, Ayala companies help to address the health needs of their host communities, while strengthening goodwill and healthy relations with neighboring groups.

PROVIDING ACCESS TO SAFE DRINKING WATER AND SANITATION SERVICES

MANILA WATER: MOVING FORWARD WITH SDGS

Manila Water ensures that the water it provides is fully compliant with Philippine National Drinking Standards, validated by constantly collecting and testing over 900 samples across the company's operations and concession areas.

Manila Water maintains both high quality service and affordable water rates to ensure it ably meets the needs of the broader public. It is also committed to excellence in providing expanded sewerage and sanitation services.

Manila Water continues to demonstrate how business can significantly impact the health and development needs of large numbers of populations, especially those in underprivileged areas.

WATER FOR THE MARGINALIZED: TUBIG PARA SA BARANGAY

Manila Water's banner program for marginalized communities, also known as TPSB, is one of the most celebrated and awarded water-for-the-underprivileged programs in the world.

Since it started in 1998, it has implemented over 700 projects and reached around two million underprivileged Filipinos.

TPSB continues to provide nonstop potable water connections to poor households through flexible financing options and a socialized tariff scheme. Moreover, the program has eliminated unscrupulous water operations that sell water at exorbitant costs to poor communities with no water connections.

In 2015, TPSB connected a total of 209,644 households in the Manila Concession and 250 outside the concession area. In 2016, this number increased to 211,478 in the Manila Concession, plus 620 outside the concession area.

HIGH QUALITY DRINKING WATER: HEALTHY FAMILY

Manila Water advocates drinking water from the tap, given its assurance of the high quality of water it delivers to its service areas. There are pockets of communities, however, that continue to be apprehensive over the mandatory residual levels of chlorine in tap water. Other households with rusty or very old pipes also need to buy bottled water for drinking.

In response to these requirements, Manila Water developed the Healthy Family concept, which provides high-quality drinking water directly to the homes of customers. The business model is also Manila Water's response to the thousands of water refilling stations across the country that continue to operate in a poorly regulated environment.

Since Healthy Family was launched in 2014 with around 6,000 households as regular customers, the business has now reached 85,000 households in Metro Manila.

ADDRESSING POVERTY, HUNGER, AND INEQUALITY (G4-SO1)

While more and more communities in the country are enjoying economic growth and a wider resource base, there are still populations that are too poor or too remote from growth centers to break out of poverty on their own.

As we enlarge the scale and reach of our business operations, so too will we continue to assist members of our communities most in need.

BPI: WORKING TOWARDS GREATER FINANCIAL INCLUSION

The Bank of the Philippine Islands continues to extend its services to cater to lower-income groups and those with irregular incomes, who face unique challenges by being excluded from the financial system.

Low-income families have difficulty accessing private services. BPI thus designed a savings scheme called Easy Saver, a deposit account that does not require a maintaining balance, and can be started with an initial deposit and card fee totaling only ₱250.

This platform has seen a steady rise not only in clients, but also in the size of their accounts. The number of accounts increased by 4.5 percent from 2014 to 2015 and 4.6 percent from 2015 to 2016. Easy Saver also saw a 26.9 percent annual increase from 2014 to 2015 and another 18.7 percent increase in the average savings per account, indicating that it is truly able to serve the banking needs of poor groups. These Easy Saver accounts form 32.5 percent of BPI's overall number of depositors in 2015 and 24.2 percent in 2016.

For Filipinos wanting to start their own small business, BPI established a program called Ka-Negosyo that empowers disadvantaged groups through financing assistance and proper guidance.

Ka-Negosyo holds investment seminars and training sessions and offers a wide range of flexible loan options suited to different types of capital requirements for specific businesses. The loans have extended payment terms to help support businesses in their early stages. The maturation of the program saw it developing a more targeted approach in its roadshows by ensuring a better understanding of each client. There were 23 and 24 roadshows in 2015 and 2016, respectively.

DIRECT SAVE-UP AND JUMPSTART

To help more communities break out of the cycle of financial insecurity, BPI continues to provide innovative savings, credit, and investment concepts.

BPI's Direct Save-Up, for instance, is an easy way to help depositors regularly save a fixed portion of their salary. It discourages unnecessary spending and prohibits withdrawals for short to long term periods. It also comes with insurance coverage, including basic life insurance, accidental death, and accidental dismemberment.

In 2015, there was a 28 percent decrease in the number of Direct Save-up accounts. This improved in 2016, with only a 4.5 percent decrease. In 2016, savings volume and average savings per account continued their upward trend: growing by 9.7 percent and 15 percent, respectively.

BPI's Jumpstart, on the other hand, instills the habit of saving at an early age among children and young adults. With the guidance of BPI and their parents, children can apportion regular spending needs and protect their savings from unnecessary withdrawals.

Jumpstart figures over the past two years have been on the rise. The number of accounts went up five percent in 2015 and four percent in 2016. Savings volume increased by 20 percent in 2015 and 13.4 percent in 2016. Average savings, meanwhile, also went up by 11 percent in 2015 and nine percent in 2016.

The bank also has a number of investment programs that are within reach of lower income groups, such as the Unit Investment Trust Funds, which allows clients to start an investment account for as low as ₱10,000. Our Asset Management Trust Group also makes it a point to reach out to Overseas Filipinos. As of 2016, our OF customer investments increased by 21 percent from 2014 to 2015 and another 21 percent from 2015 to 2016. There are other funds available to suit the different risk appetites of clients.

BPI also has the Invest-in-You Trading Academy, which encourages novice clients to invest by making the stock exchange process easier to understand and explore.

More Filipinos are also beginning to invest at an earlier age, with those age 30 years or below comprising a third of BPI's new clients. The I-TRAC program, meanwhile, has served around 15,000 investors through its many stock market seminars and lectures in various public venues.



BPI provides a variety of services through its role as a trusted financial advisor of Filipinos

PROVIDING QUALITY AFFORDABLE HOMES FOR LOW-INCOME MARKET

One of Ayala Land's subsidiaries, BellaVita, is leading the way in espousing a more socially inclusive approach to real estate development—helping Filipino families to own their own homes. After successfully launching its first developments in Luzon, the company has now branched out into the Visayan market through BellaVita Iloilo.

This new property in the municipality of San Miguel in Iloilo City is an 11.7-hectare gated community with 1,800 house-and-lot units. With amenities at par with other higher-priced developments, 42 percent of this community's total land area will go to green open spaces. Houses have an average floor area of 22 sqms on average lot sizes of 36 sqms.

The company has strategically designed the property to be affordable even to minimum wage earners in a rural capitol, with a reservation fee of only ₱3,500 and a monthly amortization of ₱3,000.

NEW APPROACHES TO CORPORATE SOCIAL RESPONSIBILITY

CSR continues to be a significant aspect of the way we do business. As some of our businesses interact directly and have the capacity to share their business acumen to their partner communities, livelihood assistance is one area in which we are active.

NLR has a community seedling program, which purchases seeds directly from neighboring barangays. Globe, meanwhile, has an online crowdsourcing platform called KIVA. The scheme generates donations that are matched with lending opportunities for 698 microenterprises. Collectively, these small businesses have earned over ₱8 million in revenues in 2016. Globe also assists state welfare beneficiaries through possible employment as sales agents.

Other livelihood programs that produced significant results over the past two years are Laguna Water’s Kabuhayan Para sa Barangay, which extended millions of pesos worth of non-interest loans for livelihood; IMI’s support of a group of women sewers in Southern Luzon; and Montesol’s prioritization in hiring local residents in Negros Oriental for its construction projects.

The need for private sector assistance is also evident during times of natural disasters. Globe and NLR lead on this front with their work on disaster resiliency and calamity response. Globe’s Project Mayor or Sagot Ka ni Kap is a disaster response and risk-reduction program which strengthens communities through insurance, equipment provision, communication solutions, and community leaders capacity building. NLR, on the other hand, has community-based disaster readiness programs. It also provided much-needed manpower assistance in clearing debris from tourism sites in Ilocos Norte following Typhoon Haima. The company then provided roofing materials and assisted in efforts to quickly restore power lines.

AYALA FOUNDATION: ON WITH THE FIGHT AGAINST POVERTY

Since it started as Filipinas Foundation in 1959, Ayala Foundation has been at the forefront of Ayala’s social commitment efforts.

Recognizing the huge potential in training youth leaders in marginalized areas with rampant social inequity, Ayala Foundation launched its Leadership Communities program or LeadCom, which replicates the successful Ayala Young Leaders Congress program to reach gifted but disadvantaged children in remote areas.

Focusing on areas outside economic capitals, LeadCom uses a multi-sectoral approach to bring academics, public servants, and various civil society players to train potential youth leaders through actual project management work, from conceptualization to realization.

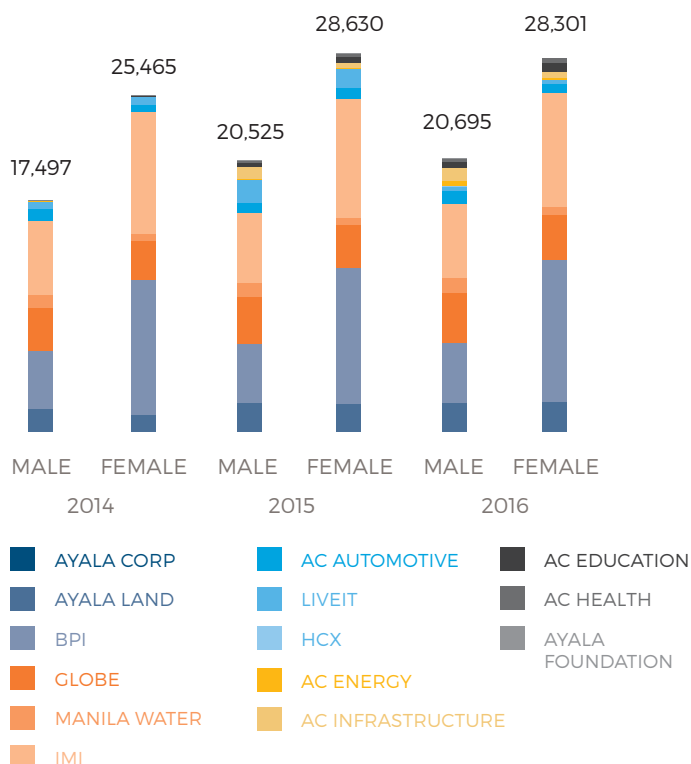
The program has implemented 32 projects in 2015 with a Social Return on Investment of 1:2.67.¹ In 2016, it carried out 10 more projects with an SROI of 1:1.36. Over the past two years, the program has also enjoyed average counterpart funding from local governments amounting to ₱3.6 million, and the support of 367 volunteers from local communities.

EQUALITY WITHIN THE GROUP

EMPLOYEE DISTRIBUTION (G4-10)

We continue to uphold our policies on providing equal employment and career growth opportunities among our ranks, regardless of gender, age, and disabilities. We believe diversity of perspectives make us better able to deliver on our mission. Religious affiliation, gender, or physical disability are not considerations in our hiring process. We do not condone child labor, forced labor, and any human rights violations including violations of indigenous rights. These ideals are embodied and articulated in the respective codes of business conduct and hiring policies of our companies.

In 2016, we had 48,996 total employees having a 1:1.37 male:female ratio.



¹ Ayala Foundation uses the guide from the SROI network (<http://socialvalueint.org/>) and refers to the Social Value International on some international proxy indicators



APEC's unique curriculum ensures that students have the appropriate skills and knowledge to make them employable after graduation.

EDUCATION AND LIFE-LONG LEARNING OPPORTUNITIES

Education is one of Ayala's strategic focus sectors, for its power to significantly improve lives. Through our new business, AC Education, and the continued development of educational innovations and interventions by Ayala Foundation, and our other companies, we pursue our goal to achieve inclusive quality education for a greater number of people.

AC EDUCATION

AC Education Inc. is the holding company for Ayala's investments in education. The company is committed to delivering high quality and affordable education that significantly enhances the employability of its graduates.

This is our way of helping address the large gaps in the quality, price, and accessibility of topnotch education in the country, through innovative entrepreneurial and educational approaches.

AFFORDABLE PRIVATE EDUCATION CENTER

A partnership between Ayala and Pearson, the Affordable Private Education Center is a pioneering chain of stand-alone private high schools. For an overview of its operations and performance, please refer to pages 90 to 91.

APEC Schools builds on global best practices in education using its internally developed curriculum that is oriented towards preparation for college and employment. It focuses strongly on developing English competency and building self-confidence, in addition to enhancing knowledge on core subjects, professional skills, and a set of core values.

All-in costs at APEC Schools are among the most affordable for private schools in the Greater Manila Area. The tuition rates at APEC are among the lowest in its class of education. Junior high tuition fees for the whole year can go as low as ₱19,000 per year, and senior high school rates can go as low as ₱22,500 per year which public school graduates can pay for with DepEd vouchers.

Apart from a strong curriculum, all APEC schools are built utilizing a safe and secure environment, with digital-enabled, air-conditioned classrooms, and modular facilities.

The school likewise employs custom-designed curriculum and lesson guides, student-centered collaborative learning, non-traditional learning facilitators, and an immersive environment for learning strong communication skills in English.



UNIVERSITY OF NUEVA CACERES

Established in 1948 in Naga City, Camarines Sur, the University of Nueva Caceres is the oldest and one of the biggest institutions of higher learning in Southern Luzon.

UNC offers programs from preschool to graduate studies, and has a strong academic standing in the fields of Business and Accountancy, Engineering and Architecture, and Education. It is one of Bicol's best educational brands with a leading position in the private education market and a demonstrated strong growth trajectory over the past five years.

In partnership with AC Education, UNC aims to exceed its past achievements, help its graduates build compelling careers, and become both the school and employer of choice in the region.



LINC: LEARNING WITH INDUSTRY COLLABORATION

LINC is a senior high school program which can make professional employment a reality for all its graduating students. One of the goals of the program is to empower students to find employment, thereby allowing them to finance their higher education options.

By strategically mapping the thinking and skills needed to enter targeted jobs in identified companies, the program reverse-engineered these competencies and integrated them into the existing senior high school curriculum.

LINC also leverages strong partnerships with employer partners inside and outside the Ayala group.

At an affordable cost of around ₱40,000 per student for the entire year, the program integrates all DepEd required courses in ABM, GAS, and STEM with a strong English track using the English as Second Language model. The curriculum is further built to scale on an internet-enabled technology platform, inclusive of Chromebooks and Asus 7" tablets for all students. Of all LINC SHS graduates, 87 percent were hired within 90 days after graduation.

The success of the program is being constantly measured and replicated with its graduates having an average starting salary of seven percent higher than the average college graduate, and 26 percent higher than the NCR minimum wage.



Through APEC Schools and the University of Nueva Caceres, AC Education is empowering the Filipino youth.



PEP gives university students the chance to gain experience in a professional environment, towards securing gainful employment.

PROFESSIONAL EMPLOYMENT PROGRAM

PEP is a novel program at UNC designed to place graduating university students in a working professional environment to enhance their potential for immediate employment.

Designed in collaboration with top companies, including BPI, Globe, Accenture, and Convergys, it fosters the development of strong English skills, the honing of critical thinking, and a practical application of technology.

Recent PEP graduates at UNC achieved starting salaries over 30 percent higher than their peers. The program is further being developed with its other academic partner, Jose Rizal University. To date, 85 percent of PEP graduates are hired within 90 days of graduation (compared to 63 percent for regular graduates), with 16 percent of this total immediately getting supervisory or specialist levels of employment. The graduates receive salaries that is 52 percent higher than the NCR minimum wage.

PARTNERSHIPS FOR EDUCATION

New collaborative programs and tie-ups for education have been established across the Ayala group in the past years. Notably, Ayala Foundation continues to provide quality public elementary education to 1,010 underprivileged children in Tondo, Manila, and Bauan,

Batangas through its Center for Excellence program. Ayala Foundation also continues to educate and inspire young leaders annually through its Ayala Young Leaders Program, and now has a relevant pool of alumni nationwide who have established local chapters and continue to bring youth leadership programs at regional levels.

Ayala Foundation partnered with Globe in 2016 to further enhance Globe's long-term education initiative entitled Global Filipino Schools. This resulted in an additional 230 trained teachers from seven schools, further benefitting 9,502 students. The program continues to record milestones in its mission to provide internet connectivity, ICT equipment, teacher training, and collaborative working spaces.

More with Globe, a partnership with Optus and Singtel brought an award-winning program called Digital Thumbprint from Australia to the Philippines to teach safe online behavior and practices, benefitting 4,962 high school students and 826 public school teachers.

Further, NLR also contributed new school infrastructure to Bacarra National High School, IMI gave scholarship programs which benefitted five high school students, and SLTEC's Haraya Manawari, a youth empowerment program, impacted 200 students. Our companies continue to uphold Ayala's long tradition of addressing gaps in educational services through public relations.



Ayala Museum holds a wide variety of exhibitions and shows in order to engage the public, and foster a greater appreciation for art, history, and culture.

CRITICAL THINKING THROUGH THE ARTS

Ayala Foundation, through Ayala Museum and Filipinas Heritage Library, continues to lead the Ayala group in developing the creative and innovative potential of young students.

Through Ayala Museum’s traveling art exhibitions and support of local artists and heritage conservation drives, the foundation stays true to the Ayala group’s long-held commitment to celebrate the best in Philippine creativity while educating more young minds on various outstanding examples of homegrown art.

Ayala Museum’s current traveling exhibitions include "Images of Nation", a collection on the works of Botong Francisco; "Kisame: Visions of Heaven on Earth", a collection of Bohol church ceiling replicas; and "The Evolution of Filipino Costumes: Doll Collection". The series of traveling shows come with expert talks, supplemental film screenings, and guided tours.

LIFELONG LEARNING FOR OUR EMPLOYEES

The Ayala group provides opportunities for career growth and lifelong learning, which ensure that employees can continuously upgrade their knowledge and skills.

For example, Globe continues to invest heavily in its people. The company’s numerous employee training courses include Digital Marketing Certification, Professional Sales Negotiations, Winning Account Strategies, and Lean Six Sigma, among many others.

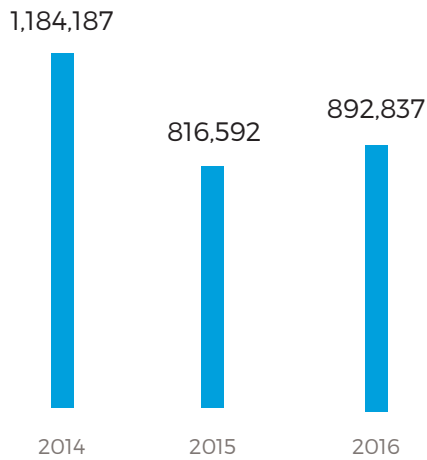
Globe University is an innovative education program with a campus in Globe’s headquarters in Taguig. The university addresses highly specific employee needs, resulting in high-demand courses with employees on waiting lists for enlistment.

Globe’s action learning projects, on the other hand, have uncovered opportunities for cost efficiency and revenue generation. Learning pathways have also allowed consistency in sales approach and skills, thus addressing talent portability within the organization.

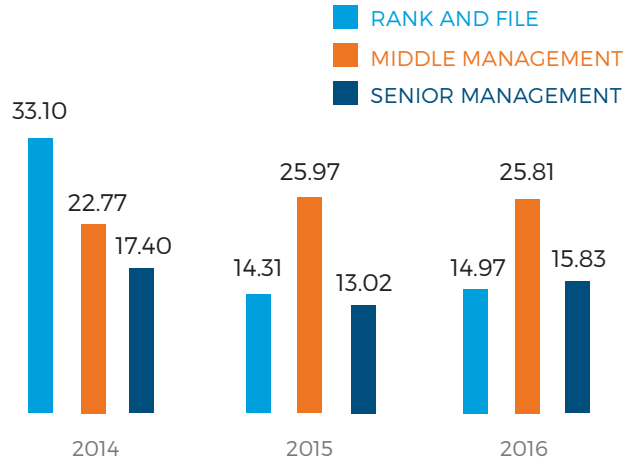
The company’s partners have also benefitted from its nationwide training of 150 retail managers across premium-dealer stores who likewise developed action learning projects for their respective branches. Globe also has 28 certified Ka-Globe members in Digital Marketing.

Finally, Globe develops its band B, C, and D employees through programs such as Essentials of Leadership, Evolving Leaders Program, Empowering Leaders, and the Globe-AIM Management Development Program. The latter has 25 new certified Empowering Leaders and 31 MDP graduates to date.

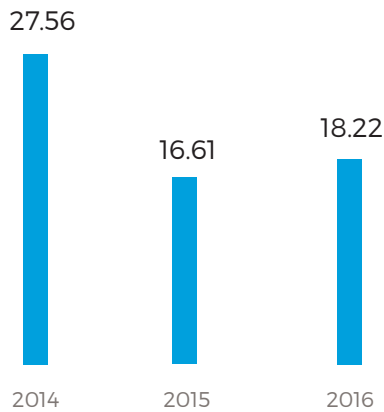
TOTAL TRAINING HOURS



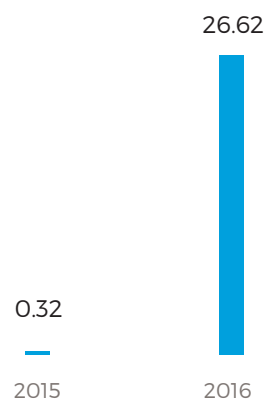
AYALA GROUP AVERAGE TRAINING HOURS PER POSITION



AYALA GROUP (AVERAGE TRAINING HOURS)



AC EDUCATION (AVERAGE TRAINING HOURS)



Meanwhile, a counterpart program at IMI, called IMI University, offers competency-based technical courses with subject matter experts. It has partnered with the University of Batangas for its employees to undergo engineering courses with scholarships.

TRAINING

Ayala employees are given access to a variety of learning platforms to help them in their professional growth. They enter local and international programs from their onboarding, and even when they are fully integrated in the organization. This is to help them in their professional development, towards becoming functional experts in their respective fields. In 2016, Ayala went beyond traditional training formats to ensure that employees have access to learning at their convenience considering their workload and industry competition.

EMPLOYEE TRAINING HOURS (G4-LA9)

Total training hours slightly increased by 9.3 percent from 2015 to 2016 and average training hours also increased by 12.4 percent.

In 2016, average training hours increased by 21.6 percent for senior management, 4.6 percent for rank-and-file, and 8,311 percent for AC Education.¹ However, average training hours decreased by 0.62 percent for middle management.

¹ Average training hours for AC Education were separated as it classifies its employees differently than the other companies. The training hours for AC Health were also not included in the computation for average training hours per position as only unsegregated data was provided.

ENVIRONMENT SECTION

ACCELERATING PROGRESS FOR THE ENVIRONMENT



Ensure sustainable consumption and production patterns



Take urgent action to combat climate change and its impacts



Conserve and sustainably use the oceans, seas and marine resources for sustainable development



Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

In Ayala, a high regard for planetary boundaries and the promotion of environmental conservation are ingrained into our operations and strategies. Our companies constantly monitor and report their impacts on the planet and fully comply with environmental regulations.

By integrating environmental stewardship into our business models and the design of our products and services, we believe we can grow into a stronger and more resilient business house respected by all our stakeholders. Our relevance and impact are best manifested in three areas – Ecosystems and Biodiversity, Materials and Waste, and Climate Change Action.

In the future, we aim to explore more business approaches that accelerate growth while keeping our natural ecosystems and resources protected and conserved.

ECOSYSTEMS AND BIODIVERSITY (G4-EN8, G4-EN11, G4-EN13)

As a proud Filipino company, Ayala works hard to protect our country's rich ecosystems and natural habitats, some of which are the most biodiverse in the world. The group will continue to harness the innovative capacities of its businesses and employees to further conserve and protect our shared resources.

The exceptional programs we have across the group contribute to our holistic effort to grow business alongside a thriving natural environment. They also fully support UN SDGs 14 and 15, which aim to conserve and protect marine life, sustainably manage forests, and halt biodiversity loss, among other key concerns.

PROJECT KASIBULAN: AYALA EMPLOYEES COME TOGETHER FOR THE PLANET

Ayala's Project Kasibulan is a new program that brings together employees from the different companies in the group for a comprehensive reforestation and forest protection program. Project Kasibulan goes beyond a simple tree-planting activity. The program holds intensive orientations on the full planting cycle, including best practices to ensure high survival rates. It also extends opportunities for Ayala volunteers to interact in deeper conservation activities with partner communities and with each other.

WELLSPRING OF IDEAS

Ayala launched the program in June 2016 in Alaminos, Laguna to fully embody and articulate the Ayala group's long-term commitment to nurturing a healthier ecosystem. In its preliminary phase, Project Kasibulan gathered the support of 58 volunteers across the Ayala group, who planted 1,534 seedlings.

Named after the Filipino word “sibol,” meaning “sapling” or “spring,” the program’s initial target is to reforest and protect 13,000 hectares of land in key areas across the country.

Aside from turning Ayala employees into green advocates, the program also gives Ayala companies the chance to mitigate their carbon footprint. The project is an excellent opportunity for more Ayala business units to discover new shared-value approaches such as ecotourism, water distribution in remote areas, and the creation of more green jobs.

SHARED GOALS

The program is anchored on three objectives. The first is *sibol kamulatan* which seeks to drive a change in the mindset of employees towards sustainable living. The second *sibol kalikasan* aims to contribute to the national re-greening project and climate change mitigation. The last goal, *sibol kabuhayan*, aims to provide opportunities for communities to engage in green livelihood or ‘ecopreneurship.’ Ayala aims to expand Project Kasibulan into one of the largest and most comprehensive corporate reforestation and protection efforts in the Philippines.

58 VOLUNTEERS PLANTED

1,534 SEEDLINGS:

Casuarina equisetifolia (Agoho):

673 SEEDLINGS

Acacia auriculiformis (Auri):

760 SEEDLINGS

Pterocarpus indicus (Narra):

64 SEEDLINGS

Terminalia microcarpa (Kalumpit):

37 SEEDLINGS



Project Kasibulan brings Ayala group employees together in an all-out reforestation drive in various areas around the Philippines, as part of its sustainability efforts.

AYALA LAND: BEAUTY AND RESILIENCY IN LOCAL BIODIVERSITY

Sustainable development merged with the creation of shared values and a beautiful aesthetic are at the core of Ayala Land’s market proposition. This is evident in Ayala’s flagship estates in Makati, Bonifacio Global City and Nuvali, and in the additional 371 hectares in Ayala Land’s new estates in Altaraza, Alviera, Circuit-Makati, Vermosa, and Vertis North.

Already renowned for the wide gardens and parks in its estates, Ayala Land is pushing its advocacy in eco-efficiency up a notch by prioritizing indigenous plants while working with experts on Philippine flora. About 60-80 percent of the trees planted in new large-scale Ayala Land developments are now native or endemic. This figure is expected to further increase in the next years as a result of the tree nurseries and data gathering activities that the company has established.

Other site resilient features in Ayala Land’s properties are the development of green open spaces, and the use of filtration stripes, vegetated swales, and storm-water management systems such as detention and retention ponds.

NUVALI CITED AS MODEL OF INTEGRATED RESOURCE MANAGEMENT

Under a project called “Integrated resource management in Asian cities: the urban nexus,” the German International Cooperation Agency and the United Nations Economic and Social Commission for Asia-Pacific recognized NUVALI as a model of integrated resource management. This is a testament to how NUVALI is “able to make adequate use of the interrelationship between the three nexus sectors (water, energy and food security).”

The Urban Nexus project seeks to foster sustainable urban development by embedding resource management policies at the national and global levels.



SUSTAINABLE TOURISM: LIO IN EL NIDO

Ayala Land’s first tourism estate, Lio in El Nido, Palawan, is an excellent example of Ayala Land’s continuing efforts to develop land together with nature. Surrounded by views of the sea and mountains, the Lio estate has successfully integrated the site’s natural features, such as mangroves, lagoons, and forests, into the estate’s overall design and variety of functions.

Beyond regulatory requirements, Ayala Land conducted a series of studies to minimize its impact on this pristine site. Bathymetry and coastal dynamics studies, for instance, determined the possible impacts of waves on the coastline during storms. These enabled the Lio team to identify the best locations for building structures that would avoid harming corals, marine wildlife, and the natural shape of the shore.

Hydrology and flood studies, on the other hand, provided information on the 50-year and 100-year post-development flood events which were considered in road design and elevation of structures in the area.

Moreover, the team conducted a tree survey and floristic assessment exercise to gain more insights on ecosystem types and unique species that require conservation. As a result, existing wetlands, low-lying areas, and littoral forests are now designated as nature reserves.

MANILA WATER: WATERSHED MANAGEMENT (G4-EN8, G4-EN9)

Manila Water withdraws 92 percent of its raw water from surface water sources, mainly from the La Mesa and Ipo watersheds. The remaining eight percent is sourced from groundwater and river infiltration. The company abstracted a total of 536 and 577 million cubic meters of raw water in 2015 and 2016, respectively.

Protecting water resources is a top priority at Manila Water. To manage critical watersheds, Manila Water will continue its forest protection and rehabilitation drives. For this reporting period, it planted 41.5 hectares in 2015, and this increased to 262 hectares in 2016 due to the recommendation of the Integrated La Mesa Watershed Management Plan to increase the tree density through enrichment planting using broad leaf forest tree species. Meanwhile, volunteers nurtured young trees in about 4.7 hectares in 2015 and 5.8 hectares in 2016 in Ipo.

Manila Water’s subsidiary, Cebu Water, sources its raw water supply from the Luyang River in the municipality of Carmen. This river is fed by a privately-owned watershed and is thus subject to possible changes in land use and the presence of informal dwellers. To protect the water supply of the company’s customers in Metro Cebu, Cebu Water works in close coordination with the local government to regulate human activities in the watershed.

Another subsidiary, Boracay Water, obtains its raw water from the pristine Nabaoy River which is now threatened by a proposed road development project, land use changes, and unmonitored tourism. The subsidiary is presently working to convene a watershed council that can exercise proper oversight over these untoward developments. In 2015, the company likewise planted five thousand saplings around Nabaoy.

BIODIVERSITY STUDIES

(G4-EN11, G4-EN12, G4-EN14)

Our AC Energy affiliate, NLR, conducted a Wind Farm Turbine Collision and Mortality Risk Assessment for Birds and Bats in 2016. The research covered an aggregate of dry and wet season data to determine turbine-related fatality rates for birds and bats, and collision risks for identified focal bird species using a mathematical collision risk model. The final report will include the next steps and recommendations on mitigating options for identified project-related impacts.

Another affiliate, SLTEC, conducted a marine survey and assessment of Balayan Bay in October 2016 to assess changes in biodiversity in the area as compared to past two monitoring studies. As a conventional power plant, a potential impact is thermal pollution from the cooling water it releases into the bay. It mitigates this impact by ensuring that the water's temperature is within environmental standards upon discharge.

The latest study revealed a slight decrease in plankton diversity but an increase in density. Species of coral and fish at the jetty continued to improve and remained diverse and in good condition. The abundance of marine life and biomass also slightly improved compared to the previous years' surveys.

For Ayala Land, a total of 34 IUCN¹ Red List Species have been sighted in El Nido Resorts, Lio Estate, and Anvaya Cove. These include one critically endangered species (Hawksbill turtle, *Eretmochelys imbricate*), five endangered species (Green turtle, *Chelonia mydas*; Balabac Mouse Deer, *Tragulus nigricans*; Philippine Pangolin, *Manis culionensis*; Red-headed Flameback, *Chrysocolaptes erythrocephalus*; and the Whale Shark, *Rhincodon typhus*), 11 near threatened species, 16 vulnerable species, and one least concern species. Additionally, there are 14 species that are on the list of threatened species by the Department of Environment and Natural Resources.

RESOURCE EFFICIENCY: OPTIMIZING RESOURCE USE AND WASTE MANAGEMENT

Achieving the optimal balance of resource use allows us to prudently manage costs while simultaneously lowering our environmental impact.

Our natural reserves of materials are finite. Continued consumption without regard to sustainability will not only lead to scarcity, but also to higher operating and production costs. As such, we are fully cognizant of the urgent need to innovate approaches that lead to lower levels of consumption and optimized use of resources.

To ensure that we do not consume water, cement, steel and minerals beyond what can be naturally replenished, we follow global best practices in resource and waste management. We also aim to integrate recycling and resource efficiency into our brand programs, marketing campaigns, and even the daily working habits of our employees.

GLOBE: PROJECT 1 PHONE (G4-EN27)

Discarded smartphones and other gadgets contain hazardous elements such as lead, cadmium and arsenic. But they also contain high-value metals, including gold, palladium, and even platinum—all of which may one day face scarcity and become significantly more expensive to mine and produce commercially.

As the leading telecommunications company, Globe is fully aware of the need to properly discard e-wastes and recycle their useful components. The company continues to inspire clients to be responsible stewards of the planet, through its banner program called Globe Project 1 Phone. This e-waste recovery and recycling drive reached its third year of operations in 2016. It specifically targets the proper disposal and recycling of old mobile phones and portable devices that are recklessly dumped into landfills.

In 2015, the project engaged 13 partners from various sectors and hauled approximately 124,500 kg of e-wastes. The proceeds from the recycling process were used to build 46 classrooms in various public schools across the country through Globe's Global Filipino Schools Program.

¹ International Union for the Conservation of Nature

In 2016, an additional 141,833.5 kg of e-wastes were collected from ten major corporate partners. Together with other programs, this helped Globe build more ICT classrooms and bring 21st-century learning to 80 schools, 5,788 teachers, and 151,526 students nationwide.

IMI: GREENING THE SUPPLY CHAIN
(G4-EN1, G4-EN33)

Resource management at IMI spans the entire production process, from materials sourcing to the disposal of waste. The company ensures that all its materials are obtained in a way that does not harm or pose hazards to its workers and immediate communities, while minimizing waste along its supply chain.

For hazardous materials or chemicals that are necessary in the company’s processes, IMI developed clear guidelines to guarantee safe handling, storage, recycling or reuse, and disposal.

A large fraction of rejections in the manufacturing line translates to higher energy use and greater material scrappage. To minimize unnecessary waste, IMI is developing a database of suppliers who contribute to this. Suppliers are encouraged to attend IMI trainings on defective output, with those in attendance reporting a marked improvement in the quality of their supplies. Previously their defective parts per million reached as high as five to six digits. Since attending trainings, some suppliers reported DPPMs of only two or three digits.

In support of IMI’s green manufacturing initiatives, suppliers are also required to comply with the Restriction of Hazardous Substances, and submit a material declaration and certificate of compliance.

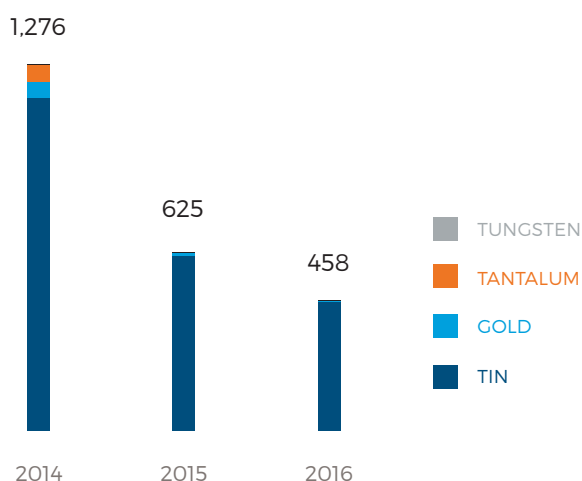
In 2015, IMI became stricter in requiring all material suppliers to do due diligence when sourcing 3TG metals (tin, tantalum, tungsten, and gold). IMI encourages suppliers to buy these metals from Conflict-free Smelter Initiative and Compliant Smelter lists developed by Electronic Industry Citizenship Coalition and the Global e-Sustainability Initiative. Suppliers are also required to submit their corresponding Conflict Minerals Reporting Template.

In addition, IMI was able to recover 118 kg of solder dross in 2015. This enabled it to lessen costs and wastes from the soldering material it uses to bond pieces together in its electronic products.



IMI’s employees are trained to operate world-class technology and machinery in its manufacturing facilities.

IMI 3TG CONSUMPTION (IN KG)



AYALA LAND: MATERIALS (G4-EN1, G4-EN2)

Ayala Land’s efforts in prudent resource use are reflected in the initiatives of its construction arm, Makati Development Corporation, in procuring cement and steel for Ayala Land’s new estates.

MDC uses reinforced bars and steel containing 6.5 percent pre-consumer recycled content and 88.6 percent post-consumer recycled content. In 2015, the company’s specification of cement contained 10 to 15 percent fly-ash replacement. This requirement contributes to reducing consumption of virgin materials and avoids the use of landfill space for fly-ash disposal. Furthermore, MDC’s concrete batching plants and prefabrication plants for construction components reduce wastage and minimize both travel time and fuel consumption.

In 2015, there was a 0.95 percent increase in rebar use while intensity decreased by 10.3 percent. There was also a 0.42 percent decrease in cement consumption and an 11.6 percent decrease in intensity. This shows that Ayala Land used less material per revenue earned compared in 2014.

In 2016, however, there was a 160 percent increase in rebar use and a 123 percent increase in intensity. There was also a 28.4 percent increase in cement consumption and a 10.4 percent increase in intensity. More materials were used per revenue earned compared with 2015 due to the increase in their projects.

WASTE MANAGEMENT

As a group, we monitor both the kinds of materials we use in our operations and their waste by-products. Our primary goal is to reduce waste, while ensuring that our waste management, storage, transport, and disposal processes adhere to the best environmental standards.

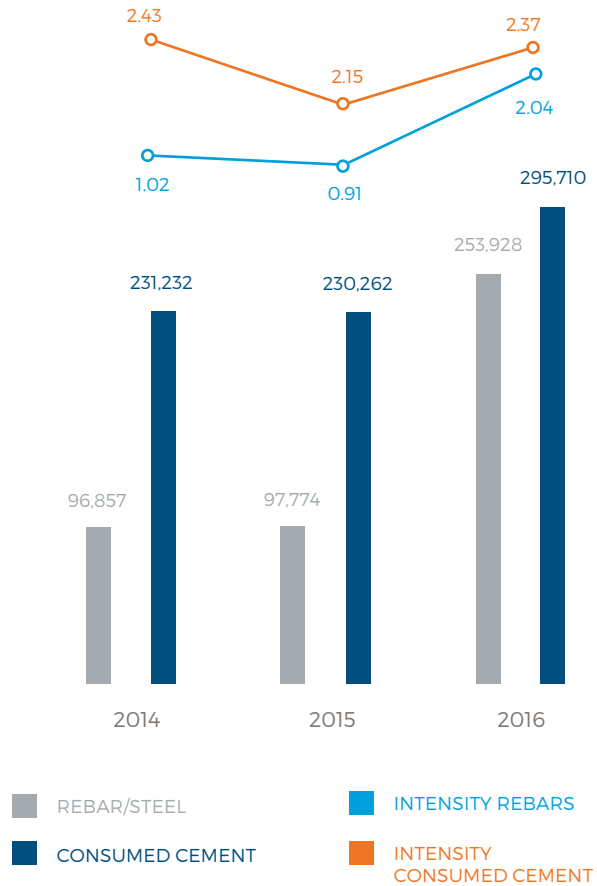
We continuously track the electronic, solid, non-hazardous, and hazardous wastes we generate.

NON-HAZARDOUS WASTE (G4-EN23)

Our subsidiaries continue to fine-tune their approaches to managing non-hazardous waste.

Because of Globe’s clutter-free office campaign, the majority of its employees now use digital or online applications and Google drive. This reduced paper use from 44,750 reams (2014) to 39,650 reams (2015) and 37,220 reams (2016), resulted in savings of around ₱1.6 million in a span of three years.

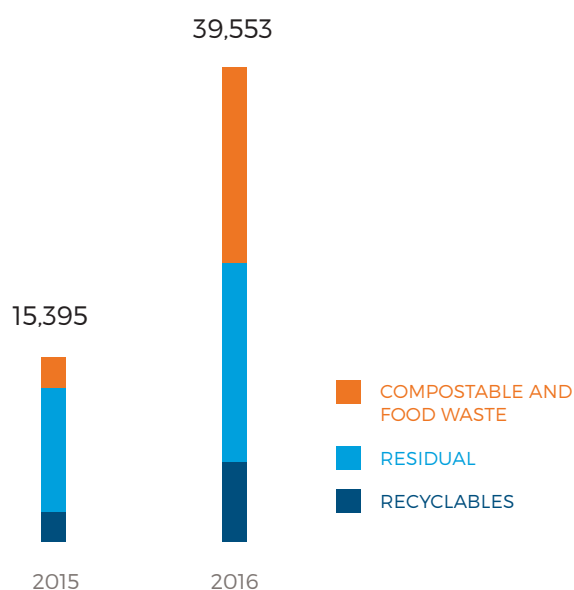
MATERIALS USE (IN TONNES)



MDC strives to ensure the optimal use of resources in its construction activities.

IMI's 3R (Reduction, Reuse, Recycling) program, meanwhile, has remained strong. This program covers the disposal of chemicals in manufacturing, as well as waste segregation and waste composition. An internal audit of quality and environmental systems and procedures is still being implemented.

NON-HAZARDOUS WASTE GENERATED (IN TONNES)



There was a 157 percent increase in non-hazardous waste generated by the group from 2015 to 2016. The marked increase of 528 percent in compostable and food waste reported was due to Ayala Land's better accounting of wastes and the opening of new malls.

On top of these values, Ayala Land also generated about 3.4 million cubic meters of recyclable construction waste and about 9.2 million cubic meters of residual construction waste.¹ In 2016, it also generated about 166,000 cubic meters of recyclable construction waste and about 384,000 cubic meters of residual construction waste.

¹ Waste weight from Seda hotels is estimated using the following assumptions: 1 dry bag = 10 kg, 1 wet bag = 25 kg

PERCENTAGE OF WASTE DIVERTED FROM LANDFILL

Some of our companies also keep track of the waste that they divert from landfills. IMI recovers materials that can be reused, recycled, or composted. In 2015, IMI's percentage of waste diverted from landfill stood at 97.96 percent, decreasing marginally to 97.88 percent in 2016.

Globe, on the other hand, makes use of its ongoing initiatives such as waste segregation and recycling to divert wastes from landfills. For both 2015 and 2016, its percentage of waste diverted from landfills stood flat at 12 percent.

HAZARDOUS WASTE (G4-EN23)

Hazardous waste is composed of organic solvent, e-waste, and batteries. Our companies that produce hazardous waste follow all pertinent laws and regulations related to their storage, transport, and treatment. Some of our companies also partner with nonprofit groups for recycling, treatment, and disposal of used oil and batteries.

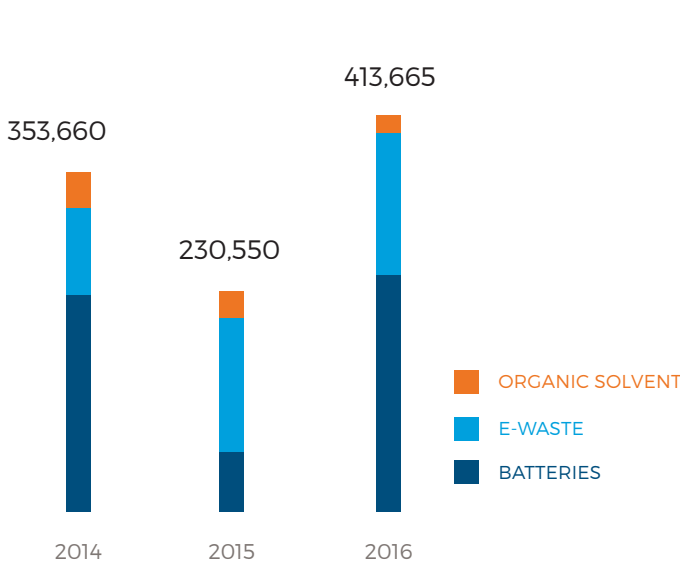
IMI turns over hazardous wastes that can be recycled to ABS-CBN Foundation's Bantay Kalikasan. It also conducts periodic conformance audits and safety inspections.

LRMC properly identifies and segregates all wastes and uses non-hazardous materials whenever possible in its operations. LRMC has also partnered with Bantay Kalikasan, and engages accredited hazardous-waste service providers to collect, treat, and dispose such wastes.

Aside from following all government regulations, NLR has established secondary containment/bunds to prevent or reduce the potential impact of hazardous waste on the soil and groundwater. The company is now also assessing all its waste streams to determine other potential hazardous wastes that require proper handling and management.

In the case of NorthWind, aside from generating electricity from renewable sources, some of the plant's inputs like oil are recycled to minimize waste. The company has also invested in a recycling facility for oil used in the gearbox, generators and other moving turbine parts.

HAZARDOUS WASTE (IN KG)

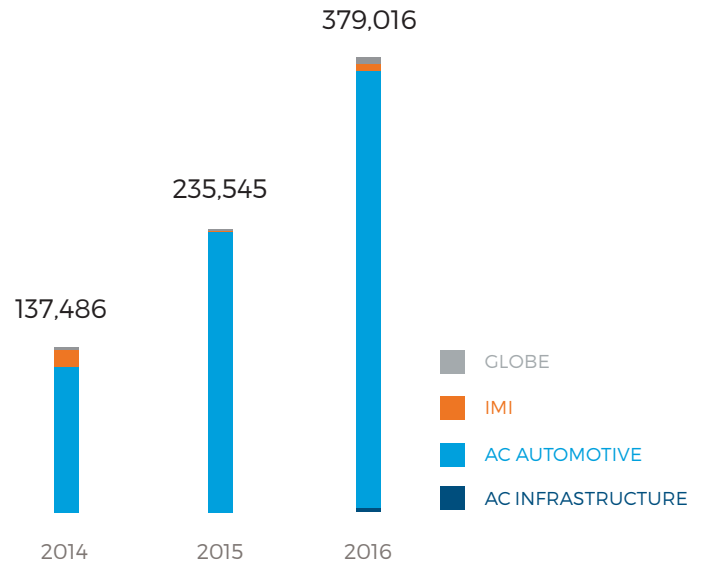


In 2015, hazardous waste generated decreased by 34.8 percent from 2014. Globe contributes the highest percentage of hazardous waste generated due to the nature of its operations. Its battery disposal decreased by 72.5 percent due to its delayed renewal of an agreement with an accredited recycler. This decrease was reversed in 2016 when the MOA was subsequently approved. As such, in 2016, there was a 295.9 percent increase in Globe’s battery disposal, and an increase of 79.4 percent in hazardous waste overall.

WASTE PRODUCTIVITY

Waste productivity relates economic performance with waste generation. This metric measures total revenue generated per tonne of non-hazardous and hazardous waste produced. This year, our waste productivity is 312.73, which is 152 percent higher than the benchmark.

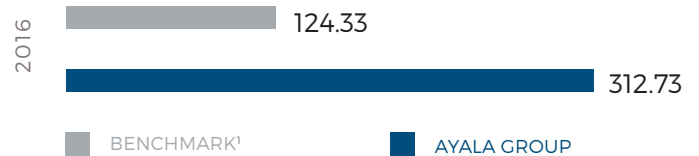
USED OIL (IN LITERS)



In 2015, a 71.3 percent overall increase in used oil from 2014 was due to AC Automotive’s better monitoring of data from Isuzu and Volkswagen, as well as an increase in preventive maintenance services. IMI decommissioned some machines in 2014, which contributed to its 91.9 percent decrease in used oil. IMI’s 2015 used oil came from three gensets only.

In 2016, there was a 60.9 percent overall increase due to the reporting of AC Infrastructure and increased usage from Globe, IMI, and AC Automotive. Similar to 2015, AC Automotive’s spike in preventive maintenance intake in its branches contributed to its increase.

(MILLION PESO REVENUE PER TONNE OF WASTE)



¹ This benchmark is based on the median values of companies in the same sector in Corporate Knights Capital’s 2017 Global 100. The conversion rate US\$1.00 = ₱26.28 uses the January 2017 purchasing power parity (PPP) of the Big Mac Index developed by The Economist. Reported data are from Ayala Land and Globe.

WATER CONSUMPTION AND MANAGEMENT (G4-EN8, G4-EN22)

Beyond monitoring water consumption and following pertinent water laws, Ayala companies have various water management and water efficiency programs to maximize the use of this crucial natural resource.

IMI's water management system, which optimizes a deionized water system operation and reuses treated water, has generated savings of 2.44 percent or 17,383 cubic meters of water in 2015, and 7.27 percent or 57,787 cubic meters in 2016.

SLTEC draws about 99 percent of its water from Balayan Bay for use as cooling water and process water. One hundred percent of water for cooling is returned to the bay, along with water left over from the demineralization process. Water that is used for the process itself undergoes a closed-loop cycle of evaporation and condensation, with minimal losses due to evaporation to the atmosphere.

Less than one percent of SLTEC's water consumption is from groundwater, supplied by the industrial park. This is used for domestic purposes (i.e. in the pantry), with an estimated 60 percent of the domestic water going to the wastewater treatment facility to be treated and reused. The remaining 40 percent is used for watering plants and other uses. In 2015, SLTEC reused 33,258 cu.m. of water. This went up to 39,625 cu.m. in 2016.

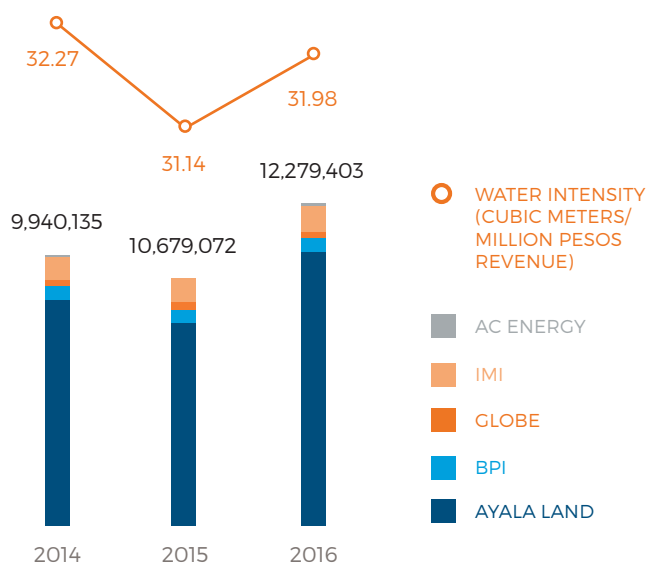
NLR extracts water from identified sources that have lower ecosystem impacts. It has on-site wastewater treatment and drainage systems in place, and is securing all the necessary permits covering its operations. It submits data quarterly as part of the EMB Self-monitoring Report module.

Globe uses on-site treatment technologies and has a drainage system in place with a general understanding of wastewater flow direction and discharge points. Globe likewise regularly files all necessary permits for wastewater discharges and identified water sources onsite. Moreover, it pays all discharge dues and conducts regular water quality testing to ensure compliance with prescribed standards.

In 2015, water consumption increased by 7.4 percent from 2014 and further increased by 9.1 percent from 2015 to 2016.¹ Approximately 87 percent of fresh water consumption of the group is by Ayala Land for

use in construction activities. With the increase in water consumption in 2016, the intensity also increased by 2.7 percent to 31.98 cu.m per million peso revenue in 2016 compared with 2015. This shows that the group was more efficient in using water in 2015 as it consumed less water for every peso of revenue it made.

WATER CONSUMPTION (IN CUBIC METERS)

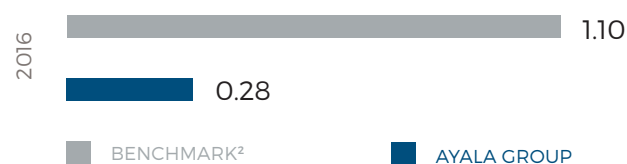


WATER PRODUCTIVITY

Water productivity measures total revenue generated per cubic meter of water consumption.

This year, our water productivity is 0.28 or 74 percent lower than the benchmark.

(MILLION PESO REVENUE PER CUBIC METER)



¹ The graph only reflects freshwater consumed by the group, sourced from surface water and groundwater. SLTEC has drawn 139,528,763.00 cu.m. in 2015 and 223,486,000.00 from Balayan Bay as cooling and process water.

² This benchmark is based on the median values of companies in the same sector in Corporate Knights Capital's 2017 Global 100. The conversion rate US\$1.00 = P26.28 uses the January 2017 purchasing power parity (PPP) of the Big Mac Index developed by The Economist. Reported data are from Ayala Land, BPI, and Globe.

CLIMATE CHANGE ACTION

Climate change is one of the most difficult challenges facing the world today. Its magnitude is unprecedented and its causes—energy and our dependence on coal, oil, and the burning of fossil fuels—affect not only governments and businesses, but also human life.

As one of the largest conglomerates in the country, Ayala must strive to be a responsive and responsible voice of business in advocating greater climate change action in the Philippines.

We strive to lead by example by harnessing the natural power of business to address global warming and support UN SDG 13 in combating climate change and its impacts.

RENEWABLE ENERGY GENERATION AND OFFSETS (G4-EN19)

In line with Ayala's thrust to maximize the company's involvement in the clean energy sector, AC Energy's renewable energy portfolio continued to grow over the past few years. The company's stake in wind and solar power continued to deepen, as affiliates North Luzon Renewables and NorthWind Power, and subsidiary Montesol expanded their plant capacities.

In 2015, AC Energy generated a total of 276,916,477.50kWh of electricity from renewable energy sources. This increased in 2016 by 23.5 percent to 342,112,789kWh as a result of the addition of Montesol into the company's portfolio.

Notably, the company was also able to considerably expand anew its clean energy capacity by buying 20 percent of Chevron Indonesia Geothermal in December 2016. It also plans to invest into the 75MW Sidrap Wind Farm also in Indonesia. Part of the company's 2020 goal is to ramp up its renewal energy portfolio to 1000MW in terms of peak generation capacity.

As a result of these advances, AC Energy contributed to reductions in GHG emissions amounting to 125,670 tonnes CO₂e in 2015 and 164,068 tonnes CO₂e in 2016.

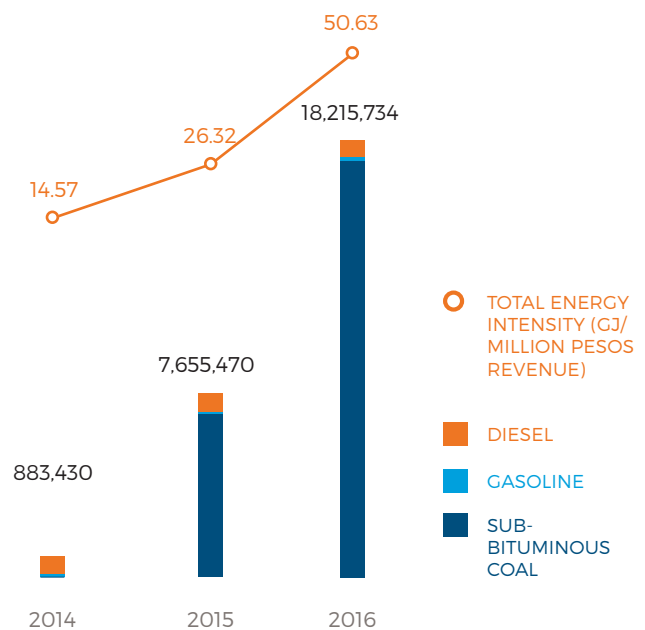
Manila Water, moreover, potentially offset 52,470 tonnes CO₂e in 2015 and 58,501 tonnes CO₂e in 2016 for used water treatment. Through its energy efficiency initiatives, Globe was able to reduce CO₂e emissions from its generators by 25 percent in 2015 compared to 2014 due to a marked decrease in the number of generators. It was

further reduced by one percent in 2016 compared to 2015. The number of generators decreased as well.

ENERGY CONSUMPTION (G4-EN3, G4-EN5)

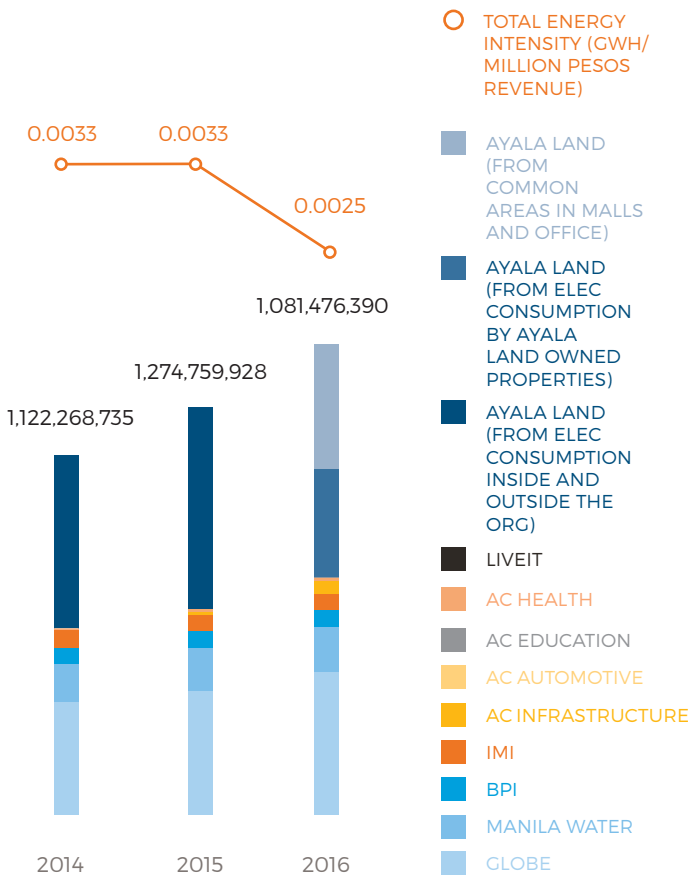
Our climate change impacts are mostly functions of the way we source and consume energy. We therefore track and find ways to reduce our consumption figures in every step. Given the continued growth of our business, our energy consumption will also inevitably increase. However, we aim to remain responsible by effectively and efficiently consuming energy.

DIRECT ENERGY CONSUMPTION (IN GJ)



In 2015, direct energy consumption increased by 767 percent from 2014, while direct energy intensity increased by 103 percent, with energy from coal added into the data of energy consumption. Coal accounts for 88.5 percent of energy consumption in 2015. In 2016, direct energy consumption increased by 138 percent from 2015, while direct energy intensity increased by 104 percent, as SLTEC achieved a higher operating level. Coal accounted for 95.2 percent of energy consumption in 2016. The increase in intensity means that more fuel was consumed per revenue earned by the group.

ELECTRICITY CONSUMPTION (KWH)
(G4-EN3, G4-EN4, G4-EN5)



In 2016, total electricity consumed increased by 13.6 percent with additional reporting from AC Health and AC Infrastructure. Since Ayala Land started segregating its electricity consumption per source, the corresponding intensity decreased by 15.2 percent as the electricity consumptions of its tenants were excluded from the computation.¹ A lower intensity means less electricity was consumed per revenue earned by the group.

ENERGY EFFICIENCY INITIATIVES (G4-EN6, G4-EN19)

In their everyday operations, Ayala companies aim to instill an energy-efficiency mindset among its employees through various drives and programs emphasizing conscientious use of energy.

¹ For 2016 and onwards, Ayala Land segregated emission data from common areas in its malls and offices which comprise majority of its Scope 2 emissions. In congruence with this, electricity consumption inside and outside the organization are also segregated as the former corresponds to Scope 2 and the latter corresponds to Scope 3.

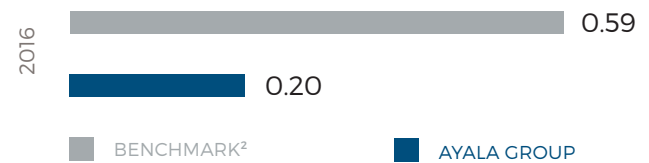
Ayala Land has various conservation programs in place, which has resulted in ₱131.51 million and ₱42 million in energy savings in 2015 and 2016, respectively, at APMC, excluding mall operations.

Meanwhile, IMI continues to achieve high energy saving rates through its various machine improvement and maximization programs, including the recent replacement of 300 pieces of 36W fluorescent bulb with 16W LED bulb in 2015. As a result, the company generated energy savings of 473,644kWh (₱4.57 million) in 2015 and 389,109kWh (₱2.31 million) in 2016.

ENERGY PRODUCTIVITY

Energy productivity measures total revenue generated per gigajoule of direct and indirect energy consumed. Our energy productivity for 2016 is 0.20 or 65 percent lower than the benchmark.

(MILLION PESO REVENUE PER GJ)



Mets Logistics: an energy-efficient cold storage facility in Carmona, Cavite, South Luzon funded by BPI.

² This benchmark is based on the median values of companies in the same sector in Corporate Knights Capital's 2017 Global 100. The conversion rate US\$1.00 = ₱26.28 uses the January 2017 purchasing power parity (PPP) of the Big Mac Index developed by The Economist. Reported data are from Ayala Land, BPI, and Globe.

CARBON SINK PROGRAMS

While we exert best efforts to conserve energy and tap renewable sources, we are well aware that we cannot reduce our emissions through these approaches alone. In areas where we can no longer reduce consumption, we then proceed to offset what we use through our carbon sink projects.

Globe has covered over 144 hectares in 37 locations nationwide since it started its tree-planting program in 2010 to offset Globe's carbon emissions.

In 2015, this long-term reforestation program covered an additional 37,000 trees and mangroves, through the help of NGO and community partners in Palawan (Coron, Taytay and El Nido), Batangas (Lemery), Cebu (Liloan), and Misamis Oriental (El Salvador).

In 2016, the company planted an additional 35,500 mangroves and 1,000 trees in Laguna, Palawan, and various provinces in Mindanao. It also partnered with Hineleban Foundation to support the rain-forestation of 4,300 hectares in Mindanao by 2020. The beneficiaries of this project are the indigenous peoples of Bukidnon and Lanao del Sur.

AC Energy's commitment to a 1000MW renewable energy capacities runs parallel with its reforestation and conservation efforts. In 2015, the company planted 94,359 seedlings in 625 hectares of protected area. In 2016 it planted an additional 169,157 seedlings in the same reserve.

BPI'S GREEN AND SUSTAINABLE FINANCE INITIATIVES

BPI is leveraging its core business strategies in order to support green and sustainable projects, which help combat global warming. Over the past years, BPI has boosted its Green Finance loan portfolio. BPI's Sustainable Energy Finance program has spurred investments nationwide in energy efficiency, renewable energy, and climate resilience projects. The bank's partnership with the International Finance Corporation has enabled it to explore the great potential in these growing fields.

Through the SEF program, which started in 2008, companies can now invest in new technologies aimed at smart usage and generation of energy, and in climate resilient structures. Since its inception, the program has provided technical assistance to over 300 sustainability project proponents. Moreover, 400 knowledge sharing events, training workshops and project exposure sessions for BPI clients, as well as the bank's loan officers, have been conducted under the SEF Program.

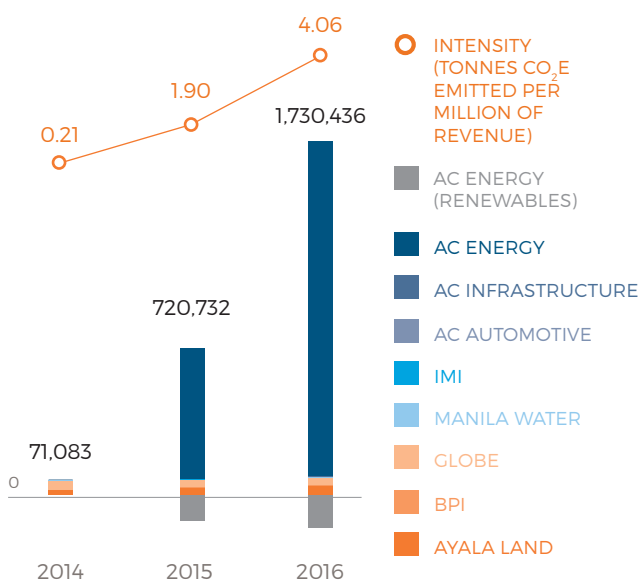
In addition to the SEF program which focuses mainly on SMEs who need technical assistance and strong financial support, BPI likewise lends to larger renewable energy projects like geothermal, hydro, wind, and solar.



Imperial Homes: a solar-powered, low-cost housing project located in San Vicente, Sto. Tomas, Batangas funded by BPI.

As of end-2016, BPI's aggregate Green Finance loans disbursed amounted to ₱86.3 billion. The 2016 loan data represents cumulative potential GHG emission reductions of 4,240,328 tonnes CO₂, equivalent to planting 99,693,205 trees.

GREENHOUSE GAS EMISSIONS SCOPE 1 (TONNES OF CO₂E) (G4-EN15, G4-EN18)



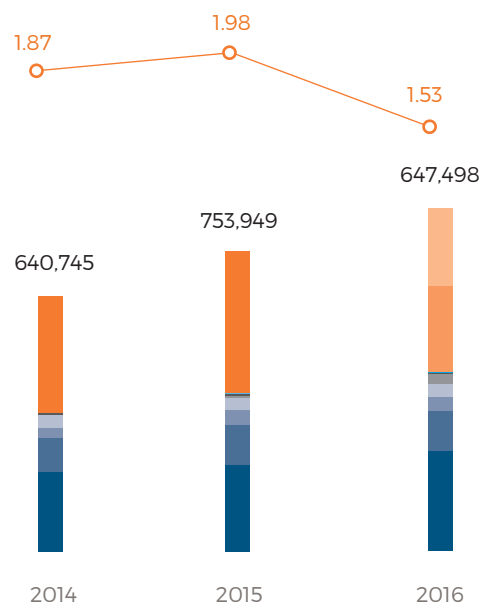
In 2015, there was a 914 percent increase in Scope 1, and an 801 percent increase in Scope 1 intensity due to the addition of emissions from SLTEC.

In 2016, Scope 1 emissions increased by 140 percent and intensity increased by 114 percent as SLTEC increased operations with its second unit. The increase in Scope 1 intensity indicated that more greenhouse gases were released directly into the atmosphere per revenue earned by the group through its operations.

AC Energy comprises 89.66 percent and 94.96 percent of Scope 1 in 2015 and in 2016, respectively.

However, due to the use of wind and solar energy, potential GHG emissions avoided were 125,670 tonnes CO₂e in 2015 and 164,067.62 tonnes CO₂e in 2016.

SCOPE 2 (TONNES OF CO₂E) (G4-EN16, G4-EN18)



INTENSITY (TONNES CO₂E EMITTED PER MILLION OF REVENUE)



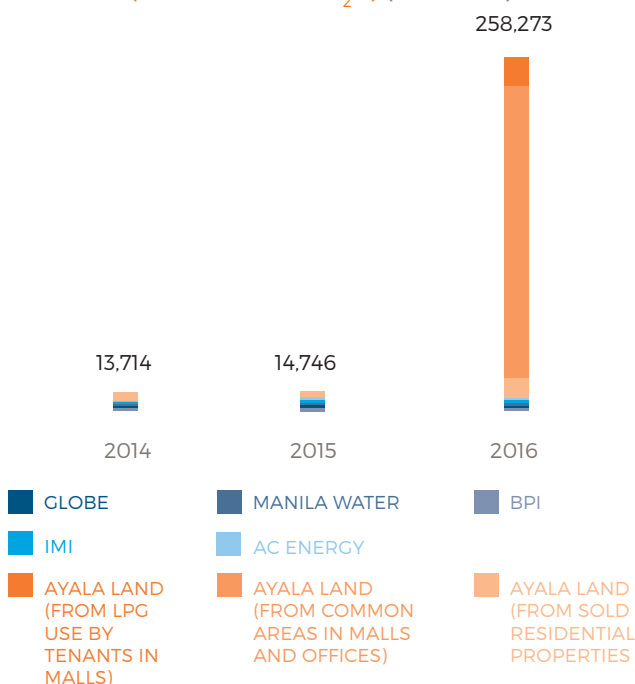
In 2015, Scope 2 increased by 17.7 percent, and Scope 2 intensity increased by 5.8 percent; 28.7 percent was from Globe and 47.5 percent came from Ayala Land. The increase in intensity indicated that more GHG emissions from using electricity were released per revenue.

In 2016, Ayala Land segregated emission data from common areas in its malls and offices which comprised majority of its Scope 2 emissions. Leased areas are now classified under Scope 3. For comparison with the previous year, emissions from electricity consumption from both common areas and Ayala Land-owned properties total 412,323 tonnes CO₂e.¹ For the reclassified Scope 2 emissions, Ayala Land emitted 197,214, which is 30.5 percent of the reclassified total of 647,498.

¹ Reports only location-based emissions from Ayala Land. For a more detailed disclosure along with the market based emissions, please refer to Ayala Land's 2016 Integrated Report.

This reclassification led to a 14.1 percent decrease in Scope 2 emissions and a 22.9 percent decrease in Scope 2 intensity. The decrease in Scope 2 intensity indicated that less GHG emissions from using electricity were released per revenue earned by the group through its operations.

SCOPE 3 (TONNES OF CO₂E) (G4-EN17)



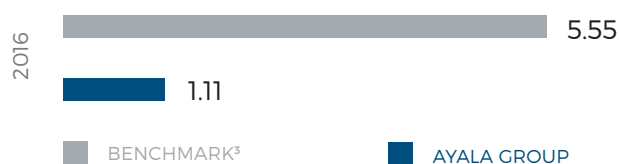
In 2015, there was a 7.5 percent increase in Scope 3 emissions with the additional reporting from AC Energy, with SLTEC shipping coal from sources in Semirara Island, Philippines and Indonesia.¹ In 2016, ALI had an increase in electricity consumption due to inclusion of tenant electricity consumption in Scope 3.²

1 An assumption of 56 L per nautical mile was made to compute for the emission from shipping of coal
 2 For 2016 and onwards, Ayala Land segregated emission data from common areas in its malls and offices which comprise majority of Scope 2 emissions. Leased areas are now classified under Scope 3. Standards used for the computation are the GHG Protocol Corporate Standards. Location-based emission factors used for electricity are from the Philippine Department of Energy. Market-based emission factors are from our retail electricity supplier, DirectPower. Reference for the GWP rates is the 2014 IPCC 5th Assessment Report. Scope 2 and Scope 3 location-based emission Factor is broken down into Luzon-Visayas Grid and Mindanao Grid. Properties with no breakdown between common area and tenant area of electricity consumption are assumed having a 30% and 70% share of consumption respectively. Gasses reported include carbon dioxide (CO₂), methane (CH₄), and nitrous oxide (N₂O).

CARBON PRODUCTIVITY

Carbon productivity relates economic performance with our impact on climate change. This metric measures total revenue generated per tonne of CO₂e that we directly and indirectly emit (Scope 1 and Scope 2). This year, our carbon productivity is 1.11 or 80 percent lower than the benchmark.

(MILLION PESO REVENUE PER TONNE CO₂E)



3 This benchmark is based on the median values of companies in the same sector in Corporate Knights Capital's 2017 Global 100. The conversion rate US\$1.00 = ₱26.28 uses the January 2017 purchasing power parity (PPP) of the Big Mac Index developed by The Economist. Reported data are from Ayala Land, BPI, and Globe.



OUR GOVER

The anteroom in Ayala's boardroom provides a warm and welcoming space for guests.



HOW WE **WORK**

NANANCE

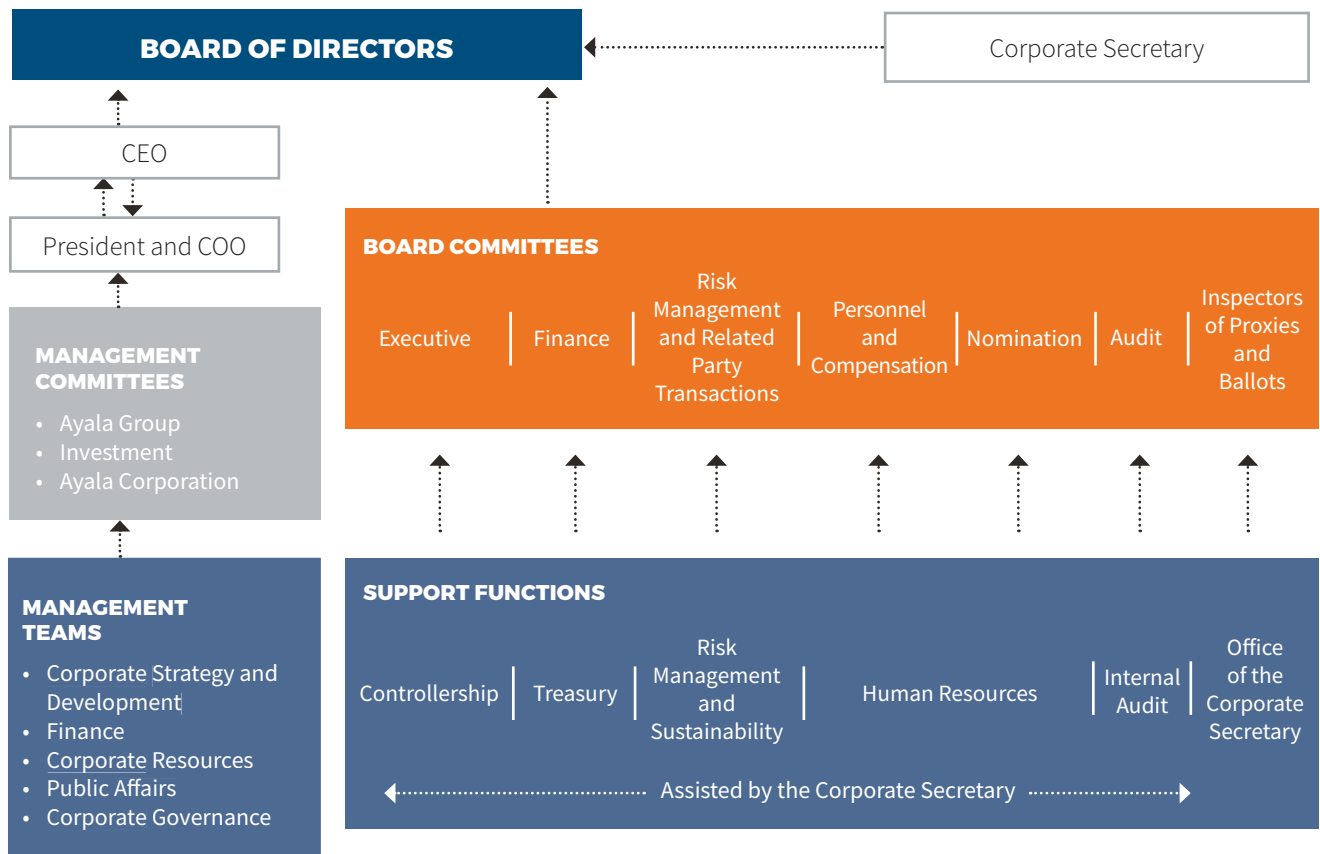
FRAMEWORK

GOVERNANCE THAT ENSURES A SUSTAINABLE ENTERPRISE

Ayala adheres to the principles of good governance, including transparency, integrity, accountability, and fairness. We believe that effective corporate governance is essential to the achievement of our strategic goals. The basic elements of Ayala’s corporate governance system include a combination of internal and external mechanisms such as the structure of the board of directors and our committees, oversight of management, and sound policies and controls.

Setting up proper controls, including conforming with regulatory requirements and international standards, is critical to ensuring a sustainable enterprise in the long-term. Our systems and procedures are continuously reviewed, refined, and updated to ensure their effectiveness and adaptability to the changing needs of the markets we participate in. Ayala is in full compliance with the Code of Corporate Governance set forth by the Securities and Exchange Commission.

KEY COMPONENTS OF AYALA’S GOVERNANCE SYSTEM (G4-34)



Ayala's corporate governance practices have been consistently recognized in various awards, polls, and publications in the Philippines and in the region. In 2016, for the third consecutive year in *FinanceAsia's* annual poll, Ayala topped the list of Best Managed Companies in the Philippines. Ayala was also recognized in the same poll as the "Most Committed to Corporate Governance," "Best at Corporate Social Responsibility," and ranked fourth as "Best at Investor Relations." *FinanceAsia* also selected Ayala as the Philippine Awardee in its annual Platinum Awards, which honors the best companies, banks, and financial institutions by sector and by country, as well as across the region. Ayala was also one of the recipients of the inaugural Institutional Investors' Governance Awards given to publicly-listed companies at the 2016 Fund Managers Association of the Philippines Investors' Forum. Ayala was also named best among Philippine companies in the 2016 Corporate Governance Poll of *Asiamoney*.

We continue to set high standards for ourselves by reinforcing a governance culture with a solid set of core values at all levels across the company. Good governance creates a strong foundation for our operations and key relationships, and allows us to create value for our stakeholders and the communities we serve.

BOARD STRUCTURE AND PROCESS

KEY ROLES AND RESPONSIBILITIES

An effective Board that performs its duties, encourages a climate of trust, openness, and constructive dissent, and ensures individual accountability is one of the key pillars of Ayala's governance system. In carrying out its roles and responsibilities, the Board is mandated by its Charter to establish the vision, as well as the strategies, key company policies, and mechanisms to monitor and evaluate management's performance. The Board exercises its powers and duties in the best interest of the Corporation, its shareholders, and other stakeholders.

The Board reviews the company's vision and mission every year, revisits the group's corporate strategy, and monitors its implementation. In 2016, the Board reviewed and affirmed the appropriateness of the company's vision and mission statement.



Ayala was one of the recipients of the inaugural Institutional Investors' Governance Awards.

The Board reviews and ensures the adequacy of its internal control mechanisms and risk management process for good governance, and the proper implementation of the company's Code of Conduct and Ethics.

The Board also reviews and affirms the true and fair representation of the annual financial statements, as it did for the financial statements for fiscal year 2016.

BOARD COMPOSITION

The structure, size, and composition of the Board are reviewed yearly and monitored regularly by the Nomination Committee.

The Board possesses the appropriate mix of knowledge, experience, and expertise to guide management as it addresses new challenges and market opportunities. There is sufficient diversity in the Board and an appropriate mix of non-executive and executive directors.

- Ayala's Board of Directors is composed of seven directors who have diverse backgrounds, and disciplines including finance, economics, business, and technology
- Directors are elected by the shareholders annually and serve for a term of one year
- 71 percent of the Board is composed of non-executive and independent directors
- None of the independent directors own more than two percent of the outstanding capital stock
- The profile of each director can be found in the Board of Directors section of this report on pages 30-33

We ensure an independent minority representation in the Board and the exercise by minority shareholders of their rights, including the right to cumulative voting in the election of directors and appraisal right.

INDEPENDENT DIRECTORS

The Board is currently composed of seven members, including three independent directors who make up more than 40 percent of the Board's membership—Xavier P. Loinaz, Antonio Jose U. Periquet, and Ramon R. del Rosario, Jr.

Independent directors, aside from their fees and shareholdings, have no interest or relationship with the company that may hinder their independence from the company or management, or that could reasonably be perceived to interfere with their exercise of independent judgment in carrying out their responsibilities as directors.

As of 2016, none of the independent directors has served the company for more than nine years. None of the directors or the senior management has worked for Ayala's external auditing firm within the three years immediately preceding the date of his election or appointment.

CHAIRMAN AND VICE CHAIRMAN (G4-39)

The Chairman of the Board is Jaime Augusto Zobel de Ayala, who assumed the position in 2006. Fernando Zobel de Ayala has held the position of Co-Vice Chairman since 1994, and has been the sole Vice Chairman since 2006.

The positions of Chairman of the Board and CEO are held by the same person. The company's corporate governance principles, which include clear and well understood roles and responsibilities, as well as a culture of open communication with the CEO and senior management, enables the Board to maintain independent reviews and quality discussions at meetings.

BOARD PERFORMANCE (G4-44)

As the Corporate Secretary, Atty. Solomon M. Hermosura plays an important role in supporting the Board. Part of his responsibilities include assisting the Chairman in preparing the Board meeting agenda, maintaining Board minutes and records, facilitating the training of directors, and providing directors with updates on relevant statutory and regulatory changes. He is knowledgeable on legal and regulatory requirements

and was awarded Company Secretary of the Year, "among Asia's best," by Corporate Governance Asia in November 2014.

In addition, he ensures that the Board receives timely and accurate information to allow them to have effective discussions and to have the ability to make the right decisions. Materials are made available at least five working days in advance of the scheduled meeting to give the Board ample time to read and analyze the materials.

Discussions during Board meetings are open and independent views are given due consideration. In accordance with company policy, Board members are required to abstain from participating in discussions on a particular agenda item in which they may have a conflict of interest.

The Board is committed to fulfilling its duties and responsibilities and dedicates ample time for their meetings. The presence of at least two-thirds of the number of directors, as fixed in the Articles of Incorporation, constitutes a quorum for the transaction of business.

Each fiscal year, the Board meets at least six times, with the schedule of Board meetings determined before the start of each financial year. A record of the Directors' attendance and number of Board meetings held in 2016 can be found on pages 390-391.

In line with the guidelines in conducting performance assessments, each year, the Board conducts an assessment to evaluate the performance of the Board, its committees, and its individual members, to measure the effectiveness of the company's governance practices and identify areas for improvement, and to adopt new methodologies to further strengthen the company's corporate governance standards. The self-assessment tool includes criteria such as: (1) structure of the Board, (2) shareholder benefits, (3) fulfillment of the Board's key responsibilities, (4) oversight function, (5) effectiveness of the Board's processes and meetings, (6) quality of the Board-management relationship, (7) corporate ethics, and (8) performance evaluation.

The results of the self-assessment survey are compiled by the Compliance Officer and are reported at the Board meeting immediately following the completion of the survey.

TRAINING OF DIRECTORS (G4-43)

To remain relevant in a global environment with increasing competitiveness, Ayala continuously provides its directors with information on current trends and equips them with applicable training to enable them to make the right decisions. The company sets aside an annual training budget for its directors and encourages them to attend continuing professional development programs. New directors are required to attend an orientation program in corporate governance.

Since 2014, a group-wide Corporate Governance and Risk Management Summit has been held annually as part of the continuing education program for the Board, CEOs, and senior management. This provides a venue to promote the importance of governance and impart the significance of being innovative and adaptive to changes.

In March 2016, the group held its summit with the theme of “Enabling Business Growth in Highly Regulated Industries”. Discussions revolved mainly around the topics of the ASEAN Corporate Governance Blueprint, CG updates, institutional investors’ perspective on CG, and the collaborative culture within an organization. All directors and senior management met the Securities and Exchange Commission requirement to participate in corporate governance trainings annually, through their attendance in trainings administered by either the Institute of Corporate Directors or Sycip Gorres Velayo & Co., both accredited training providers of the SEC.

Ayala has also sponsored ICD’s Distinguished Corporate Governance Speaker Series for the past three years to support ICD’s advocacy to promote professional directorship in line with global principles by bringing the world’s foremost thinkers and practitioners to help Philippine corporate directors add value to their boards.



A panel of renowned speakers address the Board of Directors, CEOs, and Senior Management from the Ayala group at the 3rd Ayala Corporate Governance and Risk Management Summit.

DIRECTOR COMPENSATION

The Personnel and Compensation Committee has the responsibility to recommend to the Board the fees and other compensation for directors. Total remuneration or changes thereof are approved by the stockholders during the annual stockholders’ meeting.

Non-executive and independent directors are Board members who are not officers of the company. They receive remuneration consisting of: 1) an annual retainer fee of ₱1,200,000; 2) a per diem of ₱200,000 for each Board meeting attended; 3) a per diem of ₱100,000 per Audit Committee meeting attended; and 4) a per diem of ₱50,000 for other committee meetings attended.

In 2016, the following directors received gross remuneration as follows:

DIRECTOR	GROSS REMUNERATION
Yoshio Amano	₱3,050,000
Delfin L. Lazaro	2,900,000
Xavier P. Loinaz	2,900,000
Antonio Jose U. Periquet	3,400,000
Ramon R. del Rosario, Jr.	3,150,000
TOTAL	₱15,400,000

None of the non-executive and independent directors have been compensated by Ayala for services other than those provided as a director. Likewise, they are not entitled to stock options and performance bonuses from Ayala.

As executive directors, Jaime Augusto Zobel de Ayala and Fernando Zobel de Ayala do not receive remuneration for attending Board meetings.



Ayala supports ICD’s advocacy to promote professional directorship and global best practice in corporate governance.

BOARD COMMITTEES (G4-38)

The Board has created the following committees to assist in exercising its authority and responsibilities and to aid in good governance:

	EXECUTIVE	PERSONNEL AND COMPENSATION	NOMINATION	AUDIT	FINANCE	RISK MANAGEMENT AND RPT	INSPECTORS OF PROXIES AND BALLOTS***
Jaime Augusto Zobel de Ayala	C				M		
Fernando Zobel de Ayala	M				M		
Yoshio Amano*	M	M		M		M	
Ramon R. Del Rosario Jr.**		C	C	M		M	
Delfin L. Lazaro*		M			C		
Xavier P. Loinaz**			M	C			
Antonio Jose U. Periquet**			M		M	C	
Solomon M. Hermosura							C
Catherine H. Ang							M
Josephine G. De Asis							M

C – Chairman
M – Member

*Non-executive Director
**Independent Director
***May not be members of the Board of Directors

The committees provide an organized and focused means for the directors to achieve specific goals and address issues, including those related to governance. The rights and responsibilities of each committee delegated by the Board are defined in the specific committee Charters duly approved by the Board, all of which are available in the company's website.

EXECUTIVE COMMITTEE

The Executive Committee has the authority to exercise the powers and perform the duties of the Board within the powers granted to them, and acts by majority vote of all its members during the intervening period between scheduled Board meetings.

A list of all resolutions passed and approved by the Executive Committee is provided in the Annual Corporate Governance Report available in the company's website.

FINANCE COMMITTEE

The Finance Committee oversees, reviews, and evaluates the financial affairs of the company. The Committee approved various transactions in 2016, the

details of which can be found in the ACGR available in the company's website.

The Finance Committee had 17 meetings in 2016. Refer to page 390 for the directors' attendance and the number of meetings held in 2016.

AUDIT COMMITTEE

The Audit Committee is composed of three members, the majority of whom are independent directors, including the chairman. At least one of the members possesses a background and expertise in accounting.

To assist the Board in fulfilling its responsibilities, the Audit Committee oversees matters relating to the financial statements and financial reporting process, external auditors, internal auditors, internal control, and compliance with applicable legal and regulatory requirements.

As part of their function, the Audit Committee conducts a review on the works performed and reports provided by both internal and external auditors. Based on the assurance gathered from the auditors as a result of their 2016 reviews, the Committee assessed the company's systems of internal controls, risk management,

and governance processes to be adequate. Refer to the Audit Committee report on page 392 for the highlights of its 2016 activities.

The Audit Committee had four meetings in 2016. Refer to page 390 for the number of meetings held in 2016 and the directors' attendance.

RISK MANAGEMENT AND RELATED PARTY TRANSACTIONS COMMITTEE (G4-47)

The Risk Management and RPT Committee is composed of three members, the majority of whom are independent directors, including the chairman.

To assist the Board on risk governance processes, the Risk Management and RPT Committee ensures that management maintains a sound risk management framework and internal control system to mitigate material risk exposures identified by the Company. The Committee was also assigned by the Board to review all material RPTs for endorsement to the Board to ensure that these are at arm's length, the terms are fair, and they will inure to the best interest of the company and its subsidiaries or affiliates and their shareholders.

On March 3, 2016, a joint meeting between the Audit Committee and Risk Management and RPT Committee was held to discuss their commentaries and respond to their concerns on the regulatory risk framework developed by business functions under the Corporate Strategy and Development and Finance groups.

During the financial year, the Committee reviewed and confirmed that the company's risk management processes are effective. The Committee also reviewed various material RPTs and ensured that all the transactions are at arm's length prior to endorsement to the Board for approval. Refer to the Risk Management and RPT Committee report on page 393 for the highlights of its 2016 activities.

The Risk Management and RPT Committee had four meetings in 2016 with all of the directors having perfect attendance. Refer to page 391 for the number of meetings held in 2016 and the directors' attendance.

PERSONNEL AND COMPENSATION COMMITTEE

The Personnel and Compensation Committee is composed of three members, chaired by an independent director. The Committee's directive from the Board is to establish a formal and transparent policy and procedure

on directors and executive remuneration and provide oversight to ensure that compensation is aligned with the company's culture and strategy, while remaining competitive against the market. The Committee is guided by the objective of ensuring that the level of compensation should fairly pay directors for the work required, considering the company's size and scope. Details of the Committee's accomplishments in 2016 can be found in the ACGR available in the company's website.

The Personnel and Compensation Committee had three meetings in 2016, with all directors having perfect attendance. Refer to page 391 for the number of meetings held in 2016 and the directors' attendance.

NOMINATION COMMITTEE (G4-40)

The Nomination Committee is composed of three members, all of whom are independent directors, including the chairman. The Committee is appointed by the Board to ensure that there is an effective Board process in the election or replacement of Board members. The Committee also reviews the succession plans for members of the Board and senior executives. The Committee strives to ensure that the Board composition will allow it to have effective decision-making by maintaining a suitable number of independent directors. Upon vacancy or when additional directors are required, the Committee nominates directors based on the established criteria to ensure sufficient diversity in the Board and alignment with the company's strategic directions, its By-Laws, Revised Manual of Corporate Governance, and the rules of the Securities and Exchange Commission. Details of the Committee's accomplishments in 2016 can be found in the ACGR available in the company's website.

The Nomination Committee had four meetings in 2016, during which the Chairman and members of the Committee were all present. Refer to page 391 for the number of meetings held in 2016 and the directors' attendance.

COMMITTEE OF INSPECTORS OF PROXIES AND BALLOTS

The Committee of Inspectors of Proxies and Ballots has the responsibility of ensuring that the validating process of the proxies and ballots is transparent, fair, and in accordance with applicable laws, regulations, and company policies. Details of the Committee's

accomplishments in 2016 can be found in the ACGR available in the company's website.

The Committee met twice during the year. Refer to page 391 for the number of meetings held in 2016 and the directors' attendance.

MANAGEMENT

ROLE AND RESPONSIBILITIES

Management is accountable to the Board of Directors for the operations of the company and its performance. Furthermore, they:

- define the company's targets in concrete and specific terms
- execute the Board-approved strategies for achieving these targets
- inform the Board in a regular and timely manner about any issues concerning the company's strategy, risk management, and compliance
- provide updates to the Board on the implementation of the company's strategy

The respective roles of the Chairman and CEO and the President and COO are complementary and ensure a strategic distribution of leadership functions with clearly defined accountabilities:

- The CEO takes the lead on company strategy, visioning, and developing business partnerships.
- The President and COO is responsible for daily operations, new business initiatives, corporate policies, and resource allocation.

In all functions and critical issues, both coordinate closely with each other. The Chairman and CEO, and the President and COO are supported by management committees composed of key executives who meet regularly to discuss business performance and issues critical to the growth of the company, and to facilitate the flow of strategic and operational information among the company's decision makers.

A culture of good governance is fostered throughout the organization, with the management and the Board equally responsible for ensuring that the mechanisms and structures for good governance are securely in place. The Chairman and CEO, the President and COO, and members of the management committees attend the annual stockholders' meetings.

SENIOR EXECUTIVE COMPENSATION

Ayala provides market-competitive executive compensation and benefits, which are aligned to corporate goals, annual targets, and long-term strategic plans. It also adopts a performance-based variable compensation scheme using the KRA scorecard accomplishments as metrics. In addition, Ayala provides a long-term incentive program for senior executives and key talents. From the three percent of the company's authorized capital stock allocated by the stockholders, the Board approved the grant under the stock ownership program to eligible executives in December 2016. The basis for grants is a consistent outstanding performance record over a period of three years. The grant price is based on the average PSE closing price over five consecutive trading days ending December 8, 2016.

MANAGEMENT COMMITTEES

Management has created committees that it deems necessary to ensure that decision-making is always made in the best interest of the organization. Initiatives which are reviewed and endorsed by management-level committees are discussed lengthily with the Board-level committees for approval and endorsement to the full Board for ratification.

AYALA GROUP MANAGEMENT COMMITTEE

The Ayala Group Management Committee is composed of the Chairman and CEO, the President and COO, the five Ayala Corporation Group Heads, and the CEOs of the Ayala group companies. The Committee oversees the group strategic plan and ensures alignment of individual business unit priorities to the group-wide direction. It meets regularly to review business performance, discuss group-wide issues and events, and identify areas of possible synergy and collaboration.

The full profiles of the Ayala Group Management Committee members can be found on pages 396 to 398.

INVESTMENT COMMITTEE

The Investment Committee is composed of the Chairman and CEO, the President and COO, and senior management of the company. The Committee reviews, provides direction, and gives preliminary approval for initiatives that may originate from the company or its subsidiaries specifically requiring funding from the company. Once a project clears the Investment Committee, it is endorsed for approval to the appropriate Board committee and to the full Board.



The Chairman and CEO addresses the Ayala group's senior officers at the second Ayala ERM Summit.

AYALA CORPORATION MANAGEMENT COMMITTEE

The Ayala Corporation Management Committee includes the Chairman and CEO, the President and COO, and the five Group Heads. The Committee approves corporate, administrative, and organizational matters that pertain exclusively to the company, as well as group-wide affairs when relevant.

INTERNAL GOVERNANCE MECHANISMS

STRATEGY FORMULATION AND EXECUTION

Ayala utilizes an inclusive and iterative approach in crafting and executing a long-term strategic plan for the entire Ayala Group.

As these plans are finalized, we also ensure that risk is managed appropriately using a robust risk management process.

RISK MANAGEMENT (G4-14) RISK AND OPPORTUNITIES

Risk management is an increasingly important business driver and an integral part of successful corporate governance in every organization. As every decision, activity, and initiative that intends to protect or create value involves some degree of risk, it is essential for an organization to have a robust and effective risk management system to preserve the balance of risks and opportunities. At Ayala, we believe that effective corporate governance entails risk intelligent governance – an approach that does not discourage risk-taking, but embeds appropriate risk management into the entirety

of the organization. This way, risk-taking for reward and growth becomes as significant as risk mitigation for protecting value.

In order to realize the value proposition of risk management, it is key to have a risk management framework that has the right architecture, strategy, and protocols that support the risk management process. The risk architecture sets out the roles and responsibilities of the individuals and committees that support the process, as well as the structure for communicating and reporting on risks and opportunities. The risk strategy specifies the objectives of the risk management activities in the organization, while the risk protocol describes the methodologies, tools, and techniques by which the strategy will be implemented and risks managed. The assessment of significant risks and the implementation of suitable risk responses is the core of risk management. It enhances the understanding of the potential upside and downside of the factors affecting the organization. It also increases the probability of success and reduces both the probability of failure and the level of uncertainty associated with achieving the objectives of the organization. When done right, the maximum sustainable value from all the activities of the organization will be achieved and delivered to all stakeholders.

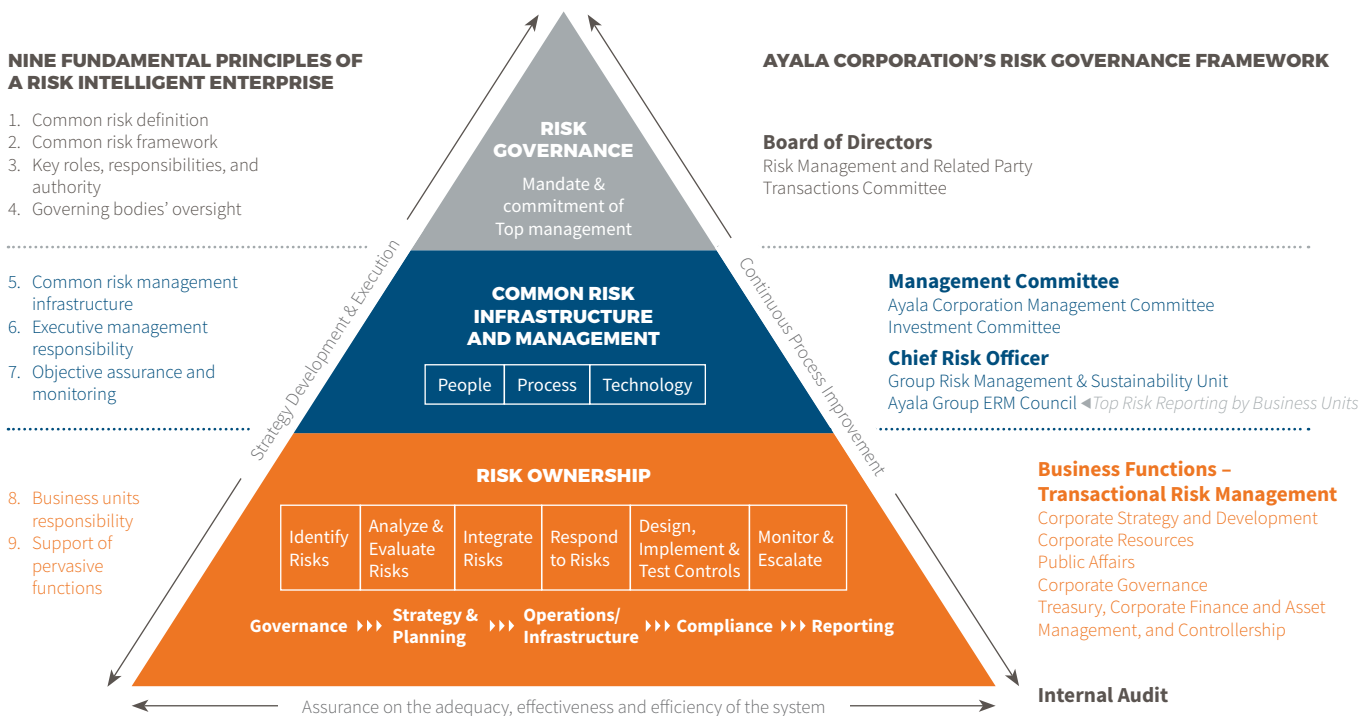
RISK ARCHITECTURE (G4-35, G4-45, G4-46)

Under the supervision of the Chief Risk Officer, the Group Risk Management and Sustainability Unit patterns Ayala's risk governance after Deloitte's concept of a risk intelligent enterprise: an organization where risk governance is at the apex of the system, serving as the unifying factor for all the organization's risk management efforts and integrating nine fundamental principles related to the responsibilities of the Board, senior management, and business unit leaders.

Following this definition of a risk intelligent enterprise, risk management at Ayala starts from the top. The Board of Directors of Ayala is provided appropriate transparency and visibility into the organization's and the group's risk management practices. Through the Risk Management and Related Party Transactions Committee, the Board of Directors ensures that an effective risk management process is in place and that its risk appetite remains relevant to achieve its set goals.

The CRO, being the advocate for the company and the group, is charged with the primary responsibility of

RISK INTELLIGENT ENTERPRISE* VS. AYALA CORPORATION'S RISK GOVERNANCE FRAMEWORK



designing, implementing and maintaining an effective risk program. The Group Risk Management and Sustainability Unit supports the CRO by designing activities that enhance the risk intelligent culture within the organization and within the group, formulating risk management strategies, developing tools and techniques for risk assessment, and monitoring and reporting on key and emerging risks. It also convenes the ERM Council, a group comprising the risk officers of all business units across the Ayala group, for risk framework alignment, continuous risk process improvement, and other group-wide projects. On a semi-annual basis, the ERM Council provides the top risks of their respective organization to the Group Risk Management and Sustainability Unit for the information of the CRO, as well as for reporting to the Risk Management and RPT Committee. The management committees also provide support to the CRO by ensuring the existence of a structure at the operating level that will communicate and monitor key and emerging risks. They also ensure that risks are discussed during project and investment meetings.

As risk owners, the business unit leaders are responsible for managing the risks they face in the day-to-day operations within the established risk framework. They have the responsibility to identify, measure, monitor,

control, and report on risks to the management. Finally, the Internal Audit Unit provides an independent assurance on the adequacy, effectiveness, and efficiency of the risk management process.

RISK MANAGEMENT STRATEGY

Risk management programs are consistently aligned with strategic priorities and initiatives are developed to provide the optimum benefits to organizations. Strategic priorities often change over time, and if treated in silos from risk management, associated efforts to address these changes can become reactive, misaligned, and compliance-focused rather than supportive of strategic decision-making. Therefore, our risk management strategy is anchored on the support that the discipline provides to the development and execution of business strategy.

The Group Risk Management and Sustainability Unit works on a 2020 Enterprise Risk Management roadmap, where the end goal is for risk management not just to be focused on preventing the erosion of value and

*Risk intelligent enterprise is a trademark of Deloitte in its series of publications on Risk Intelligence – a risk management philosophy that focuses not solely on risk avoidance and mitigation, but also on risk-taking as a means to value creation.

reducing risk to target levels; but more importantly, to be an integral factor in strategy setting and identifying opportunities that create value. Started in 2014, our risks were redefined by identifying the value drivers of Ayala using the black swans approach. To better appreciate our risks, we utilized the bowtie methodology in 2015 to identify the threats that would make our risks transpire, as well as their corresponding impacts. We also studied how our risks are interrelated. Through a deeper understanding of our risks, we were able to map these into the five vision pillars of Ayala, allowing us to comprehend what specific business objectives may specifically be affected by our risks. For more details, refer to the Risks and Opportunities section on pages 55 to 57 of this report.

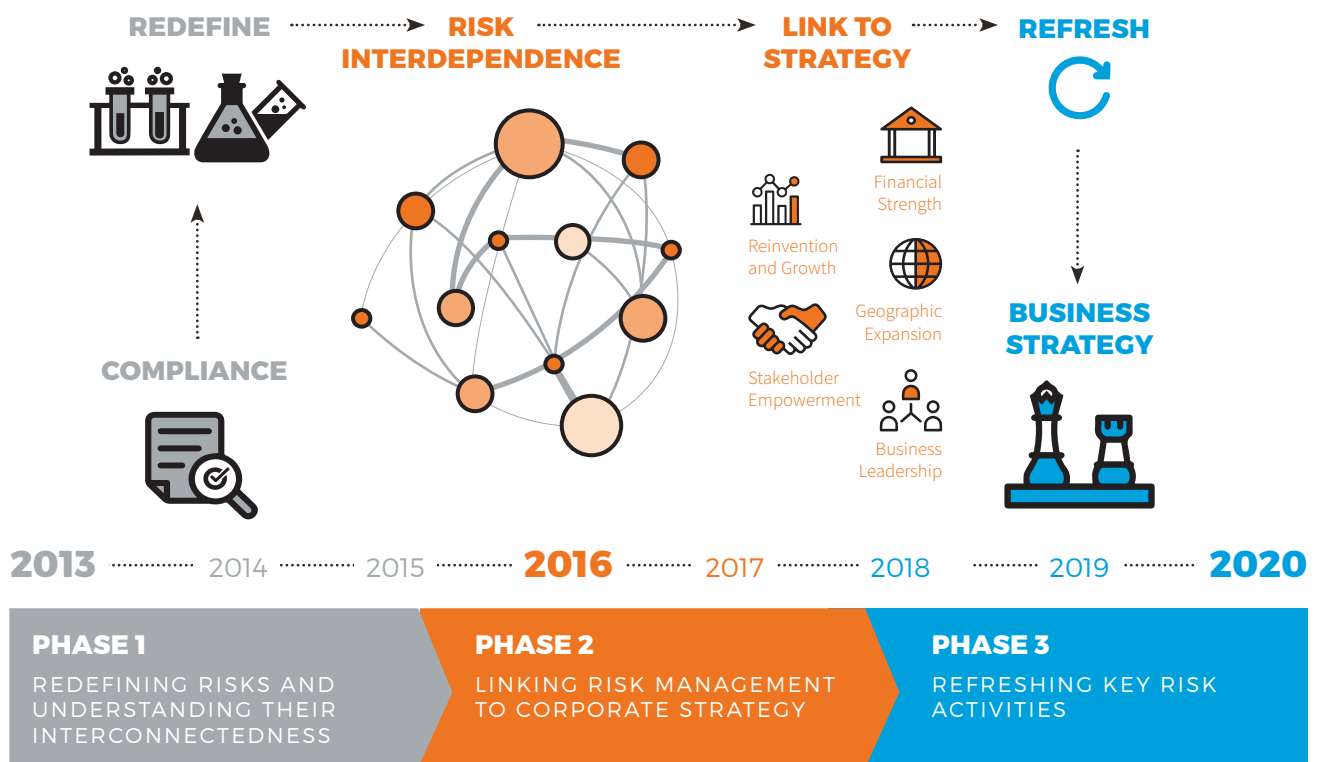
UNDERSTANDING THE AYALA GROUP'S RISK TRANSFER STRATEGY

In 2015, we completed the risk maturity index assessment which resulted in identifying the importance of risk transfer strategy to risk mitigation as one of the

areas in which we can improve. As we move forward in linking risk management to our business strategy, Ayala Corporation, together with its five publicly-listed companies, embarked on a risk tolerance study to understand its ability to absorb large losses, determine sustainable loss levels, and ascertain the most beneficial risk transfer strategy. In determining Ayala's risk tolerance level, its key performance indicators were stress-tested with different amounts of self-insured losses. The level of retained risk that generates a sustainable impact was identified as the risk tolerance level. Such an amount sets the appropriate risk assessment criteria for business decision-making. By understanding the organization's risk tolerance level, we are able to identify which risks to take and which opportunities to realize within our risk-taking capacity.

Our risk tolerance level also serves as a reference point for our risk retention capacity for the insurance optimization study, a group-wide initiative that aims to determine the optimal balance in the risk transfer/risk retention equation for most efficient use of capital.

2020 ENTERPRISE RISK MANAGEMENT ROADMAP



WORKING TOWARDS A RESILIENT ORGANIZATION

As a risk intelligent enterprise, it is imperative that the organization builds resilience. Hence, Ayala embarked on a project to establish a business continuity management system that will ensure it has the capacity to resolve potential threats coupled with the capability to effectively respond and safeguard its brand and the interests of its stakeholders. It has adopted ISO 22301. It covers incident management, crisis management, IT disaster recovery plan, and business recovery plan.

BUILDING THE GROUP'S COMMON RISK LANGUAGE

Understanding that Ayala Corporation's risks emanate from its subsidiaries and affiliates, the CRO, through the Group's ERM council, continues to enhance the maturity of the management process. The council reviewed the nine fundamental principles of a risk intelligent enterprise and reached an agreement to establish these principles in their respective organizations and as a group. Towards that vision, the ERM Council conducted a common risk language workshop to establish common risk definitions and consistent risk scoring criteria and risk parameters—factors that aid us in aligning our group risk reporting structure. In this way, management will obtain a better view and understanding of the group's risk profile that supports them in strategic decisionmaking.

RISK MANAGEMENT PROTOCOL

The Group Risk Management & Sustainability Unit continues to be innovative in the tools and methodologies used in the risk management process. As mentioned under risk management strategy (page 153), we employed the black swans approach to identify its value drivers and risks, and we continued to deepen our understanding of risks and opportunities using the bowtie methodology and risk interaction matrix. In 2016, a regulatory risk framework was developed by business functions under the Corporate Strategy and Development and Finance groups to quantify the possible impact of regulatory changes to Ayala's business objectives. Furthermore, as Ayala aims to quantify its risk exposures and their corresponding impact, its key performance indicators were stress-tested with

AYALA GROUP'S COMMON RISK LANGUAGE



The 2nd ERM Summit featured the inaugural Risk Awards to highlight best practices from the group.



Ayala officers review risks and controls during the annual risk assessment held in March 2016.



different amounts of self-insured losses to determine the maximum probable loss that its balance sheet can absorb and can generate a sustainable impact.

As it moves to improve its reporting mechanism, Ayala has also completed the first phase of implementing an ERM dashboard that will serve as the repository of its risk universe, risk profile, and risk mitigation strategies, as well as articles, documents, and other materials that contain relevant information on current risk trends and emerging risks.

RISK MANAGEMENT PROCESS

Following the provisions of ISO 31000, our risk management process starts with establishing the context by identifying external and internal factors that may impact our value creation and value protection objectives. We conduct research on current and emerging risk trends, engage risk management experts, and collaborate with internal stakeholders to ensure that the right perspective is in place for the risk assessment – an activity where senior officers are gathered to identify and analyze risks, evaluate and prioritize risks, allocate our resources, and plan our risk mitigation strategy accordingly. The results of this activity are used to update our risk register. Our focus in 2016's risk assessment was the alignment of the five vision pillars with our 11 key risk categories. Please refer to the Risks and Opportunities section on pages 55 to 57 of this report to see the results of the assessment.

As we go through each step of the process, collaborative communication among the different levels of the organization is highly encouraged. These interactions can form the basis of a continuous interactive process of alignment that allows people at all levels to

understand the risks of any activity they undertake, and how that might affect the risks being managed by others. Correspondingly, each step undergoes monitoring and review for continuous improvement.

ACCOUNTABILITY AND AUDIT EXTERNAL AUDITORS

The external auditors are directly responsible to the Audit Committee in helping ensure the integrity of the company's financial statements and financial reporting process. The Audit Committee oversees the work of the external auditors and ensures that they have unrestricted access to records, properties, and personnel to enable performance of the required audit.

SyCip, Gorres, Velayo and Co. is the external auditor of the company for the year 2016, with Lucy L. Chan as the new lead engagement partner given the required audit partner rotation every five years.

To ensure that the external auditor maintains the highest level of independence from the company, both in fact and appearance, the Audit Committee has been strictly implementing a policy to review and pre-approve all audit and non-audit services rendered by the company's external auditor. In cases where there are non-audit services expressly prohibited by regulations of the SEC to be performed by the company's external auditor, these are awarded to another audit firm to ensure that the company's external auditor carry out the work in an objective manner.

During the meeting last April 15, 2016, the shareholders re-appointed SGV & Co. as Ayala's external auditor for the calendar year 2016.

Fees approved in connection with the audit and audit-related services rendered by SGV & Co. pursuant to the regulatory and statutory requirements for the years ended December 31, 2016 and 2015 amounted to ₱15.85 million and ₱9.72 million, respectively, inclusive of VAT. SGV & Co. was also contracted to provide other services for a fee of ₱1.19 million in accordance with established procurement policies. The Audit Committee reviewed the nature of non-audit services rendered by SGV & Co. and the corresponding fees and concluded that these are not in conflict with their function as the company's external auditor. The aggregate fees billed by SGV & Co. are shown below (with comparative figures for 2015):

EXTERNAL AUDITOR FEES	2016	2015
Audit and Audit-Related Fees*	₱15.85	₱9.72
Non-Audit Fees**	₱1.19	₱0.15
Grand Total	₱17.04	₱9.87

(Amount in millions of pesos)

* Audit and Audit-Related Fees. Include audit of Ayala Corporation's annual financial statements and midyear review of financial statements in connection with the statutory and regulatory filings or engagements for the years ended 2016 and 2015. Also include assurance and services that are reasonably related to the performance of the audit or review of Ayala's financial statements pursuant to the regulatory requirements.

** Non-Audit Fees. Include one-time, nonrecurring special projects/consulting services and seminars.

There were no disagreements with the company's external auditor on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedures.

INTERNAL AUDITORS

It is our policy to establish and support an Internal Audit function as a fundamental part of our corporate governance practices. The Internal Audit Unit, with Catherine H. Ang as the Chief Audit Executive, reports functionally to the Audit Committee of the Board of Directors and administratively to the President and Chief Operating Officer or his designate. The activities of the Internal Audit function are governed by a separate Internal Audit Charter approved by the Audit Committee.

Internal Audit adopts a risk-based audit approach in developing its annual work plan, which is reassessed quarterly to consider emerging risks. The Audit Committee reviews and approves the annual work plan and all deviations therefrom, and ensures that internal audit examinations cover the evaluation of adequacy and effectiveness of controls encompassing the company's governance, operations, and information systems, reliability and integrity of financial and operational information, safeguarding of assets, and compliance with laws, rules, and regulations. The Committee also ensures that audit resources are adequate and reasonably allocated to the areas of highest risk.

The audit team is composed of certified public accountants, certified internal auditors, certified risk management assurance practitioners, IT auditors, ISO 9001 certified, ISO 27001 certified, IT Infrastructure Library certified, a Financial Executives Institute of the Philippines member, and a Fellow of the Institute of Corporate Directors. The internal auditors are members of the Institute of Internal Auditors-Philippines and adopt the International Professional Practices Framework promulgated by the IIA Inc.

Ayala's Internal Audit also collaborates with the internal audit functions of the Ayala subsidiaries and affiliates to promote sharing of resources, knowledge, tools, and best practices through the Ayala Group Internal Auditors' Network. The group has introduced and launched the AGIAN portal to allow the efficient sharing of best practices and provide a platform for discussions and interaction among AGIAN members. Last October 2016, the AGIAN held its 18th annual conference with the theme "Collaborates.Networks.Necessitates and Embraces Change.Together!".

To equip the internal auditors with the required auditing skills during the conduct of their reviews, the company provides continuing training and development programs, from specific job skills to long-term professional development.



Rex Ma. Mendoza, Globe Telecom Independent Director and Audit Committee member, addresses the Ayala group internal auditors at the 18th Annual AGIAN Conference.

COMPLIANCE OFFICER

As Ayala's Compliance Officer, Atty. Solomon M. Hermosura performs the following tasks:

- Ensures that the company adheres to sound corporate governance and best practices
- Identifies and manages compliance risks
- Implements and monitors compliance with the company's Corporate Governance Manual and the rules and regulations of regulatory agencies
- Issues an Annual Corporate Governance Report that is duly signed by the Chairman and the President and two Independent Directors of the company every five years*
- Facilitates a yearly performance assessment of the Board, Board Committees, and individual members of the Board using a formal self-rating system.

In September 2016, Atty. Hermosura participated as a speaker on Compliance with Laws and Regulations at the ACCRA Business Law Forum.

*Pursuant to SEC Memorandum Circular No. 5, series of 2013 and SEC Memorandum Circular No. 12, series of 2014

DISCLOSURE AND TRANSPARENCY OWNERSHIP STRUCTURE (G4-7)

As of December 31, 2016, Ayala's outstanding common shares are held as follows:

	OUTSTANDING COMMON SHARES	% OWNERSHIP
Mermac, Inc.	303.7 million	48.96%
PCD Nominee Corporation (Non-Filipino)**	151.5 million	24.43%
PCD Nominee Corporation (Filipino)**	79.7 million	12.85%
Mitsubishi Corporation	63.1 million	10.17%
Others	22.2 million	3.59%
Total	620.2 million	100%

**Out of the 231.2 million shares registered under the name of PCD Nominee Corporation, 69.7 million or 11.23 percent are for the account of Deutsche Bank Manila, while 48 million or 7.74 percent are for the account of Hongkong Shanghai Banking Corporation.

	OUTSTANDING SHARES	% FOREIGN OWNED
Common Shares	620.2 million	
Voting Preferred Shares	200 million	
Total Voting Shares	820.2 million	30.59%
Preferred B Series 1 Shares	20 million	
Preferred B Series 2 Shares	27 million	
Total Outstanding Shares	867.2 million	28.95%

There were no cross or pyramid shareholdings.

ACCURATE AND TIMELY DISCLOSURES

Ayala is committed to providing quality, accurate, and timely disclosures to the regulators and investing public, including information on the results of its operations and financial performance.

All relevant disclosures are filed in a timely manner, with the SEC, Philippine Stock Exchange, and Philippine Dealing and Exchange Corporation. Policies and procedures are in place to make sure that Ayala consistently complies with disclosure requirements under the listing rules of the SEC, PSE, and PDEX.

Ayala also has procedures for internal reporting and promptly provides disclosures on significant and market-sensitive information that may affect the decision of the investing public. The results of the company's operations are provided and discussed by the members of senior

management with investment and financial analysts during the investors' meetings and quarterly analysts' briefings. Refer to Shareholder and Investor Relations on pages 99 and 101 for more details.

As a result of Ayala's continued efforts to provide timely and relevant information:

- On April 13, 2016 - The Annual Report (SEC Form 17-A) together with the consolidated audited financial statements for 2015 were submitted to the SEC, within 120 days after year-end
- On February 01, 2016 - The Notice of the Annual Stockholders' Meeting with a detailed explanation of the Agenda items was released to the SEC and PSE, 74 days ahead of the scheduled annual meeting on April 15, 2016
- On March 17, 2016 - The audited financial statements as contained in the Definitive Information Statement were submitted to the SEC and PSE, 29 days before the annual stockholders' meeting
- Interim or quarterly financial statements and results of operations were submitted to the regulators within 45 days from the end of the financial period.

This information, the past annual reports, and this Integrated Report and the consolidated audited financial statements are readily available to the public through the company's website.

A list of all the 2016 disclosures filed by the company can be found on page 394.

FINANCIAL AND NON-FINANCIAL REPORTS

The Board through the Audit Committee has the responsibility to the shareholders to ensure the integrity of the company's consolidated financial statements and any financial information disclosed in the company's Integrated Report. These financial statements comply with the Philippine Financial Reporting Standards.

Ayala also regularly provides a disclosure of its business segment results and non-financial performance indicators to its shareholders to help them appreciate the company's various businesses and their impact on the overall value improvement of the company. Financial performance indicators are thoroughly discussed in the Our Portfolio section of this report, while a discussion of the non-financial indicators can be found in the Our Value Creation Process section.

Ayala has an existing policy on Related Party Transactions. These are transactions between the company or any of its subsidiaries or affiliates and a related party which shall be subject to review and approval to ensure that they are at arm's length, fair, and will inure to the best interest of the company and its subsidiaries or affiliates and their shareholders. These transactions may include sales and purchases of goods and services to and from related parties that are concluded at normal commercial terms consistent with the principles of transparency and fairness. As per policy, the company or a related party or any of its subsidiaries or affiliates, as the case may be, shall disclose material RPTs to the Risk Management and RPT Committee for review prior to entering into the transaction, unless it is considered as a pre-approved RPT. Material RPTs are those transactions that meet the threshold values – ₱50 million or five percent of the total assets of either party, whichever is lower.

There were no RPTs classified as financial assistance to entities other than wholly-owned subsidiaries. There were also no cases of non-compliance with the laws, rules, and regulations pertaining to significant or material RPTs in the past three years. RPTs are discussed and quantified in the Notes to the Consolidated Financial Statements on pages 317 to 320.

POLICY ON INSIDER TRADING REPORTING OF TRANSACTIONS

Ayala has established guidelines on when to declare trades made in the company's shares which specifically encompass members of the management committee and all the managing directors, Controller, Chief Audit Executive, Chief Risk Officer, Treasurer, Corporate Secretary, and Assistant Corporate Secretary. The directors and principal officers are required to report all acquisitions or disposals, or any changes in their shareholdings in the company within three trading days from the transaction date, two days earlier than the five-day disclosure requirement of the PSE. All other officers and employees must submit a quarterly report on their trades of company shares to the Compliance Officer.

A schedule showing the levels of holding at the beginning and at the end of the year of the directors and officers in 2016 is disclosed in this report. Refer to the Changes in Shareholdings table on page 395.

TRADING BLACKOUTS

The Policy on Insider Trading of stock transactions ensures compliance with disclosure rules and prevention of the unlawful practice of stock trading to one's own advantage by using confidential information one has access to. The policy provides that all directors, officers, consultants, and employees of the company who may have knowledge of material facts or changes in the affairs of Ayala that have not been disclosed to the public, and members of covered persons' immediate families are prohibited from trading/dealing in Ayala's shares during the trading blackout period commencing the 10 trading days before and three trading days after the disclosure of quarterly and annual financial results. They are also required to submit annually a certification of compliance with the prohibition against trading during the blackout periods.

During the year, notices of trading blackouts were disseminated and issued to all covered personnel via e-mail. Compliance is strictly enforced during these trading blackout periods and there have been no violations of the company's policy on insider trading for the past three years.

STAKEHOLDER RELATIONS

Ayala aims to adhere to the highest possible level of moral benchmarks and fairness in dealing with shareholders, customers, employees, and business partners to constantly strengthen its foundation for long-term beneficial relationships.

Please refer to pages 99 to 101 for a discussion on Ayala's relationships with its stakeholders.

KEY PARTNERSHIPS

Ayala is cognizant of opportunities to expand its presence in the sectors it is involved in. As part of its business model, Ayala continues to forge partnerships with like-minded institutions that share its vision and core values to maintain its dominance and relevance in its core industries and to explore new growth platforms.

Anchored by its high standards in corporate governance, Ayala attracts the best and most respected domestic and international partners across its business activities in real estate, financial services, telecommunications, water, industrial technologies, power generation, infrastructure, international real estate, healthcare, and education. Ayala combines its over



Manila Water, through Estate Water, partnered with the SM group to service some of its properties.

180-year experience in doing business in the country with its partners' expertise and strengths to grow its businesses.

Ayala seeks to maintain mutually beneficial relationships with its partners to generate value for its stakeholders. These long-term partnerships across the Ayala group have yielded positive results for its businesses, including in our emerging businesses in industrial technologies, power generation, infrastructure, healthcare, and education.

CODE OF CONDUCT AND ETHICS (G4-56)

Ayala has established a Code of Conduct and Ethics that guides all its directors, officers, and employees in executing their roles and responsibilities. This Code is anchored on the four core values of integrity, long-term vision, empowering leadership, and commitment to national development. These values set the general expectations and standards for the behavior and ethical conduct of the directors, officers, and employees. The Board ensures that all directors, officers, and employees of the company adhere to the Code.

Directors, officers, and employees are required to disclose annually any business and family-related transactions to ensure that potential conflicts of interest are brought to management attention.

WHISTLEBLOWER POLICY

We pride ourselves on upholding the Code of Conduct and Ethics and the principle of integrity. The company adheres to the ideals of justice and fairness in its business and in all its dealings with its employees.

Through the company's Whistleblower Policy, directors, officers, employees, suppliers, business partners, contractors and sub-contractors, and other third

parties are given a formal mechanism and avenue to raise concerns about a perceived wrongdoing or malpractice involving the company or its personnel. Likewise, the policy provides an assurance that the whistleblower will be protected from reprisals, harassment, disciplinary action, or victimization for whistleblowing.

The whistleblower may submit a written report directly to the Office of the Compliance Officer, or by e-mail to whistleblower@ayala.com.ph, or through a face-to-face meeting with any member of the Disclosure Committee composed of one representative each from the Office of the General Counsel, Strategic Human Resources, Internal Audit, and Group Risk Management and Sustainability.

There is an established Investigation Committee and investigation process for reported violations of company policies, rules, and regulations. All reports are treated in confidence and discussed with the Audit Committee who monitors the resolution and closure of all reports.

In 2016, there were no significant incidents reported through the whistleblowing reporting channels.

ANTI-CORRUPTION POLICY

Ayala adopts a zero tolerance policy towards bribery and corruption. All directors, officers, and employees of the company are obligated to strictly observe the guidelines on anti-bribery and anti-corruption.

The company has also set guidelines for dealing with business gifts and gratuities to protect the integrity of its employees and its business interests.

The company strictly complies with the provisions of the Anti-Money Laundering Law.

WEBSITE

Information on the company's corporate governance initiatives, this Integrated Report, and all other relevant information is available on the company's website at www.ayala.com.ph. As part of our stakeholder engagement, Ayala also maintains social media accounts at [Facebook.com/AyalaCorporation](https://www.facebook.com/AyalaCorporation) and [Twitter @Ayala_1834](https://twitter.com/Ayala_1834). Another initiative to provide investors with relevant information on strategic and operational developments, the Ayala Investor Relations mobile application was developed to offer the investment community with a wealth of investor-related information on Ayala.



2016 AWARDS AND RECOGNITIONS

1. FinanceAsia's Asia's Best Companies (Philippines)

Best Managed Company
Most Committed to Corporate Governance
Best at Corporate Social Responsibility
Fourth runner-up in Best at Investor Relations

2. FinanceAsia's Platinum Awards

Platinum Awardee for the Philippines

3. Investor's Forum 2016 Institutional Investors Governance Awards

One of the 15 recipients together with Ayala Land Bank of the Philippine Island, Globe Telecom, and Manila Water

4. International Association of Business Communicators Philippines' Quill Awards 2016

12 Philippine Quill Awards went to the Ayala group, including an Excellence Award in Communication Skills for Special Events for Ayala's "Ayala Beats@180"

5. Asia Corporate Excellence & Sustainability Awards 2016

Among the three Top CSR Advocates in Asia

6. ASEAN Corporate Sustainability Summit and Awards 2016

1st runner-up on Employee Engagement and Development

7. AsiaMoney 2016 Corporate Governance Poll

Ranked first for Best Overall Corporate Governance in the Philippines

8. IR Magazine Awards South East Asia 2016

Certificate for excellence in investor relations

9. CMO Asia Best CSR Practices Awards

CSR Leadership Award given to Ma. Victoria A. Tan, Ayala Head of Group Risk Management and Sustainability

10. 28th Gawad Parangal

Adopted Son of Imus Award given to Ayala President and COO Fernando Zobel de Ayala



A modern conference room with a dark wood wall, framed pictures, and a tufted white leather chair in the foreground. The room features a dark wood wall with several framed pictures and a decorative piece. The ceiling has recessed lighting and circular pendant lights. The foreground shows the back of a white tufted leather chair.

FINANCIAL

At Ayala, risk management balances risk and reward, science and art, and process and people.

A modern conference room with a large, multi-tiered chandelier featuring numerous circular light fixtures. The room is furnished with several white, tufted office chairs arranged around a dark conference table. The walls are dark with gold-colored panels and framed artwork. The ceiling has recessed lighting strips.

FINANCIAL

STATEMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Ayala Corporation's net income expanded 17 percent to ₱26 billion in 2016, driven by the robust contributions of its real estate and financial services units, as well as the solid performance of its power generation and industrial technologies businesses.

In 2016, the company capped its five-year target, with net income expanding nearly threefold and a 23 percent annual compounded growth rate since its five-year plan was put in place in 2011. This was achieved through Ayala's disciplined execution of its strategy, amid a strong domestic environment.

CONSOLIDATED SALE OF GOODS AND SERVICES

Sales of goods and rendering services climbed 14 percent to ₱199.2 billion in 2016, largely due to the sustained growth of its real estate business and higher sales across AC Automotive's brands. This was further boosted by strong revenues particularly from IMI's European operations, and the contributions of its new subsidiary. This accounted for 84 percent of total income in 2016.

REAL ESTATE

Ayala Land recorded a net income of ₱20.9 billion, growing 19 percent from a year ago, boosted by strong improvements in its property development and commercial leasing businesses.

The steady traction of Ayala Land's residential and office sale segments, combined with commercial and industrial lot sales, lifted property development revenues to ₱79.2 billion, 17 percent higher year-on-year.

Residential revenues rose 12 percent to ₱65.1 billion on higher bookings and newly completed projects. Office for sale revenues surged 27 percent to ₱8.8 billion, mainly supported by Alveo Park Triangle Towers. Meanwhile, commercial and industrial lot revenues doubled to ₱5.9 billion owing to strong lot sales in Arca South, Altaraza, and Naic, Cavite.

Ayala Land continues to build up its recurring income portfolio. Revenues from mall leasing grew 12 percent to ₱15 billion on the improved performance of established

mall and contributions from newly opened malls. Office leasing revenues, meanwhile, increased seven percent to ₱5.5 billion as new office developments came on stream. Revenues from hotels and resorts were steady at ₱6 billion. On a consolidated basis, Ayala Land's recurring income business accounted for 31 percent of its net income during the year.

Ayala Land launched 43 projects valued at ₱88 billion during the year, ₱62 billion of which accounted for residential and office for sale projects. It spent ₱85.4 billion in capital expenditures and introduced two key mixed-use developments—One Ayala in Makati Central Business District and the 17.5-hectare Gatewalk Central in Mandaue, Cebu. Ayala Land currently has 20 estates in key growth centers in the country.

Ayala Land plans to complete seven shopping centers this year with a total gross leasable space of 224,000 square meters. These include the recently opened Ayala Malls The 30th in Pasig, as well as Ayala Malls Vertis North in the Quezon City central business district, Ayala Malls Feliz in Cainta, and Ayala Malls One Bonifacio High Street in Bonifacio Global City, among others. In addition, it expects to complete a total of 185,000 square meters of gross leasable office space in locations like Vertis North, Circuit Makati, and The 30th in Pasig this year and 837 hotel and resort rooms in various locations such as Vertis North in Quezon City, Bacolod, El Nido, Palawan, and Sicogon Island in Iloilo.

WATER

Manila Water's net income reached ₱6.1 billion, up two percent from the previous year on the improved performance of the Manila Concession combined with higher contributions from its businesses outside Metro Manila.

The Manila Concession registered a four percent growth in billed volume to 478.9 million cubic meters, attributed to increased consumption, combined with higher connections from the expansion areas of Marikina, Pasig and Taguig. The Manila Concession continued to improve its operation efficiencies, with non-revenue water dropping to 10.8 percent from 11.2 percent in the previous year as a result of continuous repair works at distribution

lines. Collection efficiency remained robust at 100.2 percent.

Outside the Manila Concession, Manila Water Philippine Ventures, Manila Water's holding company for all its domestic operating subsidiaries outside the Manila Concession, recorded a 96 percent surge in consolidated net income to ₱570 million, largely driven by Boracay Water, Laguna Water, and the first year of Estate Water's operations.

Boracay Water's net income soared 74 percent to ₱122 million on revenues and managed operating expenses. Laguna Water's net income jumped 22 percent to ₱248 million bolstered by new service connections. Meanwhile, Manila Water's private full-service water and used water operator, Estate Water, booked a net income of ₱217 million in its first year of operations and billed volume of 2.1 million cubic meters from Ayala Land's 47 brownfield developments.

Altogether, net income from non-Manila Concession businesses reached ₱1 billion, accounting for 17 percent of Manila Water's consolidated net income.

Last December, Manila Water won a 25-year concession to develop and operate the water supply system in Calasiao, Pangasinan. Further, it won another 25-year concession to rehabilitate, operate, and manage the water supply system, and provide water sanitation services in Obando, Bulacan. Manila Water also signed a memorandum of agreement with the SM group to provide water and used water services, initially covering its horizontal real estate projects.

INDUSTRIAL TECHNOLOGIES

In electronics manufacturing, IMI posted a net income of US\$28.1 million (₱1.3 billion), two percent lower than its year-ago level owing to transaction and financing costs related to strategic acquisitions and foreign exchange headwinds from the Chinese Renminbi.

Notwithstanding a challenging global environment, IMI's revenues improved four percent to US\$843 million (₱40 billion). This was lifted by VIA Optronics and its Europe and Mexico operations, which contributed a combined US\$308 million, a 15 percent growth year-on-year. Operating income expanded 13 percent from a year ago to US\$42.9 million.

IMI continues to expand its footprint in higher complex box build offerings, while making disciplined investments to fund its growth initiatives. Last year, IMI spent US\$52.3 million in capital expenditures to build

more complex and higher value-add manufacturing capabilities and growth platforms.

In automotive, AC Automotive registered a nearly fivefold expansion in net profits to ₱493 million, bolstered by robust vehicle sales across all brands as well as higher contributions from its distribution businesses.

POWER GENERATION

AC Energy recorded a 25 percent expansion in net earnings during the year to ₱2.7 billion. This sustained earnings trajectory was fueled by strong equity earnings contribution from its operating assets on improved operating efficiencies, boosted by gains from value realization from its partial sale of shares in South Luzon Thermal Energy Corporation.

Equity earnings from AC Energy's investee companies climbed 67 percent to ₱1.8 billion on higher operating efficiencies of GNPower Mariveles and the successful start of operations of South Luzon Thermal Energy Corporation's second unit.

AC Energy continues to scale up as it executes on its new strategic aspirations of doubling its equity commitment to US\$1.6 billion and its attributable power generating capacity to 2,000 megawatts by 2020. Last December, AC Energy, as part of a consortium, signed an agreement with the Chevron Global Energy and the Union Oil Company of California groups for the acquisition of Chevron's geothermal operations in Indonesia and the Philippines. Moreover, in January 2017, AC Energy signed investment agreements with UPC Renewables Indonesia for the development, construction, and operation of a 75 megawatt-wind farm project in Sidrap, South Sulawesi, Indonesia.

SHARE OF PROFIT OF ASSOCIATES AND JOINT VENTURES

Share of profit of associates and joint ventures expanded 21 percent to ₱18.1 billion, driven by a significant contribution from BPI's sale of securities, and higher equity in net earnings of AC Energy.

BANKING

Bank of the Philippine Islands sustained its earnings trajectory throughout the year, with net profits soaring 21 percent from the previous year to ₱22.1 billion. This was largely driven by solid gains from the bank's core banking, transactional, and bancassurance businesses, boosted by significant securities trading gains.

The bank's comprehensive income expanded 30 percent to ₱21.7 billion. Total revenues grew 12 percent to ₱66.6 billion as net interest income rose 10 percent to ₱42.4 billion, while non-interest income climbed 17 percent to ₱24.2 billion.

BPI's operating expenses reached ₱34.9 billion, up 10 percent from its year-ago level, owing to spending on general infrastructure combined with collective bargaining costs. Revenue growth cushioned the higher operating expenses with the bank's cost-to-income ratio improving to 52.5 percent from 53.7 percent in 2015.

BPI's loan portfolio breached the ₱1 trillion-mark during the year. It jumped 19 percent to ₱1.04 trillion, with 79 percent and 21 percent accounting for the corporate and retail segments, respectively. The bank maintains a healthy asset base with 90-day gross non-performing loans lower at 1.5 percent, from 1.6 percent a year ago. Reserve cover rose 118.7 percent from 110.2 percent in the previous year. Total deposits climbed 12 percent to ₱1.43 trillion, with current and savings account ratio at 73.5 percent.

BPI continues to expand both its corporate and retail segments. Last year, BPI arranged a ₱12.5 billion-Climate Bond for AboitizPower's Tiwi-Makban geothermal. It also arranged a ₱15 billion-bond issuance for Ayala Land and the ₱19.2 billion-initial public offering of Pilipinas Shell, both highly successful offerings. In retail, BPI secured approval from the Bangko Sentral ng Pilipinas to open 44 new branches for both BPI and BPI Family Savings Bank.

TELECOM

Despite sustained topline growth, the impact of non-operating and depreciation expenses from its recent strategic acquisitions weighed down on Globe's net profits in 2016, which declined four percent to ₱15.9 billion.

The depreciation charges arose from incremental asset build-up from the fourth quarter of the previous year and the full consolidation of Bayantel. The non-operating charges included costs related to the San Miguel transaction, consisting of interest expenses for the additional debt incurred for the acquisition, and Globe's share in the net losses of Vega Telecom and amortization of the intangible assets acquired.

Globe posted a six percent growth in consolidated service revenues, reaching a new record of ₱120 billion. This was primarily driven by robust broad-based demand across data-related products, complemented by healthy subscriber growth.

Mobile revenues were steady at ₱92 billion, as usage continued to shift from core voice and SMS to mobile data. Despite the intense competitive environment, mobile data is now the biggest contributor to Globe's mobile revenues, accounting for 38 percent of the segment. Mobile data revenues grew 25 percent from a year ago to ₱35 billion. Mobile data usage continued to pick up with traffic soaring 44 percent to 361 petabytes from its year-ago level, as smartphone penetration reached 61 percent during the year.

Globe's subscriber base continued to expand with mobile subscribers reaching 63 million, up 12 percent, bolstered by record-level prepaid acquisitions during the year. Home broadband subscribers grew 6 percent to 1.13 million from a year ago.

Home broadband revenues expanded 28 percent to ₱14.5 billion attributed to continued subscriber growth in fixed wireless solutions as Globe introduced new home broadband plans. Meanwhile, corporate data revenues climbed 28 percent to ₱10 billion, boosted by strong demand for domestic and international leased line services, sustained circuit expansion, and the increasing popularity of cloud-based services, such as data storage and cloud computing.

Globe registered a nine percent-growth in earnings before interest, taxes, depreciation, and amortization, reaching a record ₱50 billion during the year. EBITDA margin improved to 42 percent from its year-ago level of 40 percent.

In 2016, Globe rolled out over 500 LTE 700 and 1,200 LTE 2600 sites using frequencies obtained from the SMC deal. This year, it is deploying around 1,800 LTE 700 and 1,000 LTE 2600 sites. In addition, it will deploy around 1,800 LTE 1800 sites to boost capacity and coverage. In home broadband, Globe rolled out over 260,000 high-speed lines in 2016. It expects to deploy an additional 425,000 high-speed lines within the year.

Globe programmed approximately US\$750 million in capital expenditures this year, with the bulk of this allocated for the deployment of LTE mobile and home broadband, expansion of network capacities and coverage, and enhancement of corporate data services.

INTEREST INCOME

Interest income declined seven percent to ₱6.8 billion as a result of Ayala Land's and Ayala's lower investible funds.

OTHER INCOME

Other income rose 16 percent to ₱13.1 billion owing to contributions from Manila Water's and AC Automotive's other income. This was complemented by various gains from AC Energy's partial divestments of its investment stakes.

COSTS AND EXPENSES

Consolidated cost of sales expanded 15 percent to ₱141.4 billion mainly driven by higher sales from the real estate, electronics manufacturing, automotive, energy, and water infrastructure businesses.

Consolidated general and administrative expenses increased eight percent to ₱19.4 billion attributed to combined increments in the expenses of the parent's and AC Automotive's manpower costs, AC Automotive's marketing and selling costs, Ayala Land's contracted services, and Manila Water's and AC Energy's depreciation and management fees, as well as AC Energy's project development costs.

INTEREST EXPENSE AND OTHER FINANCING CHARGES

Consolidated interest expenses and other financing charges climbed seven percent to ₱14.3 billion mainly due to Ayala Land's higher loans to fund new and expansion projects.

The Ayala group's total debt rose 12 percent year-on-year, to ₱295.9 billion at the end of 2016. The increased debt levels of Ayala Land, Manila Water, IMI, AC Energy, and AC Automotive were partially offset by the parent company's settlement of loans. The parent company's debt decreased 19 percent to ₱76.0 billion at the end of 2016.

BALANCE SHEET HIGHLIGHTS

Ayala's balance sheet remains at a healthy level, providing the company with sufficient capacity to execute on its growth and expansion plans.

Current accounts and notes receivable surged 41 percent due to increased sales across Ayala Land's brands, in addition to leasing and advances to contractors. This was bolstered by IMI and AC Automotive which recorded higher sales, on top of Manila Water's higher sales and advances to its contractors.

Cash and cash equivalents decreased 27 percent to ₱60.2 billion, resulting from the parent's payment of

loans and other payables, and AYC's settlement of loans. In addition, Manila Water required funds for the payment of its maturing debt and dividends funded from new loan proceeds.

Investments in associates and joint ventures grew 11 percent to ₱180.3 billion, attributable to ALI's additional investments; an increased share in net earnings from BPI and Globe, as well as AC Energy's operating investees; and an additional infusion into GNPower Dinginin. Ayala Land's investments into various properties, as well as its new acquisitions of land, drove the 33 percent increase in investment properties to ₱110.9 billion.

Property, plant, and equipment surged 62 percent to ₱64.1 billion, from the construction of power plants for GNP Kauswagan and MonteSol, IMI's expansion in Mexico and China, and Ayala Land's new plants and machinery, as well as the consolidation of its acquired entities.

At the end of 2016, parent company net debt to equity ratio remains comfortable at 0.56 to 1 and consolidated net debt to equity ratio at 0.63 to 1.

OUTLOOK FOR 2017

2016 saw heightened levels of volatility amid geopolitical and economic transitions around the world: the rise of populism, Brexit, and other critical leadership changes such as in the US presidential elections. Despite increased uncertainty overseas, the Philippine economy expanded at 6.8 percent in 2016—the fastest growth rate in Asia, allowing the country to sustain its momentum.

Even with an overall positive economic environment in the country, Ayala will remain vigilant in monitoring relevant global and domestic macroeconomic indicators and trends that may potentially impact the operations of its various businesses.

Ayala expects most of its businesses to grow at a solid pace. It continues to assemble a portfolio of automotive and manufacturing businesses under AC Industrials to capture opportunities in the global industrial space. Further, Ayala continues to build up its power business, with various strategic acquisitions both in the Philippines and abroad.

Ayala maintains a healthy balance sheet with access to various funding options to meet requirements. A robust risk management system allows the company to maximize opportunities for reinvention, and navigate the challenges faced by its business units.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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



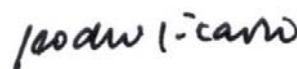
JAIME AUGUSTO ZOBEL DE AYALA

Chairman, Board of Directors and Chief Executive Officer



FERNANDO ZOBEL DE AYALA

President & Chief Operating Officer



JOSE TEODORO K. LIMCAOCO

Chief Finance Officer

Ayala Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2016 and 2015
And Years Ended December 31, 2016, 2015
and 2014

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Ayala Corporation
32F-35F Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue, Makati City

Opinion

We have audited the accompanying consolidated financial statements of Ayala Corporation and its 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, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Recognition of real estate revenue and costs

Ayala Land, Inc. and subsidiaries (the ALI Group) is involved in real estate project developments under the Ayala Land Premier, Alveo, Avida and Amaia brands for which it applies the percentage of completion (POC) method in determining real estate revenue and costs. The POC is based on the physical proportion of work and the cost of sales is determined based on the estimated project development costs applied with the respective project's POC. The assessment process for the POC and the estimated project development costs requires technical determination by management's specialists (project engineers) and involves significant management judgment as disclosed in Note 4 to the consolidated financial statements.

Audit Response

We obtained an understanding of ALI Group's process for determining the POC, including the cost accumulation process, and for determining and updating the total estimated project development costs, and performed tests of the relevant controls. We obtained the certified POC reports prepared by the project engineers and assessed the competence, capabilities and objectivity of the project engineers by considering their qualifications, experience and reporting responsibilities. For selected projects, we compared the certified POC against supporting documents such as accomplishment reports from the contractors. We conducted ocular inspections of selected projects, together with the project managers, and made relevant inquiries.

For selected projects, we obtained the project reserve memorandum indicating the work breakdown structure and total project development costs as estimated by the project engineers. For changes in estimated cost components, we compared these against the special budget appropriations request form and supporting contractor's change order form. For changes in total project development costs, we obtained the revised project reserve memorandum, compared this against the supporting documents and inquired about the rationale for such changes with the project engineers.

Revenue recognition for Manila Concession (East Zone)

The Manila Water Company, Inc. and subsidiaries (the MWC Group) derives its water and sewer revenue, and environmental revenue substantially from the East Zone. The recognition process for the East Zone revenue requires the processing of data from a large number of customers; classified as either residential, commercial, semi-business, or industrial within MWC Group's concession area. The tariffs billed to customers depend on the customer type and are determined based on a formula as prescribed by the Metropolitan Waterworks and Sewerage System Regulatory Office (MWSS RO). This matter is significant to our audit because the revenue recognized depends on the completeness of the capture of water consumption based on the meter readings over the concession area taken on various dates; the propriety of rates applied across customer types; and the reliability of the systems involved in processing the billing transactions. Relevant disclosures related to this matter are provided in Notes 3, 7 and 35 to the consolidated financial statements.

Audit Response

We obtained an understanding, evaluated the design and tested the controls over the read and bill process, which includes the capture of water consumption and calculation of billed fees, and uploading of data from the billing system to MWC Group's financial reporting system. We involved our internal specialist in the testing of the related controls over these processes. We performed test calculations of the billed amounts using the volume of water consumption and MWSS RO-approved rates and compared them with the amounts reflected in the billing statements.

Accounting for business combination

As disclosed in Note 24 to the consolidated financial statements, ALI Group acquired 51% of Prime Orion Philippines, Inc. (POPI) for a total consideration of ₱5.6 billion. The negative goodwill recognized based on the provisional purchase price allocation performed was ₱188.1 million. We consider the accounting for this acquisition to be a key audit matter because it required a significant amount of management judgment and estimation in identifying the underlying acquired assets and liabilities and in determining their fair values, specifically the acquired real estate properties and intangible assets.

Audit Response

We reviewed the purchase agreement covering the acquisition, the consideration paid and the provisional purchase price allocation. We reviewed the identification of POPI's underlying assets and liabilities, specifically the real estate properties and intangible assets, based on our understanding of POPI's business and management's explanations on the rationale for the acquisition. We assessed the competence, capabilities and objectivity of the external appraiser who prepared the appraisal report by considering their qualifications, experience and reporting responsibilities. We involved our internal specialist in evaluating the methodologies and assumptions used in arriving at the fair values of the real estate properties and leasehold rights. We compared the key assumptions used such as the list prices and adjustment factors by reference to relevant market data. We tested the forecasted cash flows by reference to the existing contractual terms such as contract period and lease rates. We tested the parameters used in the derivation of the discount rate against market data.

Goodwill impairment review

Goodwill acquired by Integrated Microelectronics, Inc. and subsidiaries (the IMI Group) through business combinations, which as of December 31, 2016 amounted to US\$96.0 million (₱4.8 billion), is required to be tested for impairment annually or whenever an indication of impairment exists. We focused on this area in our audit because of the materiality of the asset and its valuation which requires management to make significant estimates and assumptions with respect to the expected future cash flows of the related cash-generating units (CGU) and the discount rate used in calculating the present value of the cash flows. Management's disclosures on goodwill are included in Note 16 to the consolidated financial statements.

Audit Response

We obtained an understanding of the IMI Group's impairment assessment process and the related controls. We involved our internal specialist in reviewing the assumptions and methodologies used by the IMI Group in its value in use calculation, specifically on assessing the composition of estimated future cash flows and the discount rates. We paid particular attention to the assumptions used such as the forecasted revenue growth rate, which we compared against actual historical growth rates and industry outlook. Our review of the discount rate included a comparison of management's inputs to the weighted average cost of capital computation against market data of comparable companies such as beta, cost of equity and debt to equity ratio. We also performed sensitivity analysis of the key assumptions used to determine if there is sufficient headroom before the carrying value of the CGUs would exceed their recoverable amounts.

Accounting for investments in associate and joint venture

As disclosed in Note 12 to the consolidated financial statements, the Group has effective ownership of 48% in Bank of the Philippine Islands and subsidiaries (BPI) and 31% in Globe Telecom, Inc. and Subsidiaries (Globe) as of December 31, 2016. These investments are accounted for using the equity method. The application of the equity method of accounting to these investments is a key audit matter to our audit because BPI and Globe contributed ₱10.6 billion and ₱4.8 billion or 24% and 11%, respectively, to the consolidated net income of the Group in 2016, and accounted for 12% and 2% of the consolidated total assets of the Group as of December 31, 2016.

The Group's share in BPI's net income is significantly affected by the level of provisioning made on BPI's loans and receivables. BPI recorded impairment losses on its loans portfolio for the year ended December 31, 2016 of which the Group's share is considered material. The impairment assessment of the loans portfolio requires the exercise of significant management judgment and estimates about the financial condition of the counterparties, forecasted cash flows and observable market prices of loan collaterals.

The Group's share in Globe's net income is significantly affected by Globe's revenue. Globe's revenue recognition is characterized by inherent risk primarily due to the significant volume of transactions and the dependence on technology given the complexity of the operation of billing systems used. On May 30, 2016, Globe completed the acquisition of Vega Telecom, Inc. (VTI), Bow Arken Holdings Company, Inc. (BAHCI) and Brightside Holdings Corporation (BHC) for a total consideration amounting to ₱26.4 billion. Globe accounted for this acquisition as an investment in joint venture. The accounting for this acquisition involves management's judgement and estimations for the identification of intangible assets and their valuation, and the determination of their useful lives. While the fair values of the identifiable assets and liabilities have been provisionally determined, management's best estimate of the likely values has significant impact on the Group's share in the net income of Globe. In addition, Globe's impairment assessment of goodwill requires significant judgment and is based on assumptions that are affected by expected market or economic conditions, including growth rates and discount rates.

Audit Response

We sent instructions to the statutory auditors of BPI and Globe to perform an audit on the relevant financial information of BPI and Globe for the purpose of the Group's consolidated financial statements. These instructions contained a discussion on their scope of work, risk assessment procedures, audit strategy and reporting requirements. We discussed with BPI and Globe statutory auditors about their key audit areas, planning and execution of audit procedures, significant areas of estimation and judgment, and results of their work for the year ended December 31, 2016. We reviewed their working papers and obtained relevant conclusion statements related to their audit procedures.

For BPI, we focused on the BPI's statutory auditor's procedures on the specific and collective impairment testing of BPI's loan portfolio. We discussed with the BPI's statutory auditor about the overall characteristics of the loan portfolio, changes during the year, and rationale for the increase in impairment provisioning. We discussed the procedures performed in testing the processes and controls over credit risk rating, which is relevant in determining impairment provisioning, and the analysis made on the loss rates for collective impairment test considering current information on collateral values and loan foreclosures.

In the case of Globe, we involved our internal specialist in the review of the Globe's statutory auditor's procedures on testing the IT general and application controls over the revenue process. For the acquisition of VTI, BACH and BHC, we focused on the procedures performed on the assessment of the accounting treatment applied, purchase price determination and the review of provisional purchase price allocation, including the identification of intangible assets. We involved our internal specialist in the review of the procedures performed in assessing the key assumptions used in valuing intangible assets and the useful life assigned to the identified intangible assets. For impairment assessment of goodwill, we also involved our internal specialist in the review of the procedures performed in assessing the key assumptions, including the discount rate used, and cash flow forecast in comparison to recent performance and market expectations.

We obtained the relevant financial information of BPI and Globe and recomputed the Group's share in the net income of BPI and Globe for the year ended December 31, 2016.

Consolidation process

Ayala Corporation is the holding company of a significant number of domestic and foreign legal entities with diversified business portfolio as disclosed in Note 2 to the consolidated financial statements. In preparing the consolidated financial statements, several factors were considered such as fair value adjustments arising from business combinations, the presence of non-controlling interests, numerous intercompany transactions, translation of investees' foreign-currency denominated financial information to Ayala Corporation's functional currency, and other equity adjustments. Accordingly, we considered the consolidation process as a key audit matter due to the inherent complexity involved in consolidating the financial information of the domestic and foreign entities comprising the Group.

Audit Response

We obtained an understanding of the consolidation process and controls by which the consolidated financial statements are prepared, and tested the relevant controls with the assistance of our internal specialist. We obtained an understanding of the Group's process for identifying related parties and related party transactions and the reconciliation of intercompany balances, and performed testing of the relevant controls. We tested significant consolidation adjustments, including elimination, deferral and realization of intercompany transactions and balances, amortization/depreciation/reversal of fair value adjustments arising from business combinations, the currency translation adjustments, and movements in non-controlling interests and other equity adjustments.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20 IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20 IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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



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

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

The engagement partner on the audit resulting in this independent auditor's report is Lucy L. Chan.

SYCIP GORRES VELAYO & CO.

Lucy L. Chan

Lucy L. Chan
Partner
CPA Certificate No. 88118
SEC Accreditation No. 0114-AR-4 (Group A),
January 7, 2016, valid until January 6, 2019
Tax Identification No. 152-884-511
BIR Accreditation No. 08-001998-46-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5908681, January 3, 2017, Makati City

March 10, 2017

AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 31, 32 and 33)	P60,223,324	P82,154,542
Short-term investments (Notes 6, 31, 32 and 33)	1,008,705	2,052,288
Accounts and notes receivable (Notes 7, 31, 32 and 33)	116,841,963	82,595,788
Inventories (Note 8)	76,752,875	68,430,908
Other current assets (Notes 9 and 32)	33,638,483	27,617,032
Total Current Assets	288,465,350	262,850,558
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 7, 32 and 33)	36,484,347	41,793,499
Investments in bonds and other securities (Notes 10, 31, 32 and 33)	4,565,079	3,737,816
Land and improvements (Note 11)	101,049,171	92,894,879
Investments in associates and joint ventures (Note 12)	180,313,743	162,711,420
Investment properties (Note 13)	110,916,644	83,669,492
Property, plant and equipment (Note 14)	64,074,471	39,644,489
Service concession assets (Note 15)	82,422,249	78,828,840
Intangible assets (Note 16)	9,716,403	3,909,603
Deferred tax assets - net (Note 25)	12,414,647	9,742,797
Pension and other noncurrent assets (Note 17)	21,282,399	14,291,330
Total Noncurrent Assets	623,239,153	531,224,165
Total Assets	P911,704,503	P794,074,723
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 18, 31, 32 and 33)	P164,600,578	P145,597,876
Short-term debt (Notes 20, 31, 32 and 33)	30,858,137	24,387,515
Income tax payable	2,270,315	1,943,217
Current portion of:		
Long-term debt (Notes 20, 31, 32 and 33)	19,792,669	28,153,532
Service concession obligation (Notes 15, 32 and 33)	754,519	1,255,644
Other current liabilities (Notes 19, 32 and 33)	17,522,984	4,629,680
Total Current Liabilities	235,799,202	205,967,464
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 20, 31, 32 and 33)	245,203,145	210,799,647
Service concession obligation - net of current portion (Notes 15, 32 and 33)	6,822,862	7,538,374
Deferred tax liabilities - net (Note 25)	9,543,754	6,440,505
Pension liabilities (Note 27)	2,469,140	2,545,978
Other noncurrent liabilities (Notes 21, 32 and 33)	40,870,522	32,238,772
Total Noncurrent Liabilities	304,909,423	259,563,276
Total Liabilities	540,708,625	465,530,740

(Forward)

	December 31	
	2016	2015
Equity		
Equity attributable to owners of the parent		
Paid-in capital (Note 22)	₱74,379,760	₱73,919,322
Share-based payments (Note 28)	495,759	568,847
Remeasurement gains (losses) on defined benefit plans (Note 27)	(1,548,192)	(1,249,716)
Net unrealized gain (loss) on available-for-sale financial assets (Note 10)	(466,676)	(554,297)
Cumulative translation adjustments	1,414,550	288,683
Equity reserve (Notes 2 and 24)	12,211,275	12,402,311
Equity conversion option (Note 20)	1,113,745	1,113,745
Retained earnings (Note 22)	145,622,311	124,468,464
Treasury stock (Note 22)	(2,300,000)	(2,300,000)
	230,922,532	208,657,359
Non-controlling interests	140,073,346	119,886,624
Total Equity	370,995,878	328,543,983
Total Liabilities and Equity	₱911,704,503	₱794,074,723

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share Figures)

	Years Ended December 31		
	2016	2015	2014
INCOME			
Sale of goods (Note 31)	₱137,307,163	₱118,285,566	₱105,140,825
Rendering of services (Notes 13 and 31)	61,901,736	55,749,425	51,275,623
Share of profit of associates and joint ventures (Note 12)	18,153,893	15,038,015	13,185,147
Interest income (Note 31)	6,776,936	7,296,799	5,493,715
Other income (Note 23)	13,146,061	11,296,937	9,180,254
	237,285,789	207,666,742	184,275,564
COSTS AND EXPENSES			
Costs of sales (Notes 8 and 31)	105,752,969	89,487,870	77,773,560
Costs of rendering services (Notes 23 and 31)	35,597,431	33,573,245	34,495,682
General and administrative (Notes 23, 27 and 31)	19,412,193	18,052,241	15,831,000
Interest and other financing charges (Notes 20, 23 and 31)	14,258,189	13,276,414	11,933,781
Other charges (Note 23)	8,325,424	5,970,474	3,829,020
	183,346,206	160,360,244	143,863,043
INCOME BEFORE INCOME TAX	53,939,583	47,306,498	40,412,521
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)			
Current	11,357,136	8,847,768	7,964,375
Deferred	(850,162)	163,676	173,543
	10,506,974	9,011,444	8,137,918
NET INCOME	₱43,432,609	₱38,295,054	₱32,274,603
Net Income Attributable to:			
Owners of the parent (Note 26)	₱26,011,263	₱22,278,955	₱18,609,229
Non-controlling interests	17,421,346	16,016,099	13,665,374
	₱43,432,609	₱38,295,054	₱32,274,603
EARNINGS PER SHARE (Note 26)			
Basic	₱39.88	₱33.89	₱29.83
Diluted	₱39.31	₱33.38	₱29.35

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2016	2015	2014
NET INCOME	₱43,432,609	₱38,295,054	₱32,274,603
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences arising from translations of foreign investments	1,600,871	1,151,571	463,755
Changes in fair values of available-for-sale financial assets	(51,054)	(69,805)	(18,337)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains/(losses) on defined benefit plans (Note 27)	162,382	78,152	304,334
Tax effect relating to components of other comprehensive income	(19,486)	(18,035)	(35,348)
	1,692,713	1,141,883	714,404
SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES			
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences arising from translations of foreign investments	(70,907)	47,017	(19,454)
Changes in fair values of available-for-sale financial assets	201,430	(588,087)	(204,190)
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains/(losses) on defined benefit plans	(284,084)	(267,438)	87,797
	(153,561)	(808,508)	(135,847)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	1,539,152	333,375	578,557
TOTAL COMPREHENSIVE INCOME	₱44,971,761	₱38,628,429	₱32,853,160
Total Comprehensive Income Attributable to:			
Owners of the parent	₱26,926,275	₱22,380,172	₱19,289,618
Non-controlling interests	18,045,486	16,248,257	13,563,542
	₱44,971,761	₱38,628,429	₱32,853,160

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousands)

EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

	Other Comprehensive Income							Total	Non-controlling Interests	Total Equity		
	Paid-in Capital (Note 22)	Share-based Payments (Note 28)	Remeasurement Gains (Losses) on Defined-Benefit Plans (Note 27)	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 10)	Cumulative Translation Adjustments	Equity Reserve (Note 2)	Equity Conversion Option				Retained Earnings (Note 22)	Treasury Stock
As of January 1, 2016	P73,919,322	P568,847	(P1,249,716)	(P554,297)	P288,683	P12,402,311	P1,113,745	P124,468,464	(P2,300,000)	P208,657,359	P119,886,624	P328,543,983
Net income	—	—	(298,476)	87,621	—	—	—	26,011,263	—	26,011,263	17,421,346	43,432,609
Other comprehensive income (loss)	—	—	(298,476)	87,621	1,125,867	—	—	26,011,263	—	915,012	624,140	1,539,152
Total comprehensive income (loss)	—	—	(298,476)	87,621	1,125,867	—	—	26,011,263	—	26,926,275	18,045,486	44,971,761
Exercise of ESOP/ESOWN	460,438	(321,094)	—	—	—	—	—	—	—	139,344	—	139,344
Cost of share-based payments	—	248,006	—	—	—	—	—	—	—	248,006	—	248,006
Cash dividends	—	—	—	—	—	—	—	(4,857,416)	—	(4,857,416)	(5,335,772)	(10,193,188)
Change in non-controlling interests	—	—	—	—	—	(191,036)	—	—	—	(191,036)	7,477,008	7,285,972
At December 31, 2016	P74,379,760	P495,759	(1,548,192)	(P466,676)	P1,414,550	P12,211,275	P1,113,745	P145,622,311	(P2,300,000)	P230,922,532	P140,073,346	P370,995,878

EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

	Other Comprehensive Income							Total	Non-controlling Interests	Total Equity		
	Paid-in Capital (Note 22)	Share-based Payments (Note 28)	Remeasurement Gains (Losses) on Defined-Benefit Plans (Note 27)	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 10)	Cumulative Translation Adjustments	Equity Reserve (Note 2)	Equity Conversion Option				Retained Earnings (Note 22)	Treasury Stock
As of January 1, 2015	P73,571,505	P377,376	(P1,005,572)	(P7,211)	(P603,765)	P7,476,259	P1,113,745	P107,039,814	(P2,300,000)	P185,664,151	P101,202,334	P286,866,485
Net income	—	—	(244,144)	(547,086)	892,448	—	—	22,278,955	—	22,278,955	16,016,099	38,295,054
Other comprehensive income (loss)	—	—	(244,144)	(547,086)	892,448	—	—	22,278,955	—	101,218	232,158	333,376
Total comprehensive income (loss)	—	—	(244,144)	(547,086)	892,448	—	—	22,278,955	—	22,380,173	16,248,257	38,628,430
Exercise of ESOP/ESOWN	347,817	(72,729)	—	—	—	—	—	—	—	275,088	—	275,088
Cost of share-based payments	—	264,200	—	—	—	—	—	—	—	264,200	—	264,200
Cash dividends	—	—	—	—	—	—	—	(4,850,305)	—	(4,850,305)	(4,836,270)	(9,686,575)
Change in non-controlling interests	—	—	—	—	—	4,924,062	—	—	—	4,924,062	7,272,303	12,196,365
At December 31, 2015	P73,919,322	P568,847	(P1,249,716)	(P554,297)	P288,683	P12,402,311	P1,113,745	P124,468,464	(P2,300,000)	P208,657,359	P119,886,624	P328,543,983

EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

	Other Comprehensive Income										Total	Non-controlling Interests	Total Equity
	Paid-in Capital (Note 22)	Share-based Payments (Note 28)	Remeasurement Gain (Losses) on Defined Benefit Plans (Note 27)	Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 10)	Cumulative Translation Adjustments	Equity Reserve (Note 2)	Equity Conversion Option	Retained Earnings (Note 22)	Treasury Stock	Total			
As of January 1, 2014	₱50,166,129	₱485,187	₱(1,317,954)	₱277,848	₱(1,256,831)	₱7,482,121	₱-	₱92,639,781	₱(5,000,000)	₱143,476,281	₱91,984,310	₱235,470,591	
Net income	-	-	-	-	-	-	-	18,609,229	-	18,609,229	13,665,374	32,274,603	
Other comprehensive income (loss)	-	-	312,382	(285,059)	653,066	-	-	(18,609,229)	-	680,389	(101,833)	578,556	
Total comprehensive income (loss)	-	-	312,382	(285,059)	653,066	-	-	18,609,229	-	19,289,618	13,563,541	32,853,159	
Exercise of ESOP/ESOWN	444,044	-	-	-	-	-	-	-	-	262,083	-	262,083	
Cost of share-based payments	-	(181,961)	-	-	-	-	-	-	-	74,150	-	74,150	
Sale of treasury stock	10,724,121	74,150	-	-	-	-	-	-	2,700,000	13,424,121	-	13,424,121	
Issuance of shares	12,237,211	-	-	-	-	-	-	-	-	12,237,211	-	12,237,211	
Cash dividends	-	-	-	-	-	-	-	(4,209,196)	-	(4,209,196)	(4,522,813)	(8,732,009)	
Equity conversion option	-	-	-	-	-	-	1,113,745	-	-	1,113,745	-	1,113,745	
Change in non-controlling interests	-	-	-	-	-	(3,862)	-	-	-	(3,862)	167,296	163,434	
At December 31, 2014	₱73,571,505	₱377,376	₱(1,005,572)	₱(7,211)	₱(603,765)	₱7,478,239	₱1,113,745	₱107,039,814	₱(2,300,000)	₱185,664,151	₱101,202,334	₱286,866,485	

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱53,939,583	₱47,306,498	₱40,412,521
Adjustments for:			
Interest and other financing charges - net of amount capitalized (Note 23)	14,258,189	13,276,414	11,933,781
Depreciation and amortization (Note 23)	11,560,471	9,443,089	9,158,195
Cost of share-based payments (Note 28)	248,006	373,161	222,417
Provision for doubtful accounts (Note 23)	812,997	264,735	182,383
Provision for (reversal of) inventory obsolescence (Note 23)	(127,976)	76,621	149,077
Provision for impairment/Losses on (Note 23):			
Investments in bonds and other securities	-	61,701	66,834
Investments in associates and joint ventures	1,436,854	546,333	-
Property, plant and equipment	45,737	88,753	-
Intangible assets	-	423,541	335,731
Mark to market gain on financial assets at fair value through profit or loss and derivatives (Note 23)	(473,855)	(243,452)	(392,002)
Other investment income (Note 23)	(1,283,190)	(124,039)	(51,008)
Gain on sale of (Note 23):			
Investments	(2,128,522)	(1,738,349)	(2,633,329)
Other assets	(5,182)	(51,936)	(711,001)
Interest income	(6,776,936)	(7,296,799)	(5,493,715)
Share of profit of associates and joint ventures (Note 12)	(18,153,893)	(15,038,015)	(13,185,147)
Operating income before changes in operating assets and liabilities	53,352,283	47,368,256	39,994,736
Decrease (increase) in:			
Accounts and notes receivable – trade	(15,322,109)	(17,404,502)	(11,576,951)
Inventories	(5,548,250)	(4,344,029)	(1,534,405)
Service concession assets	(6,423,693)	(6,609,718)	(2,997,352)
Other current assets	(5,387,939)	2,540,623	(3,933,236)
Increase (decrease) in:			
Accounts payable and accrued expenses	20,002,946	16,638,678	31,114,583
Net pension liabilities	(1,143,247)	342,193	479,604
Other current liabilities	12,834,529	(3,827,639)	3,814,709
Net cash generated from operations	52,364,520	34,703,862	55,361,608
Interest received	7,054,102	7,363,940	5,595,767
Interest paid	(14,029,313)	(13,289,559)	(11,966,127)
Income tax paid	(10,172,006)	(10,192,869)	(9,782,770)
Net cash provided by operating activities	35,217,303	18,585,374	39,208,478
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale/maturities of investments in bonds and other securities	1,659,387	826,148	717,072
Sale/maturities of financial assets at fair value through profit or loss	2,948,650	28,117,351	40,417,857
Sale/redemptions of investments in associates and joint ventures	3,672,767	5,782,807	7,300,597
Sale of a subsidiary (Note 2)	109,729	-	-

(Forward)

	Years Ended December 31		
	2016	2015	2014
Disposals of:			
Property, plant and equipment (Note 14)	₱363,849	₱434,084	₱1,657,058
Investment properties (Note 13)	777,105	681,913	1,538,984
Land and improvements (Note 11)	–	24,449	3,935
Maturities of (additions to) short-term investments	1,043,583	(949,250)	(983,358)
Additions to:			
Service concession assets (Note 15)	(110,383)	(217,527)	(666,569)
Investments in associates and joint ventures	(13,422,670)	(8,767,207)	(35,926,256)
Property, plant and equipment (Note 14)	(24,344,093)	(15,753,861)	(6,233,101)
Investment properties (Note 13)	(28,449,015)	(12,706,724)	(13,375,167)
Land and improvements (Note 11)	(5,128,862)	(22,475,160)	(28,841,363)
Accounts and notes receivable - non trade	(11,274,562)	(979,350)	(5,171,180)
Financial assets at fair value through profit or loss	(2,742,790)	(22,357,315)	(33,186,064)
Investments in bonds and other securities	(52,642)	(1,079,053)	(562,661)
Intangible assets (Note 16)	(533,376)	319,530	(172,452)
Dividends received from associates, joint ventures and investments in equity securities (Note 12)	8,560,393	8,309,970	5,742,014
Acquisitions through business combinations - net of cash acquired (Note 24)	(2,551,035)	(781,687)	(274,932)
Decrease (increase) in other noncurrent assets	(6,709,454)	2,749,436	(14,730,215)
Net cash used in investing activities	(76,183,421)	(38,821,446)	(82,745,801)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term and long-term debt	97,216,392	75,097,645	78,310,834
Payments of short-term and long-term debt	(68,047,835)	(71,223,956)	(25,018,135)
Reissuance of treasury shares (Note 22)	–	–	13,424,121
Dividends paid (Note 22)	(10,104,138)	(9,130,756)	(7,581,660)
Service concession obligation paid (Note 15)	(858,230)	(646,815)	(698,927)
Collections of subscriptions receivable	139,344	166,127	113,817
Issuance of common shares (Note 22)	–	–	12,237,211
Increase (decrease) in:			
Other noncurrent liabilities	1,368,605	5,135,008	812,972
Non-controlling interests in consolidated subsidiaries (Note 24)	(679,238)	12,223,836	(2,948,434)
Net cash provided by financing activities	19,034,900	11,621,089	68,651,799
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(21,931,218)	(8,614,983)	25,114,476
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	82,154,542	90,769,525	65,655,049
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	₱60,223,324	₱82,154,542	₱90,769,525

See accompanying Notes to Consolidated Financial Statements.

AYALA CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Ayala Corporation (the Parent Company) is incorporated in the Republic of the Philippines on January 23, 1968. On April 15, 2016, during its annual meeting of its stockholders, the stockholders ratified the amendment of the Fourth Article of the Articles of Incorporation to extend the corporate term for 50 years from January 23, 2018. The Parent Company's registered office address and principal place of business is 32F-35F, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City. The Parent Company is a publicly listed company which is 48.96% owned by Mermac, Inc., 10.17% owned by Mitsubishi Corporation and the rest by the public.

The Parent Company is the holding company of the Ayala Group of Companies (the Group), with principal business interests in real estate and hotels, financial services and insurance, telecommunications, water infrastructure, electronics manufacturing, industrial technologies, automotive, power generation, transport infrastructure, international real estate, healthcare and education.

2. Group Information

The consolidated financial statements comprise the financial statements of the Parent Company and the following subsidiaries of the Group:

Subsidiaries	Nature of Business	% of Economic Ownership Interest held by the Group	
		2016	2015
AC Energy Holdings, Inc. (ACEHI)	Power Generation	100.0%	100.0%
AC Infrastructure Holdings Corporation (AC Infra)	Transport Infrastructure	100.0	100.0
AC International Finance Limited (ACIFL)*	Investment Holding	100.0	100.0
AG Counselors Corporation (AGCC)	Consulting Services	100.0	100.0
AC Industrial Technology Holdings Inc. (AITHI) (formerly Ayala Automotive Holdings Corporation)	Industrial Technology and Automotive	100.0	100.0
Ayala Aviation Corporation (AAC)	Air Charter	100.0	100.0
Ayala Education, Inc. (AEI)	Education	100.0	100.0
Ayala Land, Inc. (ALI)	Real Estate and Hotels	47.2	47.2
AYC Finance Ltd. (AYCFL)*	Investment Holding	100.0	100.0
Azalea International Venture Partners Limited (AIVPL)**	Business Process Outsourcing (BPO)	100.0	100.0
Ayala Healthcare Holdings, Inc. (AHCHI)	Healthcare	100.0	100.0
Bestfull Holdings Limited (BHL)***	Investment Holding – International	100.0	100.0
Darong Agricultural and Development Corporation (DADC)	Agriculture	100.0	100.0
HCX Technology Partners, Inc. (HCX)	HR Technology Services	100.0	–
Integrated Microelectronics, Inc. (IMI)	Electronics Manufacturing	50.7	50.7
Manila Water Company, Inc. (MWC)	Water Infrastructure	51.6	51.6
Michigan Holdings, Inc. (MHI)	Investment Holding	100.0	100.0
Philwater Holdings Company, Inc. (Philwater)	Investment Holding	100.0	100.0
Purefoods International, Ltd. (PFIL)**	Investment Holding	100.0	100.0
Technopark Land, Inc. (TLI)	Real Estate	78.8	78.8
Water Capital Works, Inc. (WCW)	Investment Holding	100.0	100.0

*Incorporated in Cayman Islands

**Incorporated in British Virgin Islands

***Incorporated in Hong Kong

Unless otherwise indicated, the principal place of business and country of incorporation of the Parent Company's investments in subsidiaries, associates and joint ventures is the Philippines.

Except as discussed below, the voting rights held by the Parent Company in its investments in subsidiaries are in proportion to its ownership interest.

The following significant transactions affected the Parent Company's investments in its subsidiaries:

Investment in ACEHI

On various dates in 2016 and 2015, the Parent Company infused additional capital to ACEHI which amounted to ₱2.3 billion and ₱1.6 billion, respectively. The proceeds were used to finance the various renewable energy, wind and coal projects of ACEHI to complete its planned 1,000 megawatt (MW) capacity.

In December 2016, ACEHI sold all of its 70% ownership interest in QuadRiver Energy Corporation (Quadriver), Philnew Hydro Power Corporation (Hydro Power) and PhilnewRiver Corporation (PhilnewRiver) to Sta. Clara Power Corporation (Sta. Clara). As consideration for its purchase, Sta. Clara issued a noninterest-bearing note for ₱350.0 million, payable over four (4) years. ACEHI recognized ₱143.6 million gain from the disposal included under "Other Income" account in the consolidated statement of income (see Note 23) and, as the note is noninterest-bearing, ACEHI also recognized a 'Day 1' loss of ₱60.8 million. Subsequently, ACEHI recognized a provision for impairment losses on the note amounting to ₱289.2 million.

Investment in AC Infra

On various dates in 2016 and 2015, the Parent Company infused additional capital to AC Infra amounting to ₱205.3 million and ₱839.2 million, respectively. The additional capital in 2016 was used for AC Infra's operating and capital expenditures and investment to AF Payments, Inc. (AFPI) while the 2015 infusion was used for the investment in Light Rail Manila Holdings, Inc. (see Note 12).

Investment in ACIFL

In May 2016, ACIFL repurchased 21,000,000 shares which were issued and registered in the name of the Parent Company. The repurchase price was at par of US\$1.00 per share for a total amount of US\$21.0 million. ACIFL remained a wholly-owned subsidiary of the Parent Company after the transaction.

As of December 31, 2016 and 2015, ACIFL, through its wholly-owned subsidiary, AYC Holdings Inc., owns 50.7% of the common shares of IMI.

Investment in AITHI

On August 15, 2016, the Securities and Exchange Commission (SEC) approved the change in name of Ayala Automotive Holdings Corporation to AC Industrials Technology Holdings, Inc.

On various dates in 2016, the Parent Company infused ₱200.0 million to AITHI to fund the following new investments:

- Incorporation of Adventure Cycle Philippines, Inc. (ACPI), 100% owned subsidiary, with capital infusion of ₱102.5 million. ACPI's primary purpose is to engage in the sale of motorcycles and related parts, accessories and services. ACPI was appointed by KTM-AG (KTM) as the exclusive distributor of KTM motorcycle models in the Philippines.
- Incorporation of KTM Asia Motorcycle Manufacturing, Inc. (KTM Asia), with 66.67% and 33.33% ownership of ACPI and KTM, respectively. AITHI infused ₱62.5 million in capital funds to this investment. KTM Asia's primary purpose is to engage in the assembly, manufacturing and distribution of motorcycle goods and materials.
- Incorporation of Qflex Philippines, Inc. (Qflex), 100% owned of AITHI. Its primary purpose is to engage in the production, assembly and distribution of any and all types of electric, industrial or power generation-related products and services.

In 2016, AITHI has been appointed by KTM as the exclusive distributor of KTM motorcycle models in the Philippines.

In 2015, the Parent Company subscribed to redeemable preferred shares of AITHI amounting to ₱150.0 million.

The redeemable preferred shares have the following features: (a) voting; (b) participating; (c) preferred in distribution of assets in case of liquidation and in payment of dividend; (d) redeemable at the option of AITHI, provided that in no case shall the redemption price be less than the cost of shares as recorded in the books of AITHI at the time of redemption.

Investment in AAC

The Parent Company infused additional capital to AAC amounting to nil and ₱92.7 million in 2016 and 2015, respectively. The additional capital was used to purchase new aircrafts and support working capital requirements.

Investment in AEI

In 2016 and 2015, the Parent Company infused additional capital to AEI amounting to ₱402.8 million and ₱435.1 million, respectively, to fund AEI's investments in Affordable Private Education Center (APEC Schools) and University of Nueva Caceres (UNC) as well as operating requirements.

In 2016, AEI entered into a sell-back share transaction for 900 shares with the other shareholders of UNC for a total consideration of ₱62.0 million. The transaction reduced the ownership interest of AEI from 59% to 51%.

Investment in ALI

In January 2015, the Parent Company participated in the placement and subscription of 484.8 million common shares of ALI with proceeds of ₱16.0 billion. The Parent Company sold its listed ALI common shares through a private placement and infused the proceeds into ALI as subscription for the same number of new ALI shares at the same price. These transactions support ALI's fund raising initiatives to acquire assets for its expansion projects.

Following the transactions, the Parent Company's ownership interest in ALI's common stock was reduced from 48.9% to 47.2% as of January 2015. The Parent Company maintained the same number of common shares it held in ALI prior to the transactions.

ALI shares with cost of ₱301.2 million as of December 31, 2016 and 2015 were collateralized to secure the Parent Company's loan facility. The fair value of ALI shares collateralized amounted to ₱11.9 billion and ₱13.8 billion as of December 31, 2016 and 2015, respectively (see Note 20).

For the year 2016, ALI had several new investments and re-organization. Among the significant investments of ALI include subscription to 51% of the total outstanding shares of Prime Orion Philippines, Inc. (POPI) for a total subscription price of ₱5.6 billion (see Note 24). ALI paid 25% (₱1.4 billion) and the balance or 75% of the subscription price is conditioned upon fulfillment of certain conditions. The transaction resulted in ₱188.0 million gain upon acquisition or negative goodwill based on the provisional purchase price allocation.

In April 2016, ALI purchased 6.0 million common shares and 24.0 million preferred redeemable shares of Prow Holdings, Inc. (PHI), with par value of ₱10.00 per share each for ₱300.0 million. Subsequently, on May 23, 2016, additional 3.0 million common shares and 12.0 million preferred redeemable shares with par value of ₱10.00 per share were acquired by ALI for ₱150.0 million. Furthermore, in August 2016, a total of 9,150,931 common shares and 12,876,456 preferred redeemable shares were purchased for a total consideration of ₱220.3 million which brought ALI's ownership to 55.0% of the total outstanding capital stock of PHI. The transactions were entered based on the governing joint venture agreement between ALI and Leonio Land Holdings, Inc.

(LLHI) for the development of Alviera Estate in Porac, Pampanga. The series of subscriptions was accounted for as a linked transaction as the transaction was negotiated as a whole.

The fair value of ALI shares held by the Parent Company amounted to ₱221.8 billion and ₱238.8 billion as of December 31, 2016 and 2015, respectively. The voting rights held by the Parent Company in ALI is 68.8% and 68.9% in 2016 and 2015, respectively.

Investment in AIVPL and HCX

In 2016, Livelt Investments, Limited (Livelt), a wholly-owned subsidiary of AIVPL, sold its 82.5% ownership interest in IQ BackOffice Holdings Ltd. (IQB), a California-based business process outsourcing company particularly engaged in finance and accounting outsourcing (FAO) and human resource outsourcing (HRO), to IQB's management team. The Group retained the HRO business under its newly incorporated subsidiary, HCX Technology Partners, Inc. (HCX).

The divestment resulted in ₱152.7 million loss in 2016 based on the remaining carrying value of the investment which is net of losses recognized in prior years (see Note 23).

Investment in AHCHI

In various dates in 2016, the Parent Company infused ₱230.8 million to AHCHI to fund its various investments.

On June 18, 2015, the SEC approved the change in name of Azalea Technology Investments, Inc. to Ayala Healthcare Holdings, Inc.

On July 15, 2015, AHCHI acquired a 50% ownership interest in the in the Generika Companies namely Actimed, Inc., Erikagen, Inc., Novelis Solutions, Inc., and Pharm Gen Ventures Corporation (the Generika Group) amounting to ₱400.0 million. The Generika Group operates in the retail pharmacy industry sector focusing on the distribution of quality generic medicines in the Philippines (see Note 12).

Investment in BHL

In May 2016 and February 2015, the Parent Company sold to ACIFL 1,330,757 and 535,294 redeemable preferred shares of BHL for a total consideration of ₱702.4 million and ₱264.7 million, respectively. BHL remained a wholly-owned subsidiary of the Parent Company after the transaction.

Investment in IMI

In September 2016, IMI, through its subsidiary Dutch Coop, acquired 76% interest in VIA Optronics GmbH (VIA) for €47.8 million (US\$53.4 million) which resulted in a provisional goodwill amounting to US\$49.2 million (see Note 24).

The fair value of the IMI shares held by the Group amounted to ₱5.8 billion and ₱5.3 billion as of December 31, 2016 and 2015, respectively. The voting rights held by the Group in IMI as of December 31, 2016 and 2015 is 50.7%.

Investment in MWC

The fair value of the MWC shares held by the Group amounted to ₱25.1 billion and ₱21.5 billion as of December 31, 2016 and 2015, respectively. The voting rights held by the Group in MWC is 80.4% and 80.5% as of December 31, 2016 and 2015, respectively (see Note 24).

Material partly-owned subsidiaries

Information of subsidiaries that have material non-controlling interests is provided below:

Subsidiary	Accumulated Balances of Non-controlling Interest		Profit (Loss) Allocated to Non-controlling Interest			Dividends paid to non-controlling interests	
	2016	2015	2016	2015	2014	2016	2015
	(In Thousands)		(In Thousands)				
ALI	₱100,980,039	₱85,164,840	₱14,359,219	₱12,593,401	₱10,454,204	₱3,761,342	₱3,279,773
MWC	30,387,713	28,326,642	2,734,568	2,884,453	2,678,153	1,362,166	1,397,927
IMI	5,844,379	5,346,603	654,474	635,742	560,988	202,074	148,379

The summarized financial information of these subsidiaries is provided below. These information are based on amounts before inter-company eliminations.

2016	ALI	MWC	IMI*
		(In Thousands)	
Statement of financial position			
Current assets	₱211,012,113	₱8,255,899	₱20,234,788
Noncurrent assets	325,420,882	93,772,074	11,382,602
Current liabilities	188,203,171	7,481,507	13,428,936
Noncurrent liabilities	175,546,637	37,766,885	6,361,701
Statement of comprehensive income			
Revenue	₱124,628,795	₱17,711,911	₱41,912,291
Profit attributable to:			
Equity holders of the parent	20,908,011	5,463,134	1,397,922
Non-controlling interests	3,523,774	109,681	(4,971)
Total comprehensive income attributable to:			
Equity holders of the parent	21,107,974	5,942,404	1,193,573
Non-controlling interests	3,524,312	112,037	(4,971)
Statement of cash flows			
Operating activities	₱33,040,297	₱1,068,965	₱2,186,988
Investing activities	(57,806,847)	(614,276)	(5,136,103)
Financing activities	26,583,490	(3,238,945)	2,225,871
Effect of changes in foreign exchange on cash and cash equivalents	–	–	(16,056)
Net increase (decrease) in cash and cash equivalents	₱1,816,940	(₱2,784,256)	(₱739,300)

*Translated using the exchange rate at the reporting date (US\$1:₱49.72 on December 31, 2016).

2015	ALI	MWC	IMI*
		(In Thousands)	
Statement of financial position			
Current assets	₱166,203,595	₱9,948,298	₱17,412,901
Noncurrent assets	276,138,205	88,076,374	6,895,220
Current liabilities	146,132,855	12,399,813	11,322,711
Noncurrent liabilities	146,383,534	32,887,611	2,046,889
Statement of comprehensive income			
Revenue	₱107,182,940	₱16,935,883	₱38,323,975
Profit (loss) attributable to:			
Equity holders of the parent	17,630,275	5,957,780	1,354,845
Non-controlling interests	3,266,612	176,260	924
Total comprehensive income attributable to:			
Equity holders of the parent	17,601,457	6,215,958	1,049,400
Non-controlling interests	3,270,687	176,260	924
Statement of cash flows			
Operating activities	₱20,181,733	₱4,988,869	₱2,344,693
Investing activities	(48,887,550)	(795,528)	(1,659,398)
Financing activities	19,115,925	(3,795,939)	(1,418,880)
Effect of changes in foreign exchange on cash and cash equivalents	–	–	(23,754)
Net increase (decrease) in cash and cash equivalents	(₱9,589,892)	₱397,402	(₱757,339)

* Translated using the exchange rate at the reporting date (US\$1:₱47.06 on December 31, 2015).

3. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) financial assets and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱) and all values are rounded to the nearest thousand pesos (₱000) unless otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs include Philippine Financial Reporting Standards, Philippine Accounting Standards and Interpretations issued by the Philippine Interpretations Committee (PIC).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016.

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

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date the Group gains control or until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests pertain to the equity in a subsidiary not attributable, directly or indirectly to the Parent Company. Any equity instruments issued by a subsidiary that are not owned by the Parent Company are non-controlling interests including preferred shares and options under share-based transactions. The portion of profit or loss and net assets in subsidiaries not wholly-owned are presented separately in the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated

statements of financial position, separately from the Parent Company's equity. Non-controlling interests are net of any outstanding subscription receivable.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity as "Equity reserve" and attributed to the owners of the Parent Company.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while the resulting gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial years except for the new PFRS, amended PFRS and improvements to PFRS which were adopted beginning January 1, 2016. The nature and the impact of each new standards and amendments is described below:

PAS 1, Presentation of Financial Statements – Disclosure Initiative

The amendments to PAS 1 clarify, rather than significantly change, existing PAS 1 requirements. The amendments clarify:

- The materiality requirements in PAS 1
- That specific line items in the statements of income and comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

These amendments do not have any material impact on the Group.

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

These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments did not have any impact on the Group's consolidated financial statements.

PAS 27, Separate Financial Statements – Equity Method in Separate Financial Statements (Amendments)

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. These amendments did not have any impact on the Group's consolidated financial statements.

PFRS 11, Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (Amendments)

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. These amendments did not have any impact to the Group.

PFRS 14, Regulatory Deferral Accounts

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing PFRS preparer, this standard would not apply.

PAS 16, Property, Plant and Equipment, and PAS 41, Agriculture – Bearer Plants (Amendments)

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. These amendments did not have any material impact to the Group.

PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)

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

PIC Q&A No. 2016-02

In 2016, the Philippine Interpretation Committee (PIC) issued PIC Q&A No. 2016-02 to clarify the accounting treatment of club shares held by an entity as follows:

PAS 32 and PAS 38 – Accounting Treatment of Club Shares Held by an Entity

Club shares as financial assets

Equity instruments of another entity are considered as financial assets of the investor/holder in accordance with PAS 32.11. Furthermore, PAS 32.11 defines an equity instrument as any contract that evidences a residual interest in the assets after deducting its liabilities.

A proprietary club share entitles the shareholder to a residual interest in the net assets upon liquidation which justifies that such instrument is an equity instrument and thereby qualifies as a financial asset to be accounted for under PAS 39, *Financial Instruments: Recognition and Measurement*.

Club shares as intangible assets

PAS 38 defines an intangible asset as an identifiable non-monetary asset without physical substance. The key characteristics of intangible assets are that they are resources controlled by the entity from which the entity expects to derive future economic benefits, lack physical substance and are identifiable to be distinguished from goodwill.

A non-proprietary club share, though an equity instrument in its legal form, is not an equity instrument in the context of PAS 32. Furthermore, it does not entitle the holder to a contractual right to receive cash or another financial asset from the issuing corporation. The holder of the share, in substance, only paid for the privilege to enjoy the club facilities and services but not for ownership of the club. In such case, the holder must account for the share as an intangible asset under PAS 38.

ALI Group has evaluated the accounting treatment of its club shares following the guidance under the above PIC Q&A and has concluded that it exercises control over Anvaya Cove Beach, Anvaya Cove Golf and Alviara Country Club. Accordingly, these three (3) club entities were consolidated as of and for the year December 31, 2016. For the other club shares it holds where ALI Group does not exercise significant influence or joint control, ALI Group reclassified these from "Inventories" to "Investment in Bonds and Other Securities". Prior year financial statements have not been restated and a third balance sheet has not been presented since the impact of the application of this interpretation is deemed to be not material.

Annual Improvements to PFRSs (2012-2014 cycle)

The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning January 1, 2016 and did not have any material impact on the Group. They include:

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

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

PFRS 7, Financial Instruments: Disclosures – Servicing Contracts

PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

PFRS 7, Financial Instruments: Disclosures – Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

PAS 19, Employee Benefits – Regional Market Issue Regarding Discount Rate

This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

PAS 34, Interim Financial Reporting – Disclosure of Information ‘Elsewhere in the Interim Financial Report’

The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Standards and Interpretation Issued but not yet Effective

The Group will adopt the following new and amended Standards and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the consolidated financial statements.

Effective January 1, 2017

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

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

- *Amendments to PAS 7, Statement of Cash Flows, Disclosure Initiative*
The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.

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

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening

retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

These amendments are not expected to have any impact on the Group.

Effective January 1, 2018

- *Amendments to PFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The Group is assessing the potential effect of the amendments on its consolidated financial statements.

- *Amendments to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

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

The Group is assessing the potential effect of the amendments on its consolidated financial statements.

- *PFRS 15, Revenue from Contracts with Customers*
PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

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

The Group is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effectivity date.

- *PFRS 9, Financial Instruments*
PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting and on the amount of its credit losses. The Group is currently assessing the impact of adopting this standard.

- *Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*
The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted. These amendments are not expected to have any material impact on the Group.
- *Amendments to PAS 40, Investment Property, Transfers of Investment Property*
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight. These amendments are not expected to have any material impact on the Group.
- *Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration*
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all

assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. These amendments are not expected to have any material impact on the Group.

Effective January 1, 2019

PFRS 16, *Leases*

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

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

Standards with Deferred effectivity

Amendments to PFRS 10 and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Significant Accounting Policies

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on a current and noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or,
- Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or,
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and which are subject to an insignificant risk of changes in value.

Short-term Investments

Short-term investments are short-term placements with maturities of more than three months but less than one year from the date of acquisition. These earn interest at the respective short-term investment rates.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. In the case of derivatives, the Group follows trade date accounting.

Initial recognition of financial instruments

All financial assets and financial liabilities are recognized initially at fair value. Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS financial assets. The Group also classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market.

The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the consolidated statement of income under "Interest income" or "Interest and other financing charges" unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in

the consolidated statement 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 and financial liabilities at FVPL

Financial assets and financial liabilities at FVPL include derivatives, financial assets and financial liabilities held for trading and financial assets and financial liabilities designated upon initial recognition as at FVPL.

Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Fair value gains or losses on investments held for trading, net of interest income or expense accrued on these assets, are recognized in the consolidated statement of income under "Other income" or "Other charges". Interest earned or incurred is recorded in "Interest income" or "Interest and other financing charges" while dividend income is recorded in "Other income" when the right to receive payment has been established.

Where a contract contains one or more embedded derivatives, the hybrid contract may be designated as financial asset or financial liability at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets and financial liabilities may be designated at initial recognition as at FVPL if any of the following criteria are met:

- (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- (ii) the assets or liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- (iii) the financial instrument contains an embedded derivative that would need to be separately recorded.

The Group's financial assets and financial liabilities at FVPL pertain to government securities, other investment securities, derivatives not designated as accounting hedges and embedded derivatives.

Derivative instruments (including bifurcated embedded derivatives) are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are taken directly to the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group uses derivative instruments such as structured currency options and currency forwards to hedge its risks associated with foreign currency fluctuations. Such derivative instruments provide economic hedges under the Group's policies but are not designated as accounting hedges.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows that otherwise would be required under the contract.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments 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 asset at FVPL. This accounting policy relates to the consolidated statement of financial position captions “Cash and cash equivalents”, “Short-term investments” and “Accounts and notes receivable” (except for Advances to contractors and suppliers).

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. The amortization is included in the “Interest income” account in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized under “Provision for doubtful accounts” in the consolidated statement of income.

Loans and receivables are included in current assets if maturity is within 12 months or when the Group expects to realize or collect within 12 months from the reporting date. Otherwise, they are classified as noncurrent assets.

AFS financial assets

AFS financial assets are those which are designated as such or do not qualify to be classified as designated at FVPL, HTM, or loans and receivables.

Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains or losses arising from the fair valuation of AFS financial assets are recognized in other comprehensive income and are reported as “Net unrealized gain (loss) on available-for-sale financial assets” (net of tax where applicable) in equity. The Group’s share in its associates’ or joint ventures’ net unrealized gain (loss) on AFS is likewise included in this account.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income under “Other income” or “Other charges”. Where the Group holds more than one investment in the same security, the cost is determined using the weighted average method. Interest earned on AFS financial assets is reported as interest income using the effective interest rate. Dividends earned are recognized under “Other income” in the consolidated statement of income when the right to receive payment is established. The losses arising from impairment of such investments are recognized under “Provision for impairment losses” in the consolidated statement of income.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses.

The Group’s AFS financial assets pertain to investments in debt and equity securities included under “Investments in bonds and other securities” in the consolidated statement of financial

position. AFS financial assets are included under "Other current assets" if expected to be realized within 12 months from reporting date.

Other financial liabilities

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares. 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 the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income.

This accounting policy applies primarily to the Group's short-term and long-term debt, accounts payable and accrued expenses, and other current and noncurrent liabilities and obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Other financial liabilities are included in current liabilities if maturity is within 12 months or when the Group expects to realize or collect within 12 months from the reporting date. Otherwise, they are classified as noncurrent liabilities.

Exchangeable bonds

AYCFL issued exchangeable bonds (see Note 20). On issuance of exchangeable bonds, the proceeds are allocated between the embedded exchange option and the liability component. The embedded exchange option is recognized at its fair value. The liability component is recognised as the difference between total proceeds and the fair value of the exchange option.

The exchange option is subsequently carried at its fair value with fair value changes recognized in profit or loss. The liability component is carried at amortised cost until the liability is extinguished on exchange or redemption.

When the exchange option is exercised, the carrying amounts of the liability component and the exchange option are derecognized. The related investment in equity security of the guarantor is likewise derecognized.

Upon consolidation, the exchangeable bond is classified as a compound instrument and accounted for using split accounting. The value allocated to the equity component at initial recognition is the residual amount after deducting the fair value of the liability component from the issue proceeds of the exchangeable bonds. Transaction costs incurred in relation to the issuance of the exchangeable bonds was apportioned between the liability and equity component based on their values at initial recognition.

Subsequently, the liability component is carried at amortized cost using the effective interest rate method while the equity component is not revalued. When the conversion option is exercised, the carrying amount of the liability and equity component is derecognized and their balances transferred to equity. No gain or loss is recognized upon exercise of the conversion option.

Deposits, retentions payable and customers' guaranty and other deposits

Deposits, retentions payable and customers' deposits and other deposits are initially measured at fair value. After initial recognition, these are subsequently measured at amortized cost using the effective interest rate method. The difference between the cash received and its fair value is

deferred (included in the “Deferred credits” account in the consolidated statement of financial position). Deposits are amortized using the straight-line method with the amortization included under the “Rendering of services” account in the consolidated statement of income while customers’ guaranty and other deposits are amortized over the remaining concession period with the amortization included under “Interest and other financing charges” in the consolidated statement of income.

Financial guarantee contracts

Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized where:

- the rights to receive cash flows from the assets have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a “pass-through” arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability

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

Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that 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 has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no

objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is charged to the consolidated statement of income under "Provision for doubtful accounts". Interest income continues to be recognized based on the original effective interest rate of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of 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 consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Financial assets carried at cost

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

AFS financial assets

In the case of equity investments classified as AFS financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment loss, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from other comprehensive income and recognized in the consolidated statement of income under "Other charges." Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "Interest income" account in the consolidated statement of income. If, in a subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement 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 asset and settle the liability simultaneously.

Inventories

Inventories are carried at the lower of cost and net realizable value (NRV). Costs incurred in bringing each product to its present location and conditions are generally accounted for as follows:

Real estate inventories

- Land cost
- Land improvement cost
- Amounts paid to contractors for construction and development
- Borrowing costs, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs

Vehicles - purchase cost on specific identification basis.

Finished goods and work-in-process - determined on a moving average basis; cost includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity.

Parts and accessories, materials, supplies and others - purchase cost on a moving average basis.

NRV for real estate inventories vehicles, finished goods and work-in-process and parts and accessories is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale, while NRV for materials, supplies and others represents the related replacement costs. In the event that NRV is lower than cost, the decline shall be recognized as an expense in the consolidated statement of income.

The cost of real estate inventory recognized in the consolidated statement of income on disposal is determined with reference to the specific costs incurred on the property and estimated costs to be incurred, and allocated to saleable area based on relative size.

An allowance for inventory losses is provided for slow-moving, obsolete and defective inventories based on management's physical inspection and evaluation. When inventories are sold, the cost and related allowance is removed from the account and the difference is charged against operations.

Prepaid Expenses

Prepaid expenses are carried at cost less the amortized portion. These typically comprise prepayments for commissions, marketing fees and promotion, taxes and licenses, rentals and insurance.

Creditable Withholding Tax

This pertains to the tax withheld at source by the Group's customer and is creditable against the income tax liability of the Group.

Value-Added Tax (VAT)

Input VAT pertains to the indirect tax paid by the Group in the course of the Group's trade or business on purchase of goods or services.

Output VAT pertains to the tax due on the sale of goods or services by the Group.

If at the end of any reporting date, the output VAT exceeds the input VAT, the outstanding balance is included under "Other current liabilities" account. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding months and included under "Other current asset" account.

Deposits in Escrow

Deposits in escrow pertain to the proceeds from the sale of the Group's projects that have only been granted temporary License to Sell (LTS) as of reporting date. These proceeds are deposited in a local bank and earn interest at prevailing bank deposit rates.

Noncurrent Assets Held for Sale

Noncurrent assets held for sale are carried at the lower of its carrying amount and fair value less costs to sell. At reporting date, the Group classifies assets as held for sale (disposal group) when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The Group measures noncurrent asset held for sale at the lower of its carrying amount and fair value less cost to sell (see Note 9).

Land and Improvements

Land and improvements consist of properties for future development and are carried at the lower of cost or NRV. NRV is the estimated selling price in the ordinary course of business, less estimated cost of completion and estimated costs necessary to make the sale. Cost includes purchase price and those costs incurred for development and improvement of the properties.

Investments in Associates and Joint Ventures

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

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 are similar to those necessary to determine control over subsidiaries.

The Group's investments in associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in associates or joint ventures is initially recognized at cost. The carrying amount of the investment is adjusted to recognize 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 consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of these investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. 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.

The aggregate of the Group's share of profit or loss of associates and joint ventures is shown on the face of the consolidated statement of income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

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.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the 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 of the associate or joint venture and its carrying value, then recognizes the loss as "Share of profit of associates and joint ventures" in the consolidated statement 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 its fair value. Any difference between the carrying amount of the 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 profit or loss.

Investment Properties

Investment properties comprise completed property and property under construction or re-development that are held to earn rentals and for capital appreciation, and are not occupied by the companies in the Group. The Group uses the cost model in measuring investment properties since this represents the historical value of the properties subsequent to initial recognition. Investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value.

Expenditures incurred after the investment property has been put in operation, such as repairs and maintenance are normally charged against income in the period in which the costs are incurred.

Construction-in-progress (including borrowing cost) are carried at cost and transferred to the related investment property account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupation.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, regardless of utilization. The estimated useful lives and the depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of investment properties.

The estimated useful lives of investment properties follow:

Land improvements	8 to 40 years
Buildings	20 to 40 years

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of the property for measurement or for disclosure purposes.

The Group discloses the fair values of its investment properties in accordance with PAS 40. The Group engaged independent valuation specialist to assess fair value as at December 31, 2016 and 2015. The Group's investment properties consist of land and building pertaining to land properties, retail (malls) and office properties. These were valued by reference to market-based evidence using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Property, Plant and Equipment

Property, plant and equipment, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value. The initial cost of property, plant and equipment consists of its construction cost or purchase price and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use.

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

Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization of property, plant and equipment commences once the property, plant and equipment are available for use and computed on a straight-line basis over the estimated useful lives of the property, plant and equipment as follows:

Buildings and improvements	3 to 40 years
Machinery and equipment	3 to 10 years
Hotel property and equipment	20 to 50 years
Furniture, fixtures and equipment	2 to 10 years
Transportation equipment	3 to 5 years

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

When property, plant and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Service Concession Arrangements

Intangible Asset Model

The Group accounts for its concession arrangements with Department of Public Works and Highways (DPWH), Metropolitan Waterworks and Sewerage System (MWSS), Provincial Government of Laguna (PGL), Tourism Infrastructure and Enterprise Zone Authority (TIEZA) and Clark Development Corporation (CDC) under the Intangible Asset model as the Group receives the right (license) to charge users of public service. Under the Group's concession agreements, the Group is granted the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide the public water services. The legal title to these assets shall remain with DPWH, MWSS, PGL, TIEZA and CDC at the end of the concession period.

The "Service concession assets" (SCA) pertain to the fair value of the service concession obligations at drawdown date and construction costs related to the rehabilitation works performed by the Group and other local component costs and cost overruns paid by the Group. These are amortized using the straight-line method over the term of the related concession.

In addition, the Parent Company and MWC recognize and measure revenue from rehabilitation works in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenue*, for the services it performs. Recognition of revenue is by reference to the 'stage of completion method', also known as the 'percentage of completion method' as provided under PAS 11. Contract revenue and costs from rehabilitation works are recognized as "Revenue from rehabilitation works" and "Cost of rehabilitation works" in the consolidated statement of income in the period in which the work is performed.

The Parent Company recognizes its contractual obligations to restore certain parts of the infrastructure to a specified level of condition in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as the obligations arise.

Financial Asset Model

On the other hand, the concession arrangement with the Department of Transportation (DOTr), Provincial Government of Cebu (PGC) and Tagum Water District (TWD) are accounted for under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial asset for its construction services from or at the direction of the grantor. Under the concession arrangement with PGC and TWD, Cebu Manila Water Development, Inc. (CMWD) and Tagum Water Company, Inc. (TWC), both subsidiaries of MWC, are awarded the right to deliver bulk water supply to the grantor for a specific period of time under the concession period. The concession agreement with DOTr qualifies under the Financial Asset model as Arca South Integrated Terminal Inc. (ASITI), a subsidiary of ALI, has an unconditional contractual right to receive cash or other financial assets (i.e. the Annual Grantor Payment) for its construction, operating and maintenance services directly from DOTr.

Under this model, the operator recognizes a financial asset in its balance sheet in consideration for the services it provides (design, construction, etc.). Such financial assets are recognized in the balance sheet under "Other current assets" and "Other noncurrent assets" in an amount corresponding to the fair value of the infrastructure on first recognition and subsequently at amortized cost. The receivable is settled when payments from the grantor are received. The financial income calculated on the basis of the effective interest rate is recognized in profit or loss.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and provision for impairment loss, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The estimated useful life of intangible assets is assessed as either finite or indefinite.

The estimated useful lives of intangible assets with finite lives are assessed at the individual asset level. Intangible assets with finite lives are amortized over their estimated useful lives on a straight line basis. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

The estimated useful lives of intangible assets follow:

Leasehold rights	20 to 25 years
Customer relationships	7 years
Unpatented technology	5 years
Developed software	3 years
Licenses	3 years
Technical service agreement	3 years
Trademark	3 to 5 years

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible assets and is recognized in the consolidated statement of income when the intangible asset is derecognized.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset under "Project Development Cost" when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development; and,
- The ability to use the intangible asset generated.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and included under "Remeasurement gain/loss arising from business combination" in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as bargain purchase gain. The Group reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure amounts to be recognized at the acquisition date if the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated should:

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

Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a CGU (or group of CGUs) 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 these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained. If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall recognize immediately in the consolidated statement of income any excess remaining after reassessment.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

Combinations of Entities Under Common Control

Business combinations of entities under common control are accounted for using the pooling of interests method. The pooling of interests method generally involve the following:

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity.
- The consolidated statement of income reflects the results of the combining entities for the full year, irrespective of when the combination took place.
- Comparative financial information are presented as if the entities had always been combined.

The effects of any intercompany transactions are eliminated to the extent possible.

Asset Acquisitions

If the assets acquired and liabilities assumed in an acquisition transaction do not constitute a business as defined under PFRS 3, the transaction is accounted for as an asset acquisition. The Group identifies and recognizes the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets) and liabilities assumed. The acquisition cost is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such transaction or event does not give rise to goodwill. Where the Group acquires a controlling interest in an entity that is not a business, but obtains less than 100% of the entity, after it has allocated the cost to the individual assets acquired, it notionally grosses up those assets and recognizes the difference as non-controlling interests.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other fair value indicators. Impairment losses of continuing operations are recognized

in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. 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.

Investments in associates and joint ventures

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee company. The Group determines at each reporting date whether there is any objective evidence that the investment in the investee company is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the investee company and the carrying cost and recognizes the amount as a reduction of the "Share of profit of associates and joint ventures" account in the consolidated statement of income.

Impairment of goodwill

For assessing impairment of goodwill, a test for impairment is performed annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Fair Value Measurement

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:

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

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

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

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets and liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Equity

Capital stock is measured at par value for all shares subscribed, issued and outstanding. When the shares are sold at premium, the difference between the proceeds at the par value is credited to "Additional paid-in capital" (APIC) account. Direct costs incurred related to equity issuance are chargeable to APIC account. If APIC is not sufficient, the excess is charged against retained earnings. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Subscriptions receivable pertains to the uncollected portion of the subscribed shares and is presented as reduction from equity.

Retained earnings represent accumulated earnings of the Group less dividends declared.

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively. 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 when the shares were issued and to retained earnings for the remaining balance.

Revenue and Cost Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is being made. 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 following specific recognition criteria must also be met before revenue is recognized:

Real estate revenue and costs

For real estate sales, the Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectibility of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectibility is also assessed by considering factors such as the credit standing of the buyer, age and location of the property.

Revenue from sales of completed real estate projects is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee (PIC), Q&A 2006-01, the percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished, and the costs incurred or to be incurred can be measured reliably). Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work. The percentage of completion is determined by ALI Group's project development engineers.

Any excess of collections over the recognized receivables are included under "Other current liabilities" in the liabilities section of the consolidated statement of financial position.

If any of the criteria under the full accrual or percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the "Other current liabilities" account in the liabilities section of the consolidated statement of financial position.

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by ALI Group's project development engineers.

The cost of real estate inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

Revenue from construction contracts

Revenue from construction contracts are recognized using the percentage-of-completion method, measured principally on the basis of the estimated physical completion of the contract work.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

Rental income

Rental income under noncancellable and cancellable leases on investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term and the terms of the lease, respectively, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Rooms revenue from hotel and resort operations

Rooms revenue from hotel and resort operations are recognized when services are rendered. Revenue from banquets and other special events are recognized when the events take place.

Water and sewer revenue

Water and sewer revenue are recognized when the related water and sewerage services are rendered. Water and sewerage are billed every month according to the bill cycles of the customers. As a result of bill cycle cut-off, monthly service revenue earned but not yet billed at end of the month are estimated and accrued. These estimates are based on historical consumption of the customers. A certain percentage of water revenue is recognized as environmental charges. Other customer related fees such as reconnection and disconnection fees are recognized when these services have been rendered.

Revenue from rehabilitation works

Revenue from rehabilitation works is recognized and measured by the Group in accordance with PAS 11 for the construction and PAS 18 for the service. This includes revenue from rehabilitation works which is equivalent to the related cost for the rehabilitation works covered by the service concession arrangements which is recognized as part of SCA.

When the Group provides construction or upgrade services, the consideration received or receivable is recognized at its fair value. The Group accounts for revenue and costs relating to operation services in accordance with PAS 18.

Toll revenues

Revenue from toll fees is recognized upon entry of vehicles in the toll road facility and receipt of cash payment. Toll fees received in advance, through transponders or magnetic cards, are included under "Accounts Payable".

Revenue from sales of electronic products and vehicles and related parts and accessories

Revenue from sales of electronic products and vehicles and related parts and accessories are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received excluding discounts, returns, rebates and sales taxes.

Energy sales

Revenue is generated from the operations of the 18-megawatt solar power plant of Monte Solar Energy, Inc. (Monte Solar). In the sale of power through Wholesale Electricity Spot Market (WESM) and the distribution utilities, revenue is recognized in the period in which actual capacity is generated and earned and upon supply of power to customers.

Marketing and management fees

Marketing fees, management fees from administrative and property management and revenue from vehicle repairs are recognized when services are rendered.

Revenue from digitizing and document creation services

Revenue from digitizing and document creation services are recognized when the service is completed and electronically sent to the customer. Provision for discounts and other adjustments are provided for in the same period the related sales are recorded.

Tuition and other school fees

Tuition and other school fees are recognized over the period of instruction. Tuition and other school fees collected during the year that are applicable in the next school year are deferred and presented under the “Others” account in the Other Noncurrent Liabilities section of the consolidated statement of financial position.

Interest income

Interest income is recognized as it accrues using the effective interest method.

Dividend income

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

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless 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 specified asset; or (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Group as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the consolidated asset are classified as operating leases. Fixed lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis while the variable rent is recognized as an expense based on terms of the lease contract.

Finance leases, which transfer substantially all the risks and benefits 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. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms.

Group as lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as income in the consolidated statement of income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rent is recognized as revenue in the period in which it is earned.

Commissions

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage-of-completion method is used, commissions are likewise charged to expense in the period the related revenue is recognized. Commission expense is included in the “Costs of sales” account in the consolidated statement of income.

Expenses

Expenses are recognized in the statement of income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Expenses are recognized in the statement of income:

- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- Immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statement of financial position as an asset.

Direct operating expenses and general and administrative expenses are recognized as they are incurred.

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 or sale are capitalized as part of the cost of the respective assets (included in "Inventories", "Investment properties", "Property, plant and equipment" and "Service concession assets" accounts in the consolidated statement of financial position). All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalized from the commencement of the development work until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Pension Cost

Defined benefit plan

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with the option to accelerate when significant changes to underlying assumptions occur.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

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

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

Pension liabilities are the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net pension asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Termination benefit

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Income Tax

Current tax

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

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

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of MCIT and NOLCO can be utilized.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures. With respect to investments in foreign subsidiaries, associates and interests in joint ventures, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all as part of the deferred tax assets 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 income will allow all as part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as at the end of the reporting period. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged or credited to income for the period.

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 authority.

For periods where the income tax holiday (ITH) is in effect, no deferred taxes are recognized in the consolidated financial statements as the ITH status of the subsidiary neither results in a deductible temporary difference or temporary taxable difference. However, for temporary differences that are expected to reverse beyond the ITH, deferred taxes are recognized.

Foreign Currency Transactions

The functional and presentation currency of the Parent Company and its subsidiaries (except for AYCF, ACIFL, PFIL, BHL, AIVPL and IMI), is the Philippine Peso (₱). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of income with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are recognized in the consolidated statement of comprehensive income until the disposal of the net investment, at which time they are recognized in the consolidated statement of income. Tax charges and credits attributable to

exchange differences on those borrowings are also dealt with in equity. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The functional currency of AYCF, ACIFL, PFIL, BHL, AIVPL and IMI is the US Dollar (US\$). As of the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the reporting date and their statement of income accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in the consolidated statement of comprehensive income and reported as a separate component of equity as "Cumulative Translation Adjustment". On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in the consolidated statement of income.

Exchange differences arising from elimination of intragroup balances and intragroup transactions are recognized in profit or loss. As an exception, if the exchange differences arise from intragroup balances that, in substance, forms part of an entity's net investment in a foreign operation, the exchange differences are not to be recognized in profit or loss, but are recognized in OCI and accumulated in a separate component of equity until the disposal of the foreign operation.

On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in profit or loss.

The Group's share in the translation adjustments of associates and joint ventures are likewise included under the "Cumulative Translation Adjustments" account in the consolidated statement of comprehensive income.

MWC Group

As approved by the MWSS Board of Trustees (BOT) under Amendment No. 1 of the Concession Agreement with MWSS, the following will be recovered through billings to customers:

- a. Restatement of foreign currency-denominated loans;
- b. Excess of actual concession fee payment over the amounts of concession fees translated using the base exchange rate assumed in the business plan approved every rate rebasing exercise. The current base exchange rate is ₱41.19:US\$1.0 based on the last rate rebasing exercise effective on January 1, 2013;
- c. Excess of actual interest payment translated at exchange spot rate on settlement date over the amount of interest translated at drawdown rate; and
- d. Excess of actual payment of other financing charges relating to foreign currency-denominated loans translated at exchange spot rate on settlement date over the amount of other financing charges translated at drawdown rate.

In view of the automatic reimbursement mechanism, the MWC Group recognizes deferred foreign currency differential adjustment (FCDA) (included as part of "Other noncurrent assets" or "Other noncurrent liabilities" in the consolidated statement of financial position) for both the realized and unrealized foreign exchange gains and losses. Other water revenue-FCDA is credited (debited) upon recovery (refund) of realized foreign exchange losses (gains). The write-off or reversal of the deferred FCDA pertaining to concession fees will be made upon determination of the rebased foreign exchange rate, which is assumed in the business plan approved by MWSS-Regulatory Office (RO) during the latest Rate Rebasing exercise, unless indication of impairment of the deferred FCDA would be evident at an earlier date.

Share-based Payments

The Group has equity-settled, share-based compensation plans with its employees.

PFRS 2 Options

For options granted after November 7, 2002 that have not vested on or before January 1, 2005, the cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, vesting conditions, including performance conditions, other than market conditions (conditions linked to share prices), shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions are taken into account in estimating the number of equity instruments that will ultimately vest. Fair value is determined by using the Black-Scholes model, further details of which are provided in Note 28 to the consolidated financial statements.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the awards ('vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income or expense for a period represents the movement in cumulative expense recognized as of the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled 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 increase in the value of the transaction as a result of the modification, 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, as described in the previous paragraph.

Pre-PFRS 2 Options

For options granted before November 7, 2002 that have vested before January 1, 2005, the intrinsic value of stock options determined as of grant date is recognized as expense over the vesting period.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 26).

Employee share purchase plans

The Parent Company and certain subsidiaries have employee share purchase plans (ESOWN) which allow the grantees to purchase the Parent Company's and its respective subsidiaries' shares at a discounted price. The Group recognizes stock compensation expense over the holding period. The Group treats its ESOWN plan as option exercisable within a given period. These are accounted for similar to the PFRS 2 options. Dividends paid on the awards that have vested are deducted from equity and those paid on awards that are unvested are charged to profit or loss. For the unsubscribed shares where the employees still have the option to subscribe in the future, these are accounted for as options.

Earnings Per Share (EPS)

Basic EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares issued and outstanding during the year. The net income attributable to common equity holders is net of dividends attributable to preferred equity holders.

Diluted EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares issued and outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares. Calculation of diluted EPS considers the potential ordinary shares of subsidiaries, associates and joint ventures that have dilutive effect on the basic EPS of the Parent Company. The calculation of diluted EPS does not assume conversion, exercise or other issue of potential common shares that would have an antidilutive effect on earnings per share. Basic and diluted EPS are adjusted to give retroactive effect to any stock dividends declared during the period.

Assets Held in Trust

Assets which are owned by MWSS, PGL, TIEZA and CDC but are operated by the MWC Group under the concession agreements are not reflected in the consolidated statement of financial position but are considered as Assets Held in Trust (see Note 37).

Operating Segments

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 29 to the consolidated financial statements.

Contingencies

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

Events after the Reporting Period

Post year-end events that provide additional information about the Group's 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 consolidated financial statements when material.

4. Significant Accounting Judgments, Assumptions and Estimates

The preparation of the accompanying consolidated financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying 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.

Judgments

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

Investment in Subsidiaries

The Group determined that it has control over its subsidiaries (see Note 2) by considering, among others, its power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns. The following were also considered:

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

Consolidation of entities in which the Group holds only 50% or less than majority of voting rights

The Group determined that it controls certain entities even though it owns 50% or less than majority of the voting rights. The factors considered include, among others, the size of its block of voting shares, the relative size and dispersion of holdings of other shareholders, and contractual agreements to direct the relevant activities of the entities.

Investment in Associates

The Group determined that it exercises significant influence over its associates (see Note 12) by considering, among others, its ownership interest (holding 20% or more of the voting power of the investee), board representation and participation on board sub-committees, and other contractual terms.

Investment in Joint Ventures

The Group's investments in joint ventures (see Note 12) are structured in separate incorporated entities. Even though the Group holds various percentage of ownership interest on these arrangements, their respective joint arrangement agreements requires unanimous consent from all parties to the agreement for the relevant activities identified. The Group and the parties to the agreement only have rights to the net assets of the joint venture through the terms of the contractual arrangements.

Service concession arrangement

In applying Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, the Group has made a judgment that its concession agreements with DPWH, MWSS, PGL, TIEZA and CDC qualify under the Intangible Asset model as it receives the right (license) to charge users of public service.

On the other hand, the Group has made a judgment that the concession agreement with DOTr, PGC and TWD qualifies under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial assets for its construction services directly from the grantors.

The accounting policy on the Group's SCA under the Intangible Asset and Financial model is discussed in Note 3.

Distinction between real estate inventories and land and improvements

The Group determines whether a property will be classified as real estate inventories or land and improvements. In making this judgment, the Group considers whether the property will be sold in the normal operating cycle (real estate inventories) or whether it will be retained as part of the Group's strategic landbanking activities for development or sale in the medium or long-term (land and improvements).

Property acquisitions and business combinations

The Group acquires subsidiaries that own real estate properties. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made with regard to the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the Group (e.g., maintenance, cleaning, security, bookkeeping, hotel services, etc.). The significance of any process is judged with reference to the guidance in PAS 40 on ancillary services.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized.

In 2016, ALI accounted for its acquisition of 55% interest in PHI as an acquisition of an asset. Management has made its judgment in determining whether PHI is a business as defined in PFRS 3.

Collectibility of the sales price

For real estate sales, in determining whether the sales prices are collectible, the Group considers that initial and continuing investments by the buyer of about 10% would demonstrate the buyer's commitment to pay.

Impairment of AFS equity investments

The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than 6 months for quoted equity securities. 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.

Financial assets not quoted in an active market

The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Contingencies

The Group is currently involved in various legal proceedings in the ordinary conduct of business. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and external counsel handling the defense in these matters and is based upon an analysis of potential results.

The Group currently does not believe that these proceedings will have a material adverse effect on the Group's financial position and results of operations (see Note 36).

Management's Use of Estimates

The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Revenue and cost recognition

The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue from real estate, pipeworks, construction and management contracts are recognized based on the percentage-of-completion measured principally on the basis of the estimated completion of a physical proportion of the contract work, and by reference to the actual costs incurred to date over the estimated total costs of the project.

In addition, the Group's project development costs used in the computation of the cost of real estate sales, are based on estimated cost components determined by ALI's project engineers.

Accounting for business combination

In 2016, ALI purchased 2.5 billion common shares or 51% interest in POPI for a total consideration ₱5,625.0 million. In identifying the assets acquired and liabilities assumed, management has determined that part of the assets being acquired pertains to the leasehold rights of POPI arising from its land lease with Philippine National Railways (PNR).

Further, ALI management has measured the leasehold rights and investment properties that were acquired using the appraisal report that was prepared by the external appraiser. These appraisals involve selecting the appropriate valuation methodology and making various assumptions such as price per square meter (sqm), adjustment factors, discount rate, rental growth rate, location, size and time element factors. The investment properties comprising of building and property and equipment were valued using the cost approach, specifically reproduction cost (new) less depreciation for physical deterioration, functional and economic obsolescence. Significant estimates were made in relation to the reproduction cost (new) using the unit-in-place method which combines direct and indirect costs for a building component. Adjustments were made to the reproduction cost to reflect depreciation. The land was valued using the sales comparison approach. Significant assumptions used include comparable property prices adjusted for nature, location and condition of the land to which the leasehold right is attributed to. In addition, in determining the lease interest, assumptions were made as to rental growth rate and discount rate.

Estimating allowance for doubtful accounts

The Group maintains allowance for doubtful accounts based on the results of the individual and collective assessment under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Provision for doubtful accounts is determined as the difference between the receivable's carrying balance and the computed present value. Factors considered in individual assessment are payment history, past due status and term. The collective assessment would require the Group to combine its receivables based on the credit risk characteristics (customer type, payment history, past-due status and term) of the customers. Provision for doubtful accounts is then determined based on historical loss experience of the receivables combined per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

Further details on receivables are provided in Note 7.

Evaluation of net realizable value of inventories and land and improvements

Inventories and land and improvements are valued at the lower of cost and NRV. This requires the Group to make an estimate of the inventories' and land and improvements' estimated selling price in the ordinary course of business, cost of completion and costs necessary to make a sale to determine the NRV. For real estate inventories and land and improvements, the Group adjusts the cost of its real estate inventories and land and improvements to net realizable value based on its assessment of the recoverability of the real estate inventories and land and improvements. In determining the recoverability of the inventories and land and improvements, management considers whether those inventories and land and improvements are damaged or if their selling prices have declined. Likewise, management also considers whether the estimated costs of completion or the estimated costs to be incurred to make the sale have increased.

In the event that NRV is lower than the cost, the decline is recognized as an expense. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

Further details on inventories and land and improvements are provided in Notes 8 and 11, respectively.

Evaluation of impairment of nonfinancial assets

The Group reviews investments in associates and joint ventures, investment properties, property, plant and equipment, service concession assets and intangible assets for impairment of value. Impairment for goodwill is assessed at least annually. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends.

The Group estimates the recoverable amount as the higher of the fair value less costs to sell and value in use. For investments in associates and joint ventures, fair value less costs to sell pertain to quoted prices (listed equities) and to fair values determined using discounted cash flows or other valuation technique such as multiples. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect investments in associates and joint ventures, investment properties, property, plant and equipment, service concession assets and intangible assets.

For goodwill, this requires an estimation of the recoverable amount which is the fair value less costs to sell or value in use of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows for the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of cash flows.

Further details on investments in associates and joint ventures, investment properties, property, plant and equipment, service concession assets and intangible assets are provided in Notes 12, 13, 14, 15 and 16, respectively.

Determining the fair value of investment properties

The Group discloses the fair values of its investment properties. The Group engaged independent valuation specialist to assess fair value as at December 31, 2016 and 2015. The Group's investment properties consist of land and building pertaining to land properties, retail (malls) and office properties. These were valued by reference to market based evidence using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Further details on investment properties assets are provided in Note 13.

Deferred FCDA

Under the concession agreements entered into by the MWC Group with MWSS and TIEZA, MWC and Boracay Island Water Company (BIWC) are entitled to recover (refund) foreign exchange losses (gains) arising from concession loans and any concessionaire loans. MWC and BIWC recognized deferred FCDA (included as part of "Other noncurrent assets" or "Other noncurrent liabilities" in the consolidated statement of financial position) for both realized and unrealized foreign exchange gains and losses. Deferred FCDA is set up as an asset for the realized and unrealized exchange losses since this is a resource controlled by MWC and BIWC as a result of past events and from which future economic benefits are expected to flow to MWC and BIWC. Realized and unrealized foreign exchange gains, on the other hand, which will be refunded to the customers, are presented as liability.

The deferred FCDA of MWC and BIWC arises from a rate adjustment mechanism for the recovery or compensation on a current basis, subject to quarterly review and adjustment by MWSS or TIEZA, when necessary, of accrued foreign exchange gains and losses, arising from MWSS or TIEZA loans and concession loans used for capital expenditures and concession fee payments.

Further details on deferred FCDA of MWC and BIWC are provided in Note 17.

Deferred tax assets

The Group reviews the carrying amounts of deferred income taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of deferred tax assets to be utilized. The Group looks at its projected performance in assessing the sufficiency of future taxable income.

Further details on deferred tax assets are provided in Note 25.

Recognition and measurement of taxes

The Group has exposure to taxes in numerous jurisdictions. Significant judgment is involved in determining the group-wide provision for taxes including value-added tax, consumption tax and customs duty. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for expected tax issues based on estimates of whether additional taxes are due. Where the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact profit and loss in the period in which such determination is made.

Further details on the carrying amount of the Group's income taxes payable are provided in Note 25.

Share-based payments

The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Parent Company and certain subsidiaries.

Further details on the share-based payments recognized by the Group are provided in Note 28.

Defined benefit plans (pension benefits)

The cost of defined benefit pension plans are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, the Group considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country. Further details about the assumptions used are provided in Note 27.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position or disclosed in the notes to the consolidated financial statements cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Further details about the fair value of financial instruments are provided in Note 33.

5. Cash and Cash Equivalents

This account consists of the following:

	2016	2015
	(In Thousands)	
Cash on hand and in banks (Note 31)	₱23,721,591	₱22,290,705
Cash equivalents (Note 31)	36,501,733	59,863,837
	₱60,223,324	₱82,154,542

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term rates.

6. Short-term Investments

Short-term investments pertain to money market placements made for varying periods of more than three months but less than one year and earn interest ranging from 0.4% to 2.0% in 2016 and 0.6% to 3.4% in 2015.

7. Accounts and Notes Receivable – net

This account consists of the following:

	2016	2015
	(In Thousands)	
Trade:		
Real estate	₱90,043,604	₱75,072,869
Electronics manufacturing	9,784,345	7,939,887
Automotive	2,791,338	2,313,177
Water infrastructure	2,712,944	2,437,166
Information technology and BPO	275,198	361,713
International and others	525,154	54,577
Advances to contractors and suppliers	27,609,966	15,530,279
Advances to other companies	17,041,090	15,980,519
Receivable from related parties (Note 31)	2,339,638	3,372,424
Dividend receivable	1,228,133	1,153,466
Receivable from officers and employees (Note 31)	1,090,801	1,071,450
Receivable from Bonifacio Water Corporation (BWC)	529,501	529,501
Investment in bonds classified as loans and receivables	–	258,000
Others (Note 31)	58,954	263,591
	156,030,666	126,338,619
Less allowance for doubtful accounts	2,704,356	1,949,332
	153,326,310	124,389,287
Less noncurrent portion	36,484,347	41,793,499
	₱116,841,963	₱82,595,788

The classes of trade receivables of the Group follow:

Real estate

Real estate receivables consist of:

- Residential and office development receivables from the sale of high-end, upper middle-income and affordable residential lots and units; economic and socialized housing units and sale of commercial lots; sale of office units; and leisure community developments
- Construction contracts receivables from third party construction projects
- Corporate business lease receivables from office and factory buildings; and receivables from the sale of industrial lots
- Shopping centers lease receivables from retail spaces
- Management fees receivables from facilities management services
- Other receivables from hotel operations and other support services

The sales contracts receivable, included under residential development, are collectible in monthly installments over a period of one (1) to ten (10) years and bear annual interest rates ranging from 1.75% to 18.00% computed on the diminishing balance of the principal. Titles to real estate properties are not transferred to the buyers until full payment has been made.

Receivables from construction contracts, shopping centers and management fee are due within 30 days upon billing. Corporate business receivables are collectible on a monthly or quarterly basis depending on the terms of the lease.

In December 2016, ALI Group sold real estate receivables on a without recourse basis to BPI Family Savings Bank (BPI Family) amounting to ₱2,008.3 million. These were sold at an effective discount rate of 3.98% p.a. with total proceeds of ₱1,894.2 million. ALI Group recognized loss on sale amounting to ₱114.1 million.

Electronics manufacturing

Pertains to receivables arising from manufacturing and other related services for electronic products and components and billings to customers for production and test equipment and all other charges agreed with the customers in carrying out business operations. These are collectible within 30 to 60 days from invoice date.

Automotive

Automotive receivables relate to sale of passenger cars, motorcycles and commercial vehicles and are collectible within 30 to 90 days from date of sale.

Water infrastructure

Water infrastructure receivables arise from water and sewer services rendered to residential, commercial, semi-business and industrial customers of MWC Group and are collectible within 30 days from billing date.

Information technology and BPO

Information technology and BPO receivables arise from venture capital for technology businesses; provision of value-added content for wireless services, online business-to-business and business-to-consumer services; electronic commerce; technology infrastructure sales and technology services; and onshore- and offshore-BPO services and are normally collected within 30- to 60-days from invoice date.

International and others

International and other receivables arose from investments in overseas property companies and projects, energy, charter services, agri-business, education and others and are generally on 30- to 60- day terms.

The nature of the Group's other receivables follows:

Advances to contractors and suppliers

Advances to contractors and suppliers are recouped every progress billing payment date depending on the percentage of accomplishment or delivery.

Advances to other companies

Advances to other companies mainly pertain to ALI's advances to third party joint venture partners that have been made in consideration of project costs and purchases of land that are still subject to completion. ALI Group does not intend that these advances will be repaid, but will instead be recorded as part of the project costs upon development or as part of consideration for purchases of land. The documentation for these advances provides that these will be payable over a fixed term or on demand in order to allow for repayment of the advances when closing does not occur. Certain advances are interest bearing and subject to terms as agreed between the parties.

Receivables from officers and employees

Receivable from officers and employees pertain to housing, car, salary and other loans granted to the Group's officers and employees which are collectible through salary deduction. These are interest bearing ranging from 5.0% to 10.0% per annum and have various maturity dates ranging from 2017 to 2027.

The Group entered into agreements with BPI Asset Management and Trust Group (BPI Trust) in 2016 and BPI Family, a related party, in 2015, for the assignment of interest-bearing employee receivables amounting to ₱99.6 million and ₱71.5 million, respectively. The transactions were without recourse and did not result to any gain or loss.

Receivables from BWC

Receivables from BWC pertain to the assigned receivables from the share purchase agreement between MWC and Veolia Water Philippines, Inc. (VWPI) related to the acquisition of VWPI's interest in Clark Water Corporation (CWC) in 2011.

The assigned receivable will be paid by BWC at an amount equal to 30% of the product consumed by all of BWC's customers and the tariff imposed by MWC on its customers falling under the corresponding classification pursuant to the Concession Agreement, and all amounts received by BWC as connection fees from customers, and any fee BWC may charge in relation to the interconnection with the wastewater treatment plant of areas of developments outside the BWC service area. The assigned receivable from BWC is interest bearing and MWC Group classifies as current the portion of its gross receivable from BWC that is due within the next twelve (12) months in accordance with the agreed terms.

Investment in bonds classified as loans and receivables

Investment in bonds classified as loans and receivables pertain to ALI's investments in various notes and bonds as follows:

- ₱100.0 million investment in 5.9% unsecured subordinated notes of Land Bank of the Philippines (LBP) due 2022, callable in 2017. In December 2015, LBP issued an irrevocable early redemption notice wherein all of the outstanding notes will be redeemed at issue price on January 27, 2016. As of December 31, 2016, ALI has no outstanding investment in LBP notes due to early redemption.
- ₱200.0 million investment in 5.8% unsecured subordinated notes of Development Bank of the Philippines (DBP) due 2022, callable in 2017. ALI sold ₱42.0 million worth of bonds at carrying value with net gain of ₱0.1 million and an early redemption on the remaining balance of ₱158.0 million. As of December 31, 2016, ALI has no outstanding investment in DBP notes.
- ₱500.0 million investment in 5.0% collateralized bonds of First Metro Investment Corp. (FMIC) due 2019, callable in 2017. ALI sold ₱350.0 million worth of bonds at carrying value with net gain of ₱6.9 million in 2014 and the remaining balance of ₱150.0 million at a net gain of ₱4.5 million in 2015. As of December 31, 2016, ALI has no outstanding investment in FMIC bonds.

Others

Other receivables include accrued interest receivable and other nontrade receivables from non-related entities which are non-interest bearing and are due and demandable. This also includes receivable from the DPWH pertaining to the additional costs incurred by the Parent Company in the construction of the Daang Hari-South Luzon Expressway (SLEX) Link Road arising from the government directive to revise the interconnection design of the road (see Note 15).

As of December 31, 2016 and 2015, nominal amounts of trade receivables from residential and office development, advances to other companies and receivables from employees aggregating ₱101.6 billion and ₱86.9 billion, respectively, were recorded initially at fair value. The fair value of the receivables was obtained by discounting future cash flows using the applicable rates of similar types of instruments.

Movements in the unamortized discount of the Group's receivables as of December 31, 2016 and 2015 follow:

	2016	2015
	(In Thousands)	
Balance at beginning of the year	₱4,868,756	₱4,767,807
Additions during the year	6,662,005	3,893,940
Accretion for the year	(4,091,836)	(3,792,991)
Balance at end of the year	₱7,438,925	₱4,868,756

Movements in the allowance for doubtful accounts follow (in thousands):

	2016						2015							
	Real Estate	Electronics	Water Infrastructure	Automotive	Information Technology and BPO	Parent Company and Others	Total	Real Estate	Electronics	Water Infrastructure	Automotive	Information Technology and BPO	Parent Company and Others	Total
At January 1	₱786,492	₱22,498	₱578,081	₱31,347	₱10,934	₱519,980	₱1,949,332	₱611,168	₱44,911	₱569,744	₱24,696	₱4,828	₱331,194	₱1,586,541
Provisions during the year (Note 23)	399,424	10,173	73,955	8,351	12,145	342,706	846,754	179,945	20,812	37,984	6,651	5,276	10,398	261,066
Addition through business combination	67,739	—	—	—	—	—	67,739	(14,701)	(43,225)	—	—	—	(1,001)	(58,927)
Write-offs	(64,206)	(3,757)	—	—	(20,690)	—	(88,653)	10,080	—	(29,647)	—	830	179,389	160,652
Reversals/Adjustments	2,082	—	(30,243)	(494)	(29,799)	(12,362)	(70,816)	—	—	—	—	—	—	—
Reclassification/Others	(1,684)	57,288	148,414	14,223	203,627	(421,868)	—	—	—	—	—	—	—	—
At December 31	₱1,189,847	₱86,202	₱770,207	₱53,427	₱176,217	₱428,456	₱2,704,356	₱786,492	₱22,498	₱578,081	₱31,347	₱10,934	₱519,980	₱1,949,332
Individually impaired	960,901	86,202	123,737	38,862	171,346	400,557	1,781,605	373,461	22,498	40,416	15,947	—	178,666	630,988
Collectively impaired	228,946	—	646,470	14,565	4,871	27,899	922,751	413,031	—	537,665	15,400	10,934	341,314	1,318,344
Total	₱1,189,847	₱86,202	₱770,207	₱53,427	₱176,217	₱428,456	₱2,704,356	₱786,492	₱22,498	₱578,081	₱31,347	₱10,934	₱519,980	₱1,949,332
Gross amount of loans and receivables individually determined to be impaired	₱960,901	₱86,202	₱123,737	₱38,862	₱171,346	₱400,557	₱1,781,605	₱373,461	₱22,498	₱40,416	₱15,947	₱—	₱178,666	₱630,988

8. Inventories

This account consists of the following:

	2016	2015
	(In Thousands)	
At cost:		
Residential and condominium units and offices	₱39,950,933	₱34,864,516
Residential and commercial lots	25,608,017	23,362,680
Vehicles	4,001,188	2,843,639
Finished goods	899,915	703,381
Work-in-process	633,015	732,903
Materials, supplies and others	3,166,766	3,600,111
	74,259,834	66,107,230
At NRV:		
Residential and commercial lots	936,183	936,183
Finished goods	91,854	112,479
Parts and accessories	497,135	250,386
Materials, supplies and others	967,869	1,024,630
	2,493,041	2,323,678
	₱76,752,875	₱68,430,908

A summary of the movement of real estate inventories is set out below.

2016

	Residential and Commercial Lots	Residential and Condominium units and Offices	Total
	(In Thousands)		
Opening balances at January 1	₱24,298,863	₱34,864,516	₱59,163,379
Land acquired during the year	34,124	–	34,124
Land cost transferred from land and improvements (Note 11)	581,172	4,214,326	4,795,498
Acquired through business combination	273,299	–	273,299
Construction/Development costs incurred	12,425,216	35,343,182	47,768,398
Borrowing costs capitalized	–	62,507	62,507
Disposals (recognized as cost of sales)	(11,487,472)	(31,284,969)	(42,772,441)
Transfers from/to investment properties and other assets	(553,425)	(511,900)	(1,065,325)
Other adjustments/Reclassifications	972,423	(2,756,791)	(1,784,368)
Exchange differences	–	20,062	20,062
	₱26,544,200	₱39,950,933	₱66,495,133

2015

	Residential and Commercial Lots	Residential and Condominium units and Offices	Total
	(In Thousands)		
Opening balances at January 1	₱26,472,441	₱21,937,355	₱48,409,796
Land acquired during the year	815,568	57,927	873,495
Land cost transferred from land and improvements	1,978,739	5,861,054	7,839,793
Construction/Development costs incurred	7,773,816	29,104,893	36,878,709
Disposals (recognized as cost of sales)	(12,596,612)	(21,886,835)	(34,483,447)
Transfers from/to investment properties and other assets	(52,007)	–	(52,007)
Other adjustments/Reclassifications	(93,082)	(245,169)	(338,251)
Exchange differences	–	35,291	35,291
	₱24,298,863	₱34,864,516	₱59,163,379

The cost of the inventories carried at NRV amounted to ₱3.4 billion and ₱4.0 billion as of December 31, 2016 and 2015, respectively.

Club shares held as inventory were reclassified into AFS or consolidated in the current year (see Note 2).

Inventories recognized as cost of sales amounted to ₱68.4 billion, ₱58.5 billion and ₱46.8 billion in 2016, 2015 and 2014, respectively, and were included under “Costs of sales” in the consolidated statement of income.

The Group recorded a reversal of provision for inventory obsolescence amounting to ₱128.0 million in 2016, and recognized provision for inventory obsolescence amounting to ₱74.4 million and ₱149.1 million in 2015 and 2014, respectively. The provision is included under “General and administrative expenses” in the consolidated statement of income (see Note 23).

9. Other Current Assets

This account consists of the following:

	2016	2015
	(In Thousands)	
Input VAT	₱11,822,618	₱6,302,441
Prepaid expenses	11,798,740	9,939,954
Financial assets at FVPL	6,664,015	5,072,792
Creditable withholding tax	2,234,594	3,729,620
Derivative assets (Notes 32 and 33)	245,887	241,263
Concession financial receivable	200,253	209,011
Deposits in escrow	104,163	2,096,089
Others	568,213	25,862
	₱33,638,483	₱27,617,032

Input VAT

Input VAT is applied against output VAT. The remaining balance is recoverable in future periods.

Prepaid expenses

Prepaid expenses mainly include prepayments for commissions, marketing fees and promotion, taxes and licenses, rentals and insurance and current project costs.

Financial Assets at FVPL

TRG Investments

Financial assets at FVPL includes the Group’s investment in The Rohatyn Group (TRG) Allocation LLC and TRG Management LP (collectively TRG investments), which have a combined carrying amount of US\$35.8 million (₱1.8 billion) and US\$38.7 million (₱1.8 billion) as of December 31, 2016 and 2015, respectively.

In 2016 and 2015, the Group made additional investment in TRG investments amounting to US\$1.7 million and US\$0.9 million, respectively, representing capital call for the year.

As of December 31, 2016 and 2015, the Group’s remaining capital commitment with the TRG Investments amounted to US\$3.0 million and US\$4.7 million, respectively.

Unit Investment Trust Fund (UITF) investments

ALI Group has investments in the BPI Short Term Fund (STF), BPI Money Market Fund (MMF) and BDO Institutional Cash Reserve Fund (ICRF) (the Funds). The Funds, which are structured as a money market UITF, aims to generate liquidity and stable income by investing in a diversified

portfolio of primarily short-term fixed income instruments. The Funds have no minimum holding period. As of December 31, 2016 and 2015, the total Net Asset Value (NAV) of the Funds were: (i) BPI STF ₱67,692.0 million with duration of 33 days and ₱51,986.0 million with duration of 66 days, respectively; (ii) BPI MMF ₱6,281.6 million with duration of 37 days and ₱4,133.3 million with duration of 66 days, respectively; and (iii) BDO ICRF ₱79,935.0 million with duration of 106 days and ₱46,307.0 million with duration of 54 days, respectively. The fair value of ALI Group's total investment in the Fund amounted to ₱1,529.1 million and ₱288.2 million as of December 31, 2016 and 2015, respectively.

ARCH Fund

In 2007, the private equity fund, called ARCH Capital Asian Partners, L.P. (ARCH Fund I) was established. The ARCH Fund I achieved its final closing, resulting in a total investor commitment of US\$330.0 million in 2007. As of December 31, 2016 and 2015, the carrying amount of the Fund amounted to US\$2.8 million (₱139.2 million) and US\$4.3 million (₱201.9 million), respectively.

In 2016 and 2015, the ARCH Fund I returned capital amounting to US\$30.4 million (₱1,511.5 million) and US\$10.1 million (₱489.4 million), respectively. The proceeds from the return of capital of ARCH Fund 1 came from its real estate project called The Concordia. Phase 1 to 3 of The Concordia was fully sold and hand over of units to buyers have already started.

As of December 31, 2016 and 2015, the Group's remaining capital commitment with the ARCH Fund I amounted to nil and US\$7.0 million (₱329.4 million), respectively.

In 2011, the Group committed to invest US\$50.0 million in ARCH Capital's second real estate fund, ARCH Capital-TRG Asian Partners, L.P. (ARCH Fund II), which had its first closing on June 30, 2011. As of December 31, 2016 and 2015, the carrying amount of the ARCH Fund II amounted to US\$30.4 million (₱1.5 billion) and US\$39.9 million (₱1.9 billion), respectively.

On various dates in 2016 and 2015, ARCH Fund II made capital calls where the Group's share amounted to US\$0.4 million (₱19.9 million) and US\$7.7 million (₱362.4 million), respectively. In 2016 and 2015, the ARCH Fund II returned capital amounting to US\$15.0 million (₱745.8 million) and US\$7.7 million (₱362.4 million), respectively.

As of December 31, 2016 and 2015, the Group's remaining capital commitment with the ARCH Fund II amounted to US\$0.2 million (₱9.9 million) and US\$0.6 million (₱28.2 million), respectively.

On July 1, 2014, the Group committed to invest 10% of capital raised, capped at US\$50.0 million in ARCH Capital's third real estate fund, ARCH Capital-TRG Asian Partners III, L.P. (ARCH Fund III). As of December 31, 2016 and 2015, the carrying amount of the investment in the ARCH Fund III amounted to US\$16.7 million (₱830.3 million) and US\$9.3 million (₱437.7 million), respectively.

On various dates in 2016 and 2015, the ARCH Fund III made capital calls where the Group's share amounted to US\$7.1 million (₱353.0 million) and US\$4.1 million (₱192.9 million), respectively.

As of December 31, 2016 and 2015, the Group's remaining capital commitment with the ARCH Fund III amounted to US\$33.8 million (₱1,680.5 million) and US\$20.1 million (₱945.9 million), respectively.

These investments are accounted for at FVPL. There is no change in management's intention to hold the investments for trading purpose. Net changes in fair value of financial assets at FVPL is included under "Other income" in the consolidated statement of income (see Note 23).

Creditable withholding tax

The Group will be able to apply the creditable withholding taxes against income tax payable.

Deposits in escrow

Deposits in escrow pertain to the proceeds from the sale of ALI Group that have been only granted with a temporary License To Sell (LTS) by the Housing and Land Use Regulatory Board (HLURB). For projects with temporary LTS, all payments, inclusive of down payments, reservation, and monthly amortization, among others, made by the buyer within the selling period shall be deposited in an escrow account.

Concession financial receivable

Concession financial receivable is accounted for in accordance with IFRIC 12, arising from the bulk water contract between CMWD, a subsidiary of MWC, and Metropolitan Cebu Water District (MCWD) whereby the facilities constructed by CMWD shall be used for the delivery of potable and treated water to MCWD at an aggregate volume of 18,000 cubic meters per day for the first year and 35,000 cubic meters per day for the succeeding years up to 20 years in the amount of ₱24.59 per cubic meter.

In 2016, due to the declaration of the state of calamity arising from the El Niño, CMWD and MCWD invoked the force majeure clause in their Bulk Water Supply Contract which effectively lifted the requirement for MCWD to purchase and for CMWD to deliver the agreed thirty five (35) million liters of water starting January 5, 2016.

On September 1, 2016, MCWD communicated in writing to the BOD of CMWD the approval of the start of day 1 of year two (2) of the Bulk Water Supply Contract to be October 1, 2016, and as such, all the related provisions shall be observed. Due to this change in the timing of the implementation of the thirty five (35) million liters of guaranteed volume, CMWD recognized an impairment loss amounting to ₱8.6 million on its concession financial receivable.

The breakdown of the concession financial receivable is as follows:

	2016	2015
	(In Thousands)	
Current	₱200,253	₱209,011
Noncurrent	1,005,561	989,073
	₱1,205,814	₱1,198,084

Others include noncurrent assets held for sale arising from the sale and purchase agreement between Speedy-Tech Electronics (Singapore) Co., Ltd., a subsidiary of IMI, and Jinnuo Century Trading Limited in connection with the plan to relocate its manufacturing facility in Liantang, Luohu, in line with the urban redevelopment projects of the Shenzhen City government.

10. Investments in Bonds and Other Securities

This account consists of investments in:

	2016	2015
	(In Thousands)	
AFS financial assets		
Quoted equity investments	₱2,579,137	₱1,635,560
Unquoted equity investments	1,870,321	1,827,706
	4,449,458	3,463,266
Quoted debt investments	115,621	274,550
	₱4,565,079	₱3,737,816

Quoted Equity Investments

Quoted equity instruments consist mainly of investments in listed equity securities and golf club shares. It also includes the following quoted equity investments:

Ho Chi Minh City Infrastructure Investment Joint Stock Co. (CII)

The Group, through BHL, has acquired a 10% ownership interest in CII for US\$15.9 million in 2012. CII is listed on the Ho Chi Minh City Stock Exchange and is a leading player in the infrastructure sector in Vietnam. CII has a portfolio of strategic infrastructure assets, including water treatment plants and toll roads serving Ho Chi Minh City and surrounding areas.

During the year, BHL converted 69,235 units of bonds to 6,293,461 shares at a ratio of 1:90.9 which increased the value of the investment by US\$7.3 million (₱363.0 million). During the year, an increase in fair value of the investments amounting to US\$3.8 million (₱189.0 million) was recognized directly in equity.

The carrying amount of the investment in CII amounted to US\$22.2 million (₱1,103.8 million) and US\$11.1 million (₱522.4 million) as of December 31, 2016 and 2015, respectively.

Unquoted Equity Investments

Unquoted equity investments include unlisted preferred shares in public utility companies which the Group will continue to carry as part of the infrastructure that it provides for its real estate development projects, water utilities projects, and to its other operations. It also includes the following unquoted equity investments:

TRG Global Opportunity Fund (GOF) and TRG Special Opportunity Fund (SOF)

The GOF is a multi-strategy hedge fund which invests primarily in emerging markets securities. The SOF focuses on less liquid assets in emerging markets (Latin America, Asia, Emerging Europe, Middle East and Africa) such as distressed debt, NPLs, corporate high yield, mid and small cap stocks, real estate (debt and equity) and private equity. In 2015 and 2014, the Group received return on capital from TRG SOF and GOF aggregating to US\$0.2 million (₱9.4 million) and US\$5.5 million (₱246.0 million), respectively. In 2016, the Group received return of capital and realized loss amounting to US\$0.5 million (₱23.9 million) and US\$0.01 million (₱2.4 million), respectively (see Note 23).

The aggregate carrying amount of GOF and SOF amounted to US\$3.6 million (₱178.2 million) and US\$5.0 million (₱233.9 million) as of December 31, 2016 and 2015, respectively.

Arbor Venture Fund I L.P. (AVF)

The AVF is a private equity fund which focuses on providing funding for new ventures in the financial technology and services space. The fund has investments in companies providing big data decision making (credit scoring, identity verification), asset management, payments processing, and on-line credit linked to payment processing, HR services, and cloud based accounting. In 2016 and 2015, AVF made capital calls where the Group's share amounted to US\$0.6 million (₱28.8 million) and US\$0.5 million (₱23.7 million), respectively. In 2016, the Group received cash contribution from AVF amounting to US\$0.03 million (₱1.6 million) which includes return on capital amounting to US\$0.02 million (₱1.2 million).

As of December 31, 2016 and 2015, the carrying amount of the investment in AVF amounted to US\$1.1 million (₱56.4 million) and US\$0.5 million (₱23.7 million), respectively. The Group's remaining capital commitment amounted to US\$0.9 million (₱44.7 million) and US\$1.5 million (₱69.6 million) in 2016 and 2015, respectively.

Red River Holdings (Red River)

Red River is a fund that seeks to achieve a balanced and diversified portfolio of Vietnamese companies. The carrying amount of the investment in Red River amounted to US\$1.7 million (₱84.5 million) and US\$5.6 million (₱263.5 million) as of December 31, 2016 and 2015,

respectively. In 2016 and 2015, Red River returned capital amounting to US\$5.0 million (P248.6 million) and US\$3.8 million (P178.8 million), respectively.

Glory High

Glory High is a property development company with projects in Macau. The carrying amount of the investment in Glory High amounted to US\$0.6 million (P29.8 million) and US\$0.6 million (P28.2 million) as of December 31, 2016 and 2015, respectively. The Group has a direct interest of 2.975% in The Concordia through Glory High. Income from investment amounting to US\$9.4 million (P467.4 million) and US\$10.6 million (P498.8 million) was recorded in 2016 and 2015, respectively, arising from distributions from Glory High. Proceeds from the distribution received came from the sale of Phase 1 to 3 of The Concordia.

Sares-Regis Multifamily Value-added Fund II LLP (Sares Regis)

Sares Regis is a real estate private equity fund managed by the Sares-Regis Group (SRG) based in California, USA. In 2016 and 2015, Sares Regis returned capital amounting to US\$9.8 million (P487.3 million) and US\$9.5 million (P447.1 million), respectively. As of December 31, 2016 and 2015, the carrying amount of the investment in Sares Regis amounted to US\$10.5 million (P522.1 million) and US\$9.5 million (P449.4 million), respectively.

ACI Solar Holdings NA (ACI Solar)

In 2016, ACIFL invested US\$4.6 million (P228.7 million) in ACI Solar Holdings NA (ACI Solar), a Delaware company, which serves as the offshore vehicle of AITHI for solar technology. ACI Solar, in turn, acquired an 8.2% stake in Merlin Solar Technology Inc. (MSI) for US\$4.6 million (P228.7 million). MSI is a US-based company that specializes in developing technology that is used for solar panels.

Quoted Debt Investments

Quoted debt investments pertain to CII convertible bonds amounting to US\$5.0 million (P248.6 million) in 2016 and US\$10.3 million (P512.1 million) in 2015. The bonds bear interest rate of 12% per annum and will mature 5 years from issue date. The bonds are convertible at the option of the bond holder. In 2016, BHL converted 69,235 bonds into 6,293,461 shares as part of the 3rd bond conversion exercise resulting to a decrease in the investment by US\$ 6.3 million (P313.2 million) (see Note 33).

In 2016, BHL recognized a gain on the conversion exercise amounting to VND 37.9 million (US\$1.0 million).

In 2015, BHL recorded a gain on the option component of CII convertible bonds amounting to VND 490.0 billion (P1.0 million).

The net unrealized gain (loss) on AFS financial assets as reflected in the equity section is broken down as follows:

	2016	2015
	<i>(In thousands)</i>	
Net unrealized gain on AFS financial assets of the Parent Company and its consolidated subsidiaries	P803,323	P914,004
Share in the net unrealized loss on AFS financial assets of associates and joint ventures	(1,269,999)	(1,468,301)
	(P466,676)	(P554,297)

The rollforward of unrealized gain (loss) on AFS financial assets of the Parent Company and its consolidated subsidiaries is as follows:

	2016	2015
	<i>(In thousands)</i>	
At January 1	₱914,004	₱834,185
Changes in fair value recognized in equity	247,180	16,309
Recognized in profit and loss	(298,234)	63,510
Others	(59,627)	–
At December 31	₱803,323	₱914,004

11. Land and Improvements

The rollforward analysis of this account follows:

	2016	2015
	<i>(In Thousands)</i>	
Cost		
At January	₱93,601,572	₱80,470,012
Additions	13,493,335	22,552,213
Transfers*	(5,339,043)	(9,311,893)
Donation	–	(108,735)
Disposals	–	(25)
At December 31	₱101,755,864	₱93,601,572
Allowance for decline in value		
At January	706,693	510,125
Provision during the year (Note 23)	–	196,568
At December 31	706,693	706,693
	₱101,049,171	₱92,894,879

*Transfers pertain to land to be developed for sale and included under "Real estate inventories" account.

Transactions affecting "Land and Improvements" account for the year 2016 include the following:

On July 3, 2016, the Parent Company and Crans Montana Property Holding Corporation (Crans Montana), a wholly-owned subsidiary of ALI, entered into a lease contract of a land in Amorsolo-Dela Rosa, Makati City. The lease is for a period of 25 years commencing on the start of commercial operations of the apartment building to be built by Crans Montana. As of December 31, 2016, the building has not yet started its commercial operation and no rental income and expense were recognized in relation to the transaction.

In 2016, Alveo Land Corporation (Alveo), a subsidiary of ALI, acquired properties located in Las Piñas City and Makati City for a total amount of ₱3,640.8 million.

On November 24, 2016, BellaVita Land Corporation (BellaVita), a subsidiary of ALI, acquired a property located in Lian, Batangas with a total area of 43,020 sqm for a total value of ₱20.4 million.

On September 8, 2016, Accendo Commercial Corporation, a subsidiary of ALI acquired parcels of land located in Toril, Davao City with an aggregate area of 682,195 sqm for a total acquisition cost of ₱511.7 million.

On August 17, 2016, BellaVita executed the Deed of Absolute Sale (DOAS) for the purchase of property located in Brgy. San Jose, San Miguel, Iloilo with total land area of 10,975 sqm for a total acquisition cost of ₱5.5 million.

On August 3, 2016, ALI Group acquired control of PHI wherein part of the acquisition are various parcels of land located in Porac, Pampanga held by ALI for future use and improvements amounting to ₱2,748.0 million.

On June 24, 2016, Avida Land Corporation, a subsidiary of ALI, executed the DOAS with Wyeth Philippines, Inc. for the acquisition of 11,000 sqm parcel of land located along Chino Roces Avenue, Makati City amounting to ₱1,981.4 million.

On April 11, 2016, Aviana Development Corporation, a subsidiary of ALI, reclassified advances from landowners to land and improvements upon execution of DOAS amounting to ₱1,205.4 million comprising 252,410 sqm in total. This land is for the development of Azuela Cove, a high-end horizontal residential project, located at Lanang, Davao City.

On February 9, 2016, Cebu Holdings, Inc. (CHI), a subsidiary of ALI, purchased Tiam property located in Sacrim Road, Mandaue City, Cebu amounting to ₱266.8 million consisting of 8,261 sqm.

On November 6, 2015, ALI executed a DOAS for the acquisition of 95,620 square meter property located along Barangay Talipapa, Novaliches, Quezon City for a purchase price of ₱1.1 billion, net of capital gains tax. The acquisition is pursuant to the Terms of Reference dated March 4, 2015 between ALI and the SEC-appointed Liquidator of Rubberworld Philippines, Inc.

On October 12, 2015, ALI donated 60,000 square meters of real properties to De La Salle Santiago Zobel School which is located in Cavite amounting to ₱108.7 million.

In July 2015, Avida Land Inc., a subsidiary of ALI, entered into a contract with the Parent Company for the purchase of a parcel of land in San Antonio, Makati City for ₱644.1 million inclusive of VAT. Payments were made in two tranches, with the first one in July 2015 amounting to ₱471.6 million and the balance of ₱172.5 million in October 2015.

On June 30, 2015, the SM-ALI Group consortium, participated and won the bidding for Lot No. 8-B-1, containing an area of 263,384 square meters, which is a portion of Cebu City-owned lot located at the South Road Properties, Cebu City. The SM-ALI Group consortium is a consortium among SM Prime Holdings, Inc., ALI and CHI which will co-develop the property pursuant to a joint master plan.

In 2012, ALI Group won the public bidding at an amount of ₱24,313.0 million for the purchase of the 74-hectare FTI property in Taguig City. The bid was conducted in accordance with the Asset Specific Bidding Rules dated July 4, 2012 and in accordance with the provisions of Executive Order No. 323. In October 2012, ALI entered into a Purchase Agreement wherein FTI (the Seller) agrees to sell, convey, assign, transfer and deliver to ALI, all of the Seller's rights and interests in the FTI property. The property is designed to be a mixed-use development.

In 2014, ALI launched Arca South, transforming the 74-hectare FTI property into a mixed-use destination for contemporary lifestyles. To date, three (3) of ALI's residential brands have launched their respective projects, while construction works are ongoing for a lifestyle mall, corporate offices and a Seda Hotel.

ALI Group recorded provision for impairment amounting to nil and ₱196.6 million in 2016 and 2015, respectively.

12. Investments in Associates and Joint Ventures

This account consists of the following:

	2016	2015
	(In Thousands)	
Acquisition cost	₱142,724,598	₱134,639,923
Accumulated equity in earnings	40,217,528	30,518,014
Other comprehensive loss	(2,628,383)	(2,446,517)
	₱180,313,743	₱162,711,420

Details of the Group's investments in associates and joint ventures and the related percentages of ownership are shown below:

	Percentage of Ownership		Carrying Amounts	
	2016	2015	2016	2015
<i>Domestic:</i>	(In Millions)			
Bank of the Philippine Islands (BPI)	32.5%	32.6%	₱72,532	₱67,769
Liontide Holdings, Inc. (LHI)*	73.8	73.8	39,418	36,978
Globe Telecom, Inc. (Globe)*	31.0	30.4	20,143	17,759
GNPower Mariveles Coal Plant Ltd. Co (GNPower)	17.1	17.0	8,790	8,203
OCLP Holdings, Inc. (OHI)	21.0	–	7,321	–
Emerging City Holdings, Inc. (ECHI)*	50.0	50.0	4,159	4,111
South Luzon Thermal Energy Corp. (SLTEC)*	35.0	50.0	2,785	3,792
Berkshires Holdings, Inc. (BHI)*	50.0	50.0	1,834	1,813
Light Rail Manila Holdings, Inc. (LRMHI)	50.0	50.0	1,647	1,469
Cebu District Property Enterprise, Inc. (CDPEI)*	42.0	42.0	1,487	1,491
Bonifacio Land Corporation (BLC)	10.0	10.0	1,370	1,353
Asiacom Philippines, Inc. (Asiacom)*	60.0	60.0	1,253	1,191
GNPower Dinginin Ltd. Co. (GNP Dinginin)	50.0	50.0	1,158	–
Philippine Wind Holdings Corporation (PWHC)*	42.9	42.9	993	1,016
Rize-Ayalaland (Kingsway) GP Inc. (Rize-Ayalaland)	49.0	49.0	624	673
Alveo-Federal Land Communities, Inc.*	50.0	50.0	605	572
Generika Group*	50.0	50.0	443	425
Northwind Power Development Corp.* (Northwind) (Note 24)	–	50.0	–	496
<i>Foreign:</i>				
Modular Construction Technology (MCT) Bhd. (incorporated in Malaysia)	33.0	32.9	6,400	5,999
Thu Duc Water B.O.O. Corporation (TDW) (incorporated in Vietnam)	49.0	49.0	2,586	2,402
Kenh Dong Water Supply Joint Stock Company (KDW) (incorporated in Vietnam)	47.4	47.4	2,417	2,202
Saigon Water Infrastructure Joint Stock Company (Saigon Water) (incorporated in Vietnam)	31.5	31.5	852	793
VinaPhil Technical Infrastructure Investment Joint Stock Company (VinaPhil) (incorporated in Vietnam)*	49.0	49.0	502	535
Cu Chi Water Supply Sewerage Company Ltd. (Cu Chi Water) (incorporated in Vietnam)	24.5	24.5	344	326
Tianjin Eco-City Ayala Land Development Co., Ltd. (incorporated in China)	40.0	40.0	342	289
Integreon, Inc. (Integreon) (British Virgin Islands Company)*	–	58.7	–	144
Others	Various	Various	309	910
			₱180,314	₱162,711

*Joint ventures

Unless otherwise indicated, the principal place of business and country of incorporation of the Group's investments in associates and joint ventures is the Philippines.

Except as discussed in subsequent notes, the voting rights held by the Group in its investments in associates and joint ventures are in proportion to their ownership interest.

Financial information on significant associates follows:

BPI	2016	2015
	(In Millions, except earnings per share)	
Total resources	₱1,725,696	₱1,516,356
Total liabilities	1,558,012	1,363,626
Net interest income and other income	66,551	60,059
Total expenses	44,276	40,984
Net income	22,275	18,375
Other comprehensive income	(354)	(1,616)
Total comprehensive income	21,921	16,759
Net income attributable to:		
Equity holders of the bank	21,736	18,234
Non-controlling interests	185	141
Earnings per share:		
Basic and diluted	5.60	4.64
Dividends received from BPI	₱3,575	₱3,239
GNPower	2016	2015
	(In Millions)	
Current assets	₱8,397	₱8,136
Noncurrent assets	35,856	34,168
Current liabilities	5,897	4,243
Noncurrent liabilities	23,018	24,808
Revenue	17,719	14,968
Cost and expenses	(13,153)	(12,137)
Net income	685	197
Other comprehensive income	144	186
Total comprehensive income	829	383
OHI		2016
		(In Millions)
Current assets		₱12,591
Noncurrent assets		9,425
Current liabilities		5,134
Noncurrent liabilities		12,732
Revenue		5,610
Cost and expenses		(4,861)
Net income		749
Other comprehensive income		–
Total comprehensive income		749
Dividends received from OHI		₱100
BLC	2016	2015
	(In Millions)	
Current assets	₱14,013	₱15,084
Noncurrent assets	30,255	30,377
Current liabilities	4,277	3,629
Noncurrent liabilities	7,784	7,888
Revenue	4,116	3,640
Cost and expenses	(2,496)	(2,294)
Net income	1,620	1,346
Other comprehensive income	10	–
Total comprehensive income	1,630	1,346
Dividends received from BLC	₱25	₱55

MCT	2016	2015
	(In Millions)	
Current assets	₱7,817	₱8,399
Noncurrent assets	6,935	6,378
Current liabilities	4,131	4,390
Noncurrent liabilities	2,204	2,125
Revenue	6,979	12,561
Cost and expenses	(6,078)	(11,497)
Net income	901	1,065
Other comprehensive income	1	(298)
Total comprehensive income	902	767
Dividends received from MCT	₱-	₱26

TDW	2016	2015
	(In Millions)	
Current assets	₱135	₱151
Noncurrent assets	3,247	2,670
Current liabilities	356	381
Noncurrent liabilities	634	476
Revenue	783	742
Net income	467	439
Dividends received from TDW	₱117	₱223

The conversion rate used was ₱0.0022 and ₱0.0021 to VND1 as of December 31, 2016 and 2015, respectively.

KDW	2016	2015
	(In Millions)	
Current assets	₱69	₱738
Noncurrent assets	3,723	2,497
Current liabilities	406	230
Noncurrent liabilities	1,194	1,798
Revenue	486	436
Net income	269	251
Dividends received from KDW	₱42	₱36

The conversion rate used was ₱0.0022 and ₱0.0021 to VND1 as of December 31, 2016 and 2015, respectively.

Financial information on significant joint ventures (amounts in millions, except earnings per share figures) follows:

Globe	2016	2015
	(In Millions)	
Current assets, including cash and cash equivalents amounting to ₱8.6 billion in 2016 and ₱11.8 billion in 2015	₱53,023	₱47,072
Noncurrent assets	196,840	148,607
Current liabilities including financial liabilities* amounting to ₱10.3 billion in 2016 and ₱8.0 billion in 2015	82,402	65,530
Noncurrent liabilities, including financial liabilities* amounting to ₱95.4 billion in 2016 and ₱64.3 billion in 2015	103,985	70,752
Revenue	126,183	119,969
Interest income	151	519
Costs and expenses		
Depreciation and amortization	23,849	21,133
Interest expense	4,097	3,373
Provision for income tax	6,049	6,983
(Forward)		

Globe	2016	2015
	(In Millions)	
Net income	₱15,888	₱16,484
Other comprehensive income (loss)	139	(234)
Total comprehensive income	16,027	16,251
Earnings per share:		
Basic	115.45	120.11
Diluted	115.27	119.92
Dividends received from Globe	₱3,575	₱3,349

**excluding trade and other payables and provisions*

LHI	2016	2015
	(In Millions)	
Current assets, including cash and cash equivalents amounting to ₱7.7 million in 2016 and ₱5.9 million in 2015	₱762	₱760
Noncurrent assets	35,008	31,894
Current liabilities	0.1	0.1
Total Revenue	4,692	3,902
Interest income	-	18
Costs and expenses		
General and administrative	-	0.2
Provision for income tax	-	4
Net income	4,691	3,898
Other comprehensive loss	(70)	(257)
Total comprehensive income	4,621	3,642
Dividends received from LHI	₱1,112	₱1,670

In addition to the interest in associates and joint ventures discussed above, the Group also has interest in a number of individually immaterial associates and joint ventures. Below is a summary of certain financial information concerning these immaterial associates and joint ventures:

	2016	2015
	(In Millions)	
Carrying amount	₱28,127	₱28,249
Equity in net earnings	1,886	1,076
Share in other comprehensive income	171	(480)

As of December 31, 2016 and 2015, the Group had total commitments relating to the Group's interests in its associates and joint ventures amounting to ₱8,379.0 million and ₱7,885.1 million, respectively (see Note 35).

As of December 31, 2016 and 2015, the Group has not incurred any contingent liabilities in relation to its investments in associates and joint ventures.

On certain investments in associates and joint ventures, the Group entered into shareholders' agreements with fellow shareholders. Such shareholders' agreements include, among others, restriction as to declaration and payment of dividends, incurrence of debt and transactions with related parties.

The following significant transactions affected the Group's investments in associates and joint ventures:

Investment in BPI

On August 23, 2016, BPI acquired 10% ownership interest in Rizal Bank, Inc., a microfinance-oriented rural bank.

The fair value of the BPI shares held by the Group amounted to ₱113.7 billion and ₱100.2 billion as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the notional goodwill resulting from the difference between the share in the net assets in BPI and its carrying value amounted to ₱19.9 billion.

Investment in LHI

As of December 31, 2016 and 2015, LHI owns 618,338,612 common shares of BPI representing a direct ownership interest in BPI of 21.3%. The Parent Company and GIC Special Investments Pte. Ltd. (GICSI), as joint venture partners, agreed to vote their BPI shares based on the common position reached jointly by them as shareholders.

The fair value of BPI shares held by LHI amounted to ₱74.3 billion and ₱70.2 billion as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the notional goodwill resulting from the difference between the share in the net assets in LHI and its carrying value amounted to ₱10.1 billion.

Investment in Globe

On May 30, 2016, the BOD of Globe, through its Executive Committee, approved the signing of a Sale and Purchase Agreement (SPA) and other related definitive agreements for the acquisition of 50% equity interest in Vega Telecom, Inc. (VTI), Bow Arken Holdings Company, Inc. (BAHCI) and Brightside Holdings Corporation (BHC) (collectively the Vega Group). The remaining 50% equity stake in the Vega Group was acquired by Philippine Long Distance Telephone Company (PLDT) under similar definitive agreements.

The total consideration for the transaction amounted to ₱52.8 billion for the purchase of the equity interest and advances of the Vega Group, which translated to ₱26.4 billion for Globe's 50% ownership interest. The Sale and Purchase Agreements also provided for the assumption of total liabilities of ₱17.2 billion by Globe and PLDT from May 30, 2016 and a price adjustment mechanism based on the variance in the amount of assumed liabilities from April 30, 2016 to be agreed upon by Globe, PLDT and the previous owners of the Vega Group at the end of the confirmatory due diligence period. As of December 31, 2016, the negotiated amount of ₱10.8 billion was finalized with the network suppliers where Globe's share amounted to ₱5.4 billion.

The fair values of the identifiable assets and liabilities of the Vega Group as of the date of acquisition have been determined provisionally. The fair values of the intangible assets and goodwill amounted to ₱38.8 billion and ₱18.0 billion, respectively. The intangible assets identified include the spectrum/frequency amounting to ₱37.8 billion. The provisional fair values of the intangible assets were determined by an independent appraiser using acceptable valuation techniques for the industry.

The acquisition provided Globe with access to certain frequencies assigned to the Vega Group through a co-use arrangement approved by the National Telecommunication Commission.

On various dates in 2016, the Parent Company purchased a total of 812,685 common shares of Globe for a total price of ₱1.3 billion. This increased the Parent Company's ownership interest over Globe by 0.6%.

The fair value of Globe shares held by the Parent Company amounted to ₱62.1 billion and ₱74.7 billion as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the notional goodwill resulting from the difference of the share in the net assets in Globe and its carrying value amounted to ₱2.9 billion.

The Parent Company also holds 60% ownership interest in Asiacom, which owns 158.5 million Globe preferred shares and 460.0 million AC preferred shares as of December 31, 2016 and

2015. The Parent Company does not exercise control over Asiacom and Globe since it is a joint venture with Singapore Telecommunications Limited (SingTel).

Investment in GNPower

On May 30, 2014, ACEHI through its wholly owned subsidiary, ACE Mariveles Power Ltd. Co (AMPLC), signed a sale and purchase agreement with Arlington Mariveles Netherlands Holding B.V. (AMNHB) to purchase the 17.02% limited partnership interest and 0.08% General Partnership interest in GN Power Mariveles Coal Plant Ltd. Co. (GMCP) for a consideration amounting to US\$163.9 million (₱7.2 billion).

On June 17, 2014, AMPLC and AMNHB closed the acquisition of the GMCP interests and entered into Deeds of Assignment to assign the GMCP Interests to the AMPLC, subject to fulfillment of certain post-closing conditions as required by the GMCP financing agreements.

Investment in OHI

On various dates in 2016, ALI acquired a 21.1% stake in OHI consistent with its thrust of expanding its operations to other areas within and outside of Metro Manila through partnerships. The acquisition was made possible via the purchase of shares from existing OHI shareholders which amounted to ₱7,320.7 million. For purposes of the provisional purchase price allocation, ALI Group assumed that the purchase price is equal to the proportionate share of the Group in the fair value of assets and liabilities of OHI. OHI owns 99.5% interest in Ortigas & Company Limited Partnership (OCLP), an entity engaged in real estate development and leasing businesses.

Investment in ECHI, BHI and BLC

ALI's 5.32% direct investment in BLC and 4.78% through Regent are accounted for using the equity method because ALI has significant influence over BLC.

On April 17, 2003, the following transactions were consummated pursuant to the terms and conditions of the Assignment Agreement (Agreement), dated February 8, 2003, among ALI, Evergreen Holdings, Inc. (EHI), Greenfield Development Corporation and Larouge, B.V. (Larouge), as amended, and the Agreement, dated November 23, 2002, among ALI, EHI and Neo Oracle Holdings, Inc. ([formerly Metro Pacific Corporation (MPC)] as amended:

- (a) The assignment to ALI and EHI of the rights and obligations of Larouge under the loan agreement between Larouge and MPC, pursuant to which, Larouge extended MPC a loan in the principal amount of US\$90.0 million, together with all the rights, title and interests of Larouge in the pledge constituted on 50.38% of the outstanding shares in BLC. The consideration paid by ALI and EHI for such assignment was approximately US\$90.0 million, subject in part to foreign exchange adjustment.
- (b) The assignment to ALI and EHI [acting in this instance through the joint venture corporation, Columbus Holdings, Inc. (Columbus)] of the controlling interests in BLC representing 50.38% of BLC's outstanding capital stock. The assignment was effected by MPC under a dacion en pago arrangement, and included an assignment of payables of BLC in the principal amount of ₱655.0 million together with its underlying security in the form of shares in Fort Bonifacio Development Corporation (FBDC) representing 5.6% of its outstanding capital stock.

The Agreement, as amended, also provides for the constitution of a pledge over 5% of BLC's unencumbered shares as security for contingent liabilities and breach of representation and warranties. The pledge lien over the 5% BLC shares shall continue to subsist until the third anniversary of the closing date.

ALI and EHI jointly hold the 50.38% equity interest in BLC through ECHI and BHI. ALI and EHI assigned the notes receivable from MPC to ECHI and BHI, which acquired the shares of stock of Columbus. Columbus directly owns the 50.38% interest in BLC. BLC owns 55% interest in

FBDC, the primary developer of certain areas in Fort Bonifacio Global City for residential, commercial and business development.

Columbus accounted for the acquisition of the 50.38% interest in BLC using the purchase method, resulting in a negative goodwill of ₱1.4 billion.

Subsequent to this, ALI and EHI acquired additional shares of BLC through a combination of direct acquisition and through its associates at varying dates as follows:

On July 31, 2008, the Group acquired, through ALI, Regent and Columbus, additional 4,360,178 shares of BLC from FBDC amounting to ₱689.0 million, equivalent to 7.66% ownership in BLC. In January and October 2009, a total of 2,295,207 BLC shares were acquired from Development Bank of the Philippines and MPC, pertaining to the pledged shares, through Columbus amounting to ₱362.6 million. This resulted in an increase in the Group's effective interest in BLC to 45.05% as of December 31, 2009.

In 2011, BLC redeemed its 3,485,050 preferred shares with an aggregate redemption price of ₱500.0 million.

As of December 31, 2016 and 2015, the negative goodwill resulting from the difference between the share in the net assets in BLC and its carrying value amounted to ₱1.8 billion.

Investment in SLTEC

SLTEC is a 50-50 joint venture between ACEHI and PHINMA Energy Corporation (PEC) incorporated for the construction and operation of the 135 MW power plant in Calaca, Batangas. The power plant employs the environment-friendly Circulating Fluidized Bed boiler technology. SLTEC will operate as a base load plant to serve the anticipated demand for power in the Luzon grid. On April 24, 2015 and February 26, 2016, Unit 1 and 2 have achieved Commercial Operations Date (COD), respectively. Upon COD, PEC entered into a 15-year power purchase agreement to purchase all of the generated output of SLTEC.

On December 20, 2016, ACEHI sold 5,374,537 common shares and 5,374,537 preferred shares in SLTEC to Axia Power Holdings Philippines Corp. (Axia Power), a subsidiary of Marubeni Corporation, which resulted in a net gain of ₱1.2 billion. The transaction resulted in the decrease in ownership interest of ACEHI in SLTEC from 50% to 35%.

As of December 31, 2016 and 2015, ACEHI's total capital commitment on its investment in SLTEC amounted to nil and ₱105.0 million, respectively.

Investment in Light Rail Manila Holdings, Inc. (LRMHI)

LRMHI was incorporated on June 23, 2014, as a holding company for the LRT 1 Cavite extension project. LRMHI holds 70% of the total equity of Light Rail Manila Corporation (LRMC), the project company established for the construction, operation and maintenance of the LRT 1 Cavite extension project. AC Infra owns 50% of the shares of LRMHI that ultimately resulted to a 35% interest in LRMC.

On September 12, 2015, LRMC took over the operations of LRT Line 1. In December 2015, LRMC started its rehabilitation of certain LRT 1 stations. Construction of the Cavite extension is expected to commence once right of way is delivered by the Grantors and is targeted to complete four years thereafter.

As of December 31, 2016 and 2015, AC Infra's total equity investment commitment for the LRT 1 project amounted to ₱6.6 billion.

Investment in Light Rail Manila Corporation (LRMC)

On September 12, 2015, Light Rail Manila Corporation (LRMC), the concessionaire for the operations, maintenance and extension of LRT1, took over the operations and maintenance of the LRT Line 1 from the Light Rail Transit Authority and DOTC.

On February 11, 2016, LRMC signed the following:

- i. Engineering, Procurement and Construction agreement with Bouygues Travaux Publics Philippines, Inc., Alstom Transport S.A. and Alstom Transport Construction Philippines, Inc. for the LRT 1 Cavite Extension project.
- ii. 15-year Omnibus Loan and Security Agreement with various local banks aggregating to ₱24.0 billion to be used for LRT 1 Cavite Extension project and rehabilitation of the existing LRT 1 system in the amount of ₱15.3 billion and ₱8.7 billion, respectively.

As of December 31, 2016 and 2015, LRMHI's total equity investment to LRMC amounted to nil and ₱1,750.0 million, respectively.

Investment in CDPEI

CDPEI was incorporated on February 20, 2014 and is a 50-50 joint venture between ALI and Aboitiz Land, Inc. CDPEI's main purpose is to create a mixed-use commercial and residential district with the 15.4 hectare property in Subangdaku, Mandaue. On April 11, 2014, ALI assigned 10% and 5% of its equity interest in CDPEI to CHI and Cebu Property Ventures Development Corporation (CPVDC), respectively. CHI and CPVDC are subsidiaries of ALI.

Investment in GNP Dinginin

On May 21, 2014, ACEHI, through its subsidiary Dinginin Power Holdings Ltd. Co. (DPHLC), acquired 50.0% interest in GNP Dinginin. GNP Dinginin was registered primarily to develop, construct, operate and own an approximately 2x600 MW (net) supercritical coal-fired power plant located in Mariveles, Bataan.

Investment in PWHC

On July 12, 2013, ACEHI, through PWHC, signed an Investment Framework Agreement and Shareholders' Agreement with UPC Philippines Wind Holdco I B.V. (UPC), a wholly-owned company of UPC Renewable Partners and the Philippine Investment Alliance for Infrastructure fund (PINAI), comprised of the Government Service Insurance System, Langoer Investments Holding B.V. and Macquarie Infrastructure Holdings (Philippines) Pte. Limited, to develop wind power projects in Ilocos Norte through North Luzon Renewable Energy Corp. (NLREC) as their joint venture company. An initial equity investment has been agreed for the first 81 MW project with an investment value of approximately US\$220 million with ACEHI funding 64% of equity, PINAI 32% and UPC 4%.

The 81MW wind power project received a declaration of commerciality on June 17, 2013 from the Department of Energy (DOE).

In 2014, the DOE issued a Certificate of Endorsement for FIT for the wind power project after it was commissioned and started commercial operations (see Note 38).

On April 13, 2015, the wind power project received their Feed-in-Tariff Certificate of Compliance (FIT COC) from the Energy Regulatory Commission (ERC). This entitled the wind power project to a feed-in-tariff (FIT) of ₱8.53 per kilowatt hour for a period of 20 years from November 11, 2014 to November 10, 2034.

On various dates in 2015, PWHC redeemed its outstanding preferred shares from ACEHI and Luzon Wind Energy Holdings B.V. (Luzon Wind), a wholly-owned subsidiary of BHL through Ayala International Holdings, Ltd. (AIHL), at par for a total redemption price of ₱1.5 billion and ₱1.1 billion, respectively.

On September 2, 2015, ACEHI sold 172,419 PWHC common shares to Luzon Wind for a total selling price of US\$44.1 million. Subsequent to the transaction, AIHL sold its investment in Luzon Wind to Diamond Generating Asia, Limited (DGA) for US\$58.3 million. The transaction resulted to a recognition of a net gain on sale of investments amounting to ₱1.5 billion (see Note 23). Following the transaction, ACEHI's ownership interest in PWHC decreased from 75% to 42.9%.

As of December 31, 2016 and 2015, ACEHI's total capital commitment on its investments in PWHC amounted to ₱1,240.0 million and ₱299.0 million, respectively.

Investment in Rize-Ayalaland

Rize-Ayalaland (Kingsway) GP, Inc. was incorporated on January 25, 2013 under the laws of British Columbia, Canada. ALI's effective ownership is 49% through its Vancouver-based subsidiary, AyalaLand Real Estate Investments Inc.

Investment in Alveo-Federal Land Communities, Inc. (AFLCI)

Alveo signed a Joint Venture Agreement (JVA) with Federal Land, Inc. last April 29, 2015 for equal ownership over AFLCI. The JV is for the development of project Lexus located in Laguna near Nuvali.

Investment in Generika Group of Companies

On July 15, 2015, AHCHI acquired a 50% ownership interest in the Generika Group for a total consideration of ₱400.0 million. In 2016, AHCHI paid the final installment of the purchase price. Generika drugstores were established to address the need for quality and affordable medicines, and promote the use of generic drugs in the context of high prices of medicines in the Philippines. In 2016, AHCHI infused additional capital to Novelis Solutions, Inc. and Pharm Gen Ventures Corporation amounting to ₱13.5 million and ₱25.0 million, respectively.

Investment in MGHI

In July 2013, ALI entered into an agreement with the Mercado Family to acquire Whiteknight Holdings, Inc. (WHI), a 33% equity stockholder of MGHI. The acquisition of WHI allowed ALI to build a strategic partnership with the Mercado Group and support MGHI's future growth. This partnership enhanced the potential of ALI's development of mixed-use communities by offering the critical component of medical services to complement the residential, shopping centers, office and hotel developments therein.

Investment in AFPI

AFPI was incorporated on February 10, 2014 and is engaged in the design, construction, installation and operation and maintenance of a contactless automated fare collection system for public utility transport facilities. AC Infra, Globe and BPI owns 10%, 20% and 20%, respectively of the total shares and voting interest of AFPI.

AFPI is the project company that will develop and operate the ₱1.7 billion contactless Automated Fare Collection Systems (AFCS) project awarded by the Department of Transportation and Communications (DOTC) to the AF consortium last January 30, 2014. On March 31, 2014, the Concession and Accession Agreements were signed and executed.

On November 17, 2015, the BOD of AFPI approved the increase of its authorized capital stock from ₱2,550.0 million, divided into 2,550.0 million shares with ₱1.00 par value per share, to ₱5,000.0 million, divided into 5,000.0 million shares with ₱1.00 par value per share. AC Infra subscribed to 61.25 million shares amounting to ₱61.3 million. On February 26, 2016, AC Infra made a ₱65.0 million equity infusion to AFPI where ₱21.6 million was used to fully settle the previous subscription and ₱43.4 million for the partial payment of the ₱61.3 million subscription.

As of December 31, 2016, the remaining subscription payable of AC Infra to AFPI is ₱17.9 million for infusion on the first quarter of 2017.

In 2016, AFPI deployed its top-up services with the Bayad Centers and rolled out the use of beep

cards in Bonifacio Global City buses. AFPI also forged a partnership with FamilyMart for card reloading and payment of goods purchased.

As of December 31, 2016 and 2015, AC Infra's total equity investment commitment for the project amounted to ₱500.0 million.

Investment in Northwind

On March 16, 2011, ACEHI entered into a share purchase agreement with Moorland Philippines Investments, Inc., Presage Holdings Limited, Viage Holdings Limited and BDO Capital and Investment Corporation to acquire 100% ownership of Moorland, Viage and Presage. The acquisition of Moorland, Viage and Presage gave ACEHI an indirect 50.0% effective stake in Northwind. Northwind owns and operates the 33-MW wind farm located in Bangui Bay, Ilocos Norte. The voting interest of ACEHI in Moorland, Viage and Presage is in proportion to its ownership interest.

On November 21, 2016, ACEHI Group purchased an additional 17.8% stake in Northwind amounting to ₱355.9 million. This brought ACEHI's ownership interest in Northwind from 50.0% to 67.8%. Accordingly, Northwind financial statements were consolidated on a line-by-line basis with that of the Group as of December 31, 2016 (see Note 24). The purchase of additional shares resulted in a gain of ₱149.8 million recognized in the consolidated statement of income under "Other income" (see Note 23).

Investment in MCT

On April 6, 2015, ALI, through its wholly-owned subsidiary, Regent Wise Investments Limited (Regent Wise), acquired 9.16% of the shares of MCT through a private placement for a total amount of US\$43 million (₱1.9 billion). MCT is a property development company specializing in mixed-use projects which include retail, offices, hotels, and mid-to-affordable residences.

On May 12, 2015, Regent Wise entered into call option agreements with the founders and majority shareholders of MCT that will give ALI the opportunity to increase its shareholdings in MCT up to a maximum of 32.95%. The call options are exercisable for one month beginning October 7, 2015.

On October 15, 2015, Regent Wise exercised its option to acquire additional shares of MCT for a total consideration of US\$92.0 million. The transaction increased the ownership interest in MCT from 9.16% to 32.95%.

As of December 31, 2016 and 2015, the notional goodwill resulting from the difference between the share in the net assets in MCT and its carrying value amounted to ₱3.6 billion.

Investment in Thu Duc Water B.O.O. Corporation (TDW)

On October 12, 2011, Thu Duc Water Holdings Pte. Ltd. (TDWH) (a subsidiary of MWC) and CII entered into a share sale and purchase agreement whereby CII sold to TDWH its 49% interest (2.45 million common shares) in TDW. On December 8, 2011, TDWH completed the acquisition of CII's interest in the common shares of TDW after which TDWH obtained significant influence in TDW.

The acquisition cost of the investment amounted to ₱1.8 billion (VND858.0 billion). The investment in TDW include notional goodwill amounting to ₱1.4 billion.

Investment in Kenh Dong Water Supply Joint Stock Company (KDW)

On May 17, 2012, Kenh Dong Water Holdings Pte. Ltd. (KDWH), a subsidiary of MWC, entered into a Share Purchase Agreement with CII for the purchase of 47.35% of CII's interest in KDW. The payment for the shares will be done in two tranches, with additional contingent considerations subject to the fulfillment of certain conditions precedent for a total purchase price of ₱1.7 billion.

The consideration paid by MWC for its investment in KDW amounted to ₱1.6 billion (VND785.2 billion). Contingent consideration included in the purchase price allocation amounted

to ₱95.9 million (VND44.5 billion). The share purchase transaction was completed on July 20, 2012 and KDWH obtained significant influence in KDW.

In 2013, KDW finalized its purchase price allocation which resulted in a notional goodwill amounting to ₱1.4 billion. MWC also received ₱62.9 million from KDWH as indemnification for the damages resulting from the delay in operations.

On December 31, 2015, KDWH reversed its previously recognized contingent liability amounting to ₱96.0 million (VND44.5 billion).

Investment in Saigon Water Infrastructure Joint Stock Company (SWI)

On October 8, 2013, Manila Water South Asia Holdings Pte. Ltd (MWSAH) (a subsidiary of MWC) entered into an Investment Agreement with SWI to acquire a 31.47% ownership interest. The acquisition cost of the investment amounted to ₱642.8 million (VND310.5 billion). The share subscription transaction was completed on October 8, 2013 and MWSAH obtained significant influence in SWI.

The investment in SWI includes notional goodwill amounting to ₱288.8 million as of December 31, 2016 and 2015. There were no adjustments made to the fair values of the net assets as of acquisition date.

Investment in VinaPhil

CII and the Group have entered into an agreement to jointly invest in VinaPhil Technical Infrastructure Investment Joint Stock Company ("VinaPhil"), a corporation established under Vietnamese law to invest in infrastructure projects in Vietnam. VinaPhil is 49%-owned by the Group with the remainder owned by CII and other Vietnamese investors. VinaPhil has an initial charter capital of VND900 billion (US\$43 million).

In 2014, the Group, together with CII and other Vietnamese investors, proportionately acquired additional shares in VinaPhil wherein the Group's shares amounted to VND15.4 billion (US\$0.7 million). The additional investment did not alter the ownership structure of VinaPhil. VinaPhil holds 9% interest in CII as of December 31, 2014.

In 2015, VinaPhil bought back shares proportionately to each shareholder wherein the Group's share amounted to VND15.3 billion (US\$32.1 million). The share buy back did not alter the ownership structure of VinaPhil.

Investment in Cu Chi Water Supply Sewerage Company Ltd. (Cu Chi Water)

On October 10, 2015, MWSAH executed a Capital Transfer Agreement with SWI for the acquisition of 24.5% of the charter of Cu Chi Water in the amount of ₱318.2 million (VND154.4 billion).

Investment in Tianjin Eco-City Ayala Land Development Co., Ltd.

Regent Wise, a wholly-owned subsidiary of ALI, signed an Equity Joint Venture Agreement with Sino-Singapore Tianjin Eco-City Investment and Development Co., Ltd for the development of a 9.78 hectare residential project in China. The project is located in Tianjin Eco-City, a 3,000 hectare collaboration between the Chinese and Singaporean governments which will showcase future direction of urban planning and sustainable development.

Investment in Integreon, Inc. (Integreon)

AIVPL, through its subsidiary Liveit, finalized the sale of its investment in Integreon on September 2, 2016. Integreon was sold through a merger with a BVI company, Anchorage Merger Sub Ltd., a wholly owned company of another BVI company, IGL Services Ltd., wherein Integreon, Inc. will be the surviving entity.

As a result of the transaction, Liveit exercised its right to exchange all of its shares of stock in Integreon for a consideration of US\$19.2 million, which significantly represents collection of loan

principals and interests. The consideration will be received in tranches with the following terms: US\$7.9 million was received at the date of the closing of the sale; US\$10.5 million will be due on the fourth year anniversary of the transaction; and US\$0.75 million was placed in escrow. The Group recognized losses totaling to US\$3.81 million, US\$2.76 million from impairment of value of the investment, US\$1.05 million relates to the difference between the nominal value and present value of the US\$10.5 million notes receivable (see Note 23).

Investment in APEC Schools

In 2014, AEI entered into a joint venture agreement with UK-based Pearson Affordable Learning Fund Limited (PAFL), an affiliate of Pearson PLC, the world's leading learning company, to roll out a chain of affordable private high schools under APEC Schools. AEI owns 60% of APEC Schools and Pearson owns the balance of 40% share.

AEI's capital infusion to APEC in 2016 and in 2015 amounted to ₱139.4 million and ₱85.1 million, respectively. This capital was used by APEC Schools to fund additional school sites and its operations.

Others

Investment in BPI Globe BankO (BankO)

On August 27, 2015, the Parent Company, Globe and BPI agreed to turn over full ownership of BankO to BPI. In July 2016, the Bangko Sentral ng Pilipinas (BSP) Monetary Board has approved the sale of BankO shares to BPI. In September 2016, the Parent Company sold its 20% interest in BankO for a total consideration of ₱13.1 million which resulted to a loss on sale of ₱7.6 million (see Note 23).

The rollforward of accumulated equity in net earnings follow:

	2016	2015
Balance at beginning of year	₱30,518,014	₱27,186,995
Equity in net earnings during the year	18,153,893	15,038,015
Dividend income	(8,454,379)	(11,706,996)
Balance at end of year	₱40,217,528	₱30,518,014

13. Investment Properties

The movements in investment properties follow:

2016

	Land	Building	Construction- in-Progress	Total
(In Thousands)				
Cost				
Balance at beginning of the year	₱13,171,871	₱81,399,102	₱9,854,403	₱104,425,376
Additions	1,459,876	2,821,214	24,167,927	28,449,017
Additions through business combination (see Note 24)	801,288	760,810	-	1,562,098
Transfers	687,867	1,967,691	(1,208,418)	1,447,140
Disposals	(220,465)	(556,640)	-	(777,105)
Retirement	-	(20,546)	-	(20,546)
Balance at end of the year	15,900,437	86,371,631	32,813,912	135,085,980
Accumulated depreciation and amortization and impairment loss				
Balance at beginning of the year	₱26,616	₱20,729,268	₱-	₱20,755,884
Depreciation and amortization (Note 23)	-	2,837,160	-	2,837,160
Disposals	-	(1,896)	-	(1,896)
Transfers	-	(45,495)	-	(45,495)

(Forward)

	Land	Building	Construction- in-Progress	Total
			(In Thousands)	
Retirement	₱–	(₱3,144)	₱–	(₱3,144)
Impairment losses	–	12,834	–	12,834
Others	–	613,993	–	613,993
Balance at end of the year	26,616	24,142,720	–	24,169,336
Net book value	₱15,873,821	₱62,228,911	₱32,813,912	₱110,916,644

2015

	Land	Building	Construction- in-Progress	Total
			(In Thousands)	
Cost				
Balance at beginning of the year	₱11,642,833	₱71,932,682	₱5,936,778	₱89,512,293
Additions	2,130,718	6,330,850	6,267,913	14,729,481
Additions through business combination (see Note 24)	–	1,584,929	–	1,584,929
Transfers	(601,114)	2,460,708	(2,350,288)	(490,694)
Disposals	(566)	(910,067)	–	(910,633)
Balance at end of the year	13,171,871	81,399,102	9,854,403	104,425,376
Accumulated depreciation and amortization and impairment loss				
Balance at beginning of the year	26,616	18,161,432	–	18,188,048
Depreciation and amortization (Note 23)	–	2,790,383	–	2,790,383
Transfer	–	40,511	–	40,511
Disposals	–	(263,058)	–	(263,058)
Balance at end of the year	26,616	20,729,268	–	20,755,884
Net book value	₱13,145,255	₱60,669,834	₱9,854,403	₱83,669,492

Certain parcels of land are leased to several individuals and corporations. Some of the lease contracts provide, among others, that within a certain period from the expiration of the contracts, the lessee will have to demolish and remove all improvements (such as buildings) introduced or built within the leased properties. Otherwise, the lessor will cause the demolition and removal thereof and charge the cost to the lessee unless the lessor occupies and appropriates the same for its own use and benefit.

Construction in progress pertain to buildings under construction to be leased as retail and office spaces upon completion.

The aggregate fair value of the Group's investment properties amounted to ₱294.7 billion in 2016 and ₱253.2 billion in 2015. The fair values of the investment properties were arrived at using the Market Data Approach and Cost Approach for land and building, respectively, and were determined by independent professionally qualified appraisers.

The values of the land and buildings were arrived at using the Market Data Approach and Cost Approach. Market Data Approach provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available. This approach was used for the land and condominium unit as it is commonly used in the property market since inputs and data for this approach are available. Cost Approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction. The valuation used Cost Approach using the Depreciated Replacement Cost Method. This was used by computing for the replacement cost of the assets and applying appropriate adjustments for physical deterioration, functional obsolescence and economic obsolescence.

For Market Data Approach, the higher the price per sqm., the higher the fair value. For Cost Approach, whose unobservable inputs include price information on construction materials, labor and installation and indirect costs, the higher these costs, the higher the fair value.

Interest capitalized amounted to ₱129.55 million, ₱39.2 million and ₱76.1 million and in 2016, 2015 and 2014, respectively. The capitalization rates are 3.20-4.75%, 4.75-5.32% and 5.49% in 2016, 2015 and 2014, respectively.

Consolidated rental income from investment properties amounted to ₱21.3 billion in 2016, ₱18.9 billion in 2015 and ₱16.4 billion in 2014. Consolidated direct operating expenses arising from the investment properties amounted to ₱4.4 billion in 2016, ₱4.1 billion in 2015 and ₱4.1 billion in 2014, respectively.

Depreciation and amortization expense pertaining to investment properties amounted to ₱2.8 billion, ₱2.8 billion and ₱2.9 billion in 2016, 2015 and 2014, respectively (see Note 23).

14. Property, Plant and Equipment

The movements in property, plant and equipment follow:

	2016						
	Land, Buildings and Improvements (Note 19)	Machinery and Equipment	Hotel Property and Equipment (Note 19)	Furniture, Fixtures and Equipment	Transportation Equipment	Construction-in-Progress	Total
	(In Thousands)						
Cost							
At January 1	₱13,207,591	₱16,103,455	₱15,267,877	₱7,757,467	₱3,652,428	₱6,546,162	₱62,534,980
Additions	2,679,708	4,402,234	434,557	1,342,119	810,659	15,740,862	25,410,139
Additions through consolidation of club shares (Note 8)	319,880	–	–	1,498,349	–	–	1,818,229
Additions through business combination (Note 24)	143,778	4,136,289	–	53,485	9,237	39,310	4,382,099
Disposals	(42,275)	(776,111)	(1,578,554)	(125,604)	(252,416)	(3,249)	(2,778,209)
Transfers	(149,365)	200,727	(2,106,051)	101,295	(29,719)	(1,368,756)	(3,351,869)
Exchange differences	228,678	192,579	–	75,916	3,476	12,559	513,208
Others	21,858	23,347	–	(2,567)	(2,101)	957,350	997,887
At December 31	16,409,853	24,282,520	12,017,829	10,700,460	4,191,564	21,924,238	89,526,464
Accumulated depreciation and amortization and impairment loss							
At January 1	4,645,590	7,470,763	3,718,224	5,515,726	1,451,435	88,753	22,890,491
Depreciation and amortization for the year (Note 23)	1,228,953	2,446,723	376,433	934,327	408,473	–	5,394,909
Impairment loss	3,079	82,507	–	46,880	–	–	132,466
Disposals	(314,007)	(718,771)	(1,415,303)	(14,194)	(187,883)	–	(2,650,158)
Exchange differences	128,643	86,664	–	40,450	99	–	255,856
Transfers	–	1,252	(616,093)	43,270	–	–	(571,571)
At December 31	5,692,258	9,369,138	2,063,261	6,566,459	1,672,124	88,753	25,451,993
Net book value	₱10,717,595	₱14,913,382	₱9,954,568	₱4,134,001	₱2,519,440	₱21,835,485	₱64,074,471
	2015						
	Land, Buildings and Improvements (Note 19)	Machinery and Equipment	Hotel Property and Equipment (Note 19)	Furniture, Fixtures and Equipment	Transportation Equipment	Construction-in-Progress	Total
	(In Thousands)						
Cost							
At January 1	₱10,372,729	₱12,917,226	₱14,514,266	₱6,244,456	₱2,849,707	₱910,009	₱47,808,393
Additions	2,787,802	3,935,839	754,989	1,734,637	418,472	5,674,266	15,306,005
Additions through business combination (Note 24)	812,518	–	–	23,542	721,411	5,740	1,563,211
Disposals	(75,102)	(806,666)	(2,045)	(216,461)	(330,803)	(5,928)	(1,437,005)
Transfers	(808,602)	(54,892)	667	(54,555)	(6,751)	(29,150)	(953,283)
Exchange differences	118,246	111,948	–	25,848	392	(8,775)	247,659
At December 31	13,207,591	16,103,455	15,267,877	7,757,467	3,652,428	6,546,162	62,534,980
Accumulated depreciation and amortization and impairment loss							
At January 1	3,895,755	6,447,774	3,253,737	4,868,847	1,389,135	–	19,855,248
Depreciation and amortization for the year (Note 23)	741,715	1,743,123	522,673	790,986	341,318	–	4,139,815
Impairment loss	–	–	–	–	–	88,753	88,753
Disposals	(69,052)	(760,021)	(801)	(169,340)	(275,745)	–	(1,274,959)
Exchange differences	77,172	39,887	–	23,884	(3,273)	–	137,670
Transfers	–	–	(57,385)	1,349	–	–	(56,036)
At December 31	4,645,590	7,470,763	3,718,224	5,515,726	1,451,435	88,753	22,890,491
Net book value	₱8,562,001	₱8,632,692	₱11,549,653	₱2,241,741	₱2,200,993	₱6,457,409	₱39,644,489

Construction in progress pertains to the construction and development of the 4x135 MW (net) coal-fired power generating facility and private port facility of Kauswagan Power Holdings Ltd. Co.

(KPHLC), a subsidiary of ACEHI, located in the Barangays of Tacub, Libertad in the Municipality of Kauswagan, Province of Lanao del Norte.

The carrying values of the Group's equipment under finance lease amounted to nil as of December 31, 2016 and 2015 (see Note 30).

As of December 31, 2016 and 2015, the carrying value of IMI Group's pledged equipment with BNP Paribas amounted to US\$1.4 million (₱65.9 million).

Consolidated depreciation and amortization expense on property, plant and equipment amounted to ₱5.4 billion in 2016, ₱4.1 billion in 2015 and ₱3.1 billion in 2014 (see Note 23).

In 2016, Speedy-Tech Electronics (Jiaxing) Co., Ltd. (STJX), a subsidiary of IMI, claimed an insurance amounting to US\$0.70 million as proceeds for the fixed assets damaged by a fire in January 2016. The net book value of the affected assets amounted to US\$0.44 million.

15. Service Concession Assets and Obligations

Service Concession Assets (SCA)

The movements in this account follow:

	2016	2015
	(In Thousands)	
Cost		
At January 1	₱103,499,840	₱96,337,398
Additions during the year		
Construction and rehabilitation works	6,849,813	5,905,881
Transfers	20,836	1,100,467
Adjustments	116,816	154,845
Local component cost	2,919	1,249
At December 31	110,490,224	103,499,840
Accumulated amortization		
At January 1	24,671,000	21,500,765
Amortization (Note 23)	3,396,975	3,170,235
At December 31	28,067,975	24,671,000
Net book value	₱82,422,249	₱78,828,840

SCA consists of the present value of total estimated concession fee payments, including regulatory costs and local component costs, pursuant to the Group's concession agreements and the revenue from rehabilitation works which is equivalent to the related cost for the rehabilitation works covered by the service concession arrangements.

The Parent Company has a concession agreement with the DPWH while the MWC Group has concession agreements with MWSS, PGL, TIEZA and CDC. These concession agreements set forth the rights and obligations of the Parent Company and MWC Group throughout the concession period (see Note 35).

Total interest and other borrowing costs capitalized as part of SCA amounted to ₱654.3 million and ₱513.2 million in 2016 and 2015, respectively. The capitalization rates used range from 2.62% to 9.15% in 2016 and 6.24% to 8.10% in 2015.

Variation Order

On February 25, 2013, the DPWH sent a Variation Notice to Perconsult International, the Project's Independent Consultant (IC), instructing the IC to advise the Parent Company to submit a request for Prior Clearance and Variation Proposal in connection with TRB's directive to include in the

Project's design a provision for future expansion of SLEX to accommodate possible fifth lane for both directions at the Filinvest to Susana Heights Section. IC, in its letter to the Project's Management Consultant dated March 4, 2013, effectively directed the Parent Company to comply with the DPWH letter dated February 25, 2013.

Such proposal was made in accordance with the Concession Agreement which provides that in the event the DPWH initiates a variation, the Parent Company as concessionaires shall prepare a proposal setting out the necessary details and additional cost estimates.

On April 10, 2014, the Parent Company submitted a variation proposal to the DPWH and sought for approval of (1) Direct payment of the construction cost for the works related to the provisioning of the SLEX future expansion amounting to ₱251.2 million inclusive of VAT and (2) Extension of the concession period by 3 ½ years due to the delays encountered as a result of the variation order.

DPWH, in its letter to IC dated February 6, 2015, advised the same that it has issued the approved Prior Clearance/Authority to Issue Variation Order No. 1 with a cap of ₱223.0 million.

On May 27, 2015, the DPWH approved the adjusted cost of the variation order in the amount of ₱223.0 million (which was rectified by the Bureau of Construction) variation proposal and endorsed it to the National Economic and Development Authority (NEDA) for information and appropriate action. Accordingly, the Parent Company reclassified the amount of ₱223.0 million from service concession account to receivables from the Government upon DPWH's approval of the variation order.

NEDA in its meeting held on July 15, 2015 confirmed the recommendation of the variation order.

On May 31, 2016, variation order for the project amounting to ₱16.6 million was reclassified to service concession assets under investment in toll road. Also, various reimbursement for expenses incurred during the acquisition of the right of way amounting to ₱1.1 million was received from the DPWH under the Reimbursement Agreement.

On November 21, 2016, the IC recommended to the DPWH that a Certificate of Final Completion be issued for the project. Subsequently, DPWH, on its letter dated December 21, 2016, issued the certificate of completion. As of December 31, 2016, total outstanding receivable balance from DPWH is ₱215.9 million.

Service Concession Obligation

Provision for maintenance obligation of MCX

Provision for maintenance obligation pertains to the present value of the estimated contractual obligations of the Parent Company to undertake the financing of the periodic maintenance, which includes renewal and restoration of toll roads and toll road facilities prior to turnover of the asset to the Grantor, DPWH.

Under the Minimum Performance Standards and Specifications (MPSS), the Parent Company has the obligation to perform routine and periodic maintenance. Routine maintenance pertains to day-to-day activities to maintain the road infrastructures while periodic maintenance comprises of preventive activities against major defects and reconstruction. Moreover, the Parent Company is required to perform maintenance and repair work in a manner that complies with the MPSS once it hands the asset back to the Grantor. The provision is a product of the best estimate of the expenditure required to settle the obligation based on the usage of the road during the operating phase. The amount is reduced by the actual obligations paid for heavy maintenance of the service concession asset.

PGL Concession Fees

Under Laguna AAA Water Corporation's (LAWC) concession agreement with PGL, LAWC is required to pay concession fees to PGL computed as a percentage of water sales as follows:

<u>Operational Period</u>	<u>Percentage of Water Sales</u>
Years 1 to 5	4%
Years 6 to 10	3%
Years 11 to 25	2%

Advance payment to PGL was made for the said concession fees and 70% of the annual concession fees is applied against the said advances. The remaining 30% of the annual concession fees is expensed in the period they are incurred. Advances as of December 31, 2016 and 2015 amounted to ₱84.4 million and ₱100.6 million, respectively.

TIEZA Concession Fees

The aggregate concession fee pursuant to BIWC's concession agreement with TIEZA is equal to the sum of the following:

- a. Servicing the aggregate peso equivalent of all liabilities of BWSS as of commencement date;
- b. 5% of the monthly gross revenue of BIWC, inclusive of all applicable taxes which are for the account of BIWC.
- c. Payment of annual operating budget of the TIEZA Regulatory Office starting 2010. For 2010 and 2011, the amount shall not exceed ₱15.0 million. For the year 2012 and beyond, BIWC shall pay not more than ₱20.0 million, subject to annual CPI adjustments.

In addition, advance payment of ₱60.0 million was provided to BIWC which shall be offset against the annual concession fees amounting to 5% annual gross revenue of BIWC, within a period of 10 years from the signing of the concession agreement or until fully paid. Any amount payable after application of the advance payment will be expensed in the period this is incurred. The advances were fully amortized in 2015.

CDC Concession Fees

The aggregate concession fee pursuant to the CWC's concession agreement with CDC is equal to the sum of the following:

- a. Annual franchise fee of ₱1.5 million;
- b. Semi-annual rental fees of ₱2.8 million for leased facilities from CDC.

As a result of the extension of the Concession Agreement of CWC, payment of rental fees on the CDC existing facilities was extended by an additional 15 years from October 1, 2025 to October 1, 2040.

MWSS Concession Fees

The aggregate concession fees of MWC pursuant to the concession agreement are equal to the sum of the following:

- a. 10% of the aggregate peso equivalent due under any MWSS loan which has been disbursed prior to the Commencement Date, including MWSS loans for existing projects and the Umiray Angat Transbasin Project (UATP), on the prescribed payment date;
- b. 10% of the aggregate peso equivalent due under any MWSS loan designated for the UATP which has not been disbursed prior to the Commencement Date, on the prescribed payment date;

- c. 10% of the local component costs and cost overruns related to the UATP;
- d. 100% of the aggregate peso equivalent due under MWSS loans designated for existing projects, which have not been disbursed prior to the Commencement Date and have been either awarded to third party bidders or elected by MWC for continuation; and
- e. 100% of the local component costs and cost overruns related to existing projects;
- f. MWC's share in the repayment of MWSS loan for the financing of new projects; and
- g. One-half of MWSS annual corporate budget.

In March 2010, MWSS entered into a loan agreement with The Export-Import Bank of China to finance the Angat Water Utilization and Aqueduct Improvement Project Phase II (the Angat Project). Total loan facility amounted to US\$116.6 million with maturity of twenty (20) years including a 5-year grace period. Interest rate is 3% per annum.

MWSS subsequently entered into a Memorandum of Agreement (MOA) with MWC and Maynilad to equally shoulder the repayment of the loan with such repayment to be part of the concession fees.

In 2016, MWC paid MWSS ₱500.0 million as compensation for additional water allocation in the Angat reservoir. The payment made shall be part of the MWC's business plan and shall be considered in the next rate rebasing exercise.

The schedule of undiscounted future concession fee payments follows:

Year	Foreign Currency Denominated Loans (Translated to USD)	Peso Loans/ Project Local Support	Total Peso Equivalent*
2017	US\$8,835,687	₱395,714,907	₱835,025,265
2018	8,816,322	395,714,907	834,062,437
2019	8,721,279	395,714,907	829,336,899
2020	8,312,760	395,714,907	809,025,334
2021 onwards	50,348,680	6,331,438,509	8,834,774,879
	US\$85,034,728	₱7,914,298,137	₱12,142,224,814

*Peso equivalent is translated using the PDEX closing rate as of December 31, 2016 amounting to ₱49.72 to US\$1.

Estimated concession fee payments on future concession projects, excluding MWC Group's share in current operating budget is still not determinable. It is only determinable upon either loan drawdown and actual construction of the related concession projects as a percentage of revenues or as a fixed amount.

Goodwill pertains to the excess of the acquisition cost over the fair value of the identifiable assets and liabilities of companies acquired by the Group.

Impairment Testing of Goodwill for the Group

IMI Group

Goodwill acquired through business combinations have been allocated to the particular CGUs of IMI for impairment testing as follows (amounts in thousands):

	2016		2015	
	In US\$	In Php*	In US\$	In Php*
VIA	US\$49,168	₱2,444,633	US\$–	₱–
Speedy Tech Electronics, Ltd. (STEL)	45,128	2,243,764	45,128	2,123,724
IMI Philippines	1,098	54,593	441	20,753
IMI CZ	650	32,318	650	30,589
IMI USA	–	–	657	30,918
	US\$96,044	₱4,775,308	US\$46,876	₱2,205,984

*Translated using the PDEX closing exchange rate at the statement of financial position date (US\$1:₱49.72 in 2016 and US\$1:₱47.06 in 2015).

VIA, STEL Group, IMI USA and IMI CZ

The recoverable amounts of these CGUs have been based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The post-tax discount rates applied to cash flow are as follows:

	2016	2015
VIA	11.20%	–
STEL	11.89%	13.36%
IMI CZ	9.56%	8.79%
IMI USA	–	10.87%

Cash flows beyond the five-year period are extrapolated using a steady growth rate of 1%, which does not exceed the compound annual growth rate (CAGR) for the global electronic manufacturing services (EMS) industry.

Key assumptions used in value in use calculations

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

- Forecasted gross margins - Gross margins are based on the mix of business model arrangements with the customers.
- Revenue - Revenue forecasts are management's best estimates considering factors such as industry CAGR, customer projections and other economic factors.
- Pre-tax discount rates - Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. This is also the benchmark used by management to assess operating performance. The discount rate calculation is based on the specific circumstances of the IMI Group and its operating segments and is derived from its weighted average cost of capital.

No impairment loss was assessed for VIA, STEL and IMI CZ in 2016, 2015 and 2014.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use of VIA, STEL and IMI CZ, management, IMI Group management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the CGUs to exceed their recoverable amount.

IMI Philippines and IMI USA

This pertains to the goodwill arising from the purchase of M. Hansson Consulting, Inc. (MHCI) in 2006. MHCI was subsequently merged with IMI Philippines as testing and development department.

The recoverable amount was based on the market price of the shares of IMI Philippines at valuation date less estimated costs to sell.

The impairment test for the goodwill of IMI USA was previously based on value-in-use calculations using cash flow projections covering a 5-year period. In 2016, IMI Group changed the basis of the recoverable amount using the market price of the shares of IMI Philippines at valuation date less estimated costs to sell.

IMI Group re-assessed the basis of recoverable amounts of the goodwill of IMI USA. The assessment resulted to change in activities of the CGU from an operating segment to a global support entity.

The comparison of the recoverable amounts and the carrying amounts resulted to no impairment loss in 2016, 2015 and 2014.

MWC and Philwater

Goodwill from the acquisition of MWC and Philwater amounted to ₱393.8 million as of December 31, 2016 and 2015. The recoverable amount in 2016 and 2015 was based on the market price of MWC shares at valuation date less estimated cost to sell. The comparison of the recoverable amount and the carrying amount resulted in no impairment.

CWC

Goodwill from the acquisition of CWC amounted to ₱130.3 million as of December 31, 2016 and 2015. MWC's impairment tests for goodwill from the acquisition of CWC is based on value in use calculations using a discounted cash flow model. The 2016 cash flows are derived from the budget for the next 23 years and assumes a steady growth rate. MWC used the remaining concession period of CWC, which is a period longer than the maximum of five years. The recoverable amount is most sensitive to discount rate used for the discounted cash flow model. The post-tax discount rate applied to cash flows projections is 8.09% in 2016 and 9.72% for 2015.

No impairment loss was recognized as a result of the impairment testing performed.

ACEHI Group

Goodwill acquired through business combinations pertaining to the Wind Power and Hydro Power CGUs of ACEHI for impairment testing aggregated to ₱33.5 million and ₱411.0 million in 2016 and 2015, respectively.

Goodwill arising from the Wind Power CGU resulted from the purchase of additional interest in Northwind in 2016 and goodwill arising from Hydro Power CGU resulted from the purchase of 70% ownership interest in Quadraver, Hydro Power and PhilnewRiver in 2011.

The recoverable amount of the Wind Power CGU is based on value in use calculations using cash flow projections from financial budgets approved by ACEHI management covering the period the CGU is expected to be operational. The post-tax discount rates applied to cash flow projections for the Wind Power CGU is 10% which is based on weighted average cost of capital of comparable entities. The value in use computation is most sensitive to the discount rate and growth rate applied to the cash flow projections.

ACEHI management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the Wind Power CGU to exceed its recoverable amount.

No impairment loss was assessed for the Wind Power CGU in 2016 and 2015 while the balance from Hydro Power CGU was impaired in 2015.

Customer relationships

Customer relationships pertain to STEL Group's and IMI BG's contractual agreements with certain customers which lay out the principal terms upon which the parties agree to undertake business. Customer relationship of STEL amounting to US\$12.9 million (P576.9 million) is fully amortized as of December 31, 2016 and 2015.

Leasehold rights

Through the acquisition of POPI, ALI acquired leasehold rights arising from their lease agreement with Philippine National Railways (PNR) (see Note 24).

17. Pension and Other Noncurrent Assets

This account consists of the following:

	2016	2015
	(In Thousands)	
Deposits and advances - Projects	P12,483,625	P8,536,278
Deferred charges	4,751,324	3,537,483
Deferred FCDA	1,414,370	644,429
Concession financial receivable (Note 9)	1,005,561	989,073
Creditable withholding taxes	515,133	420,710
Pension assets (Note 27)	236,879	66,176
Leasehold rights - net	86,791	93,467
Others	788,716	3,714
	P21,282,399	P14,291,330

Deposits and Advances – Projects and Deferred charges

Deposits and advances for projects include escrow deposits and security deposits on land leases, electric and water meter deposits. These accounts also include project costs incurred for unlaunched projects of ALI Group, advance rental payments, noncurrent prepaid management fees, commissions and advertising and promotions. Deposits also include earnest money and bid deposits by ACEHI amounting to P100.0 million and P2.6 billion, respectively, for the acquisition of certain subsidiaries of Bronzoak Philippines, Inc. (Bronzoak) and geothermal operations of Chevron Global Energy, Inc., Union Oil Company of California, and their relevant affiliates (collectively referred to as the Chevron Group) in 2017 (see Note 35).

In 2012, ACEHI deposited in an escrow account for potential earn-out amounting to P167.7 million in relation to the Achieved Capacity Factor Adjustment, payment of which is dependent on the final resolution of the Arbitration Committee and the final FiT rate to be awarded to Northwind in 2013 (see Note 38). ACEHI management decided not to reverse the FiT contingent consideration on the grounds that the previous owners of Northwind may still decide to pursue the transaction. In February 2014, the previous owners of Northwind signed the arbitration procedures. On July 20, 2016, the earn-out payments to Northwind founders that was deposited in an escrow account, was released to ACEHI amounting to P179.1 million. Consequently, ACEHI reversed the contingent liability of P219.3 million initially recorded for the potential earn-out payments and recognized a gain on reversal (see Note 23). Interest income earned on the escrow account amounted to nil and P3.4 million in 2016 and 2015, respectively.

Deferred FCDA

Deferred FCDA refers to the net unrecovered amounts from (amounts for refund to) customers of MWC Group for realized losses (gains) from payments of foreign loans based on the difference between the drawdown or rebased rate versus the closing rate at payment date. This account also covers the unrealized gains or losses from loan valuations.

Leasehold rights

Leasehold rights consist of Ten Knots Philippines, Inc.'s leasehold rights to use a property in Apulit Island.

The movements during the year follow:

	2016	2015
	(In Thousands)	
Balance at beginning of year	P93,467	P100,143
Amortization	(6,676)	(6,676)
Balance at end of year	P86,791	P93,467

Others

Others include advance rentals and long-term miscellaneous accounts. In 2015, this account also included consideration for the development rights of ALI Group by way of advance rental payments to Global Estate Resorts, Inc. (GERI) amounting to P294.4 million in 2015. The advances are non-interest bearing and amortized over the lease term.

18. Accounts Payable and Accrued Expenses

This account consists of the following:

	2016	2015
	(In Thousands)	
Accounts payable	P90,791,680	P85,018,209
Accrued expenses		
Project costs	16,721,212	16,939,548
Personnel costs	8,056,866	4,964,387
Rental and utilities	3,423,595	3,568,090
Professional and management fees	3,395,027	3,123,664
Repairs and maintenance	2,122,203	3,070,438
Advertising and promotions	1,581,847	1,101,267
Various operating expenses	1,319,177	2,150,777
Taxes payable	16,841,094	10,965,789
Liability for purchased land	6,257,097	5,875,203
Retentions payable	4,306,272	1,316,087
Dividends payable	3,503,405	3,414,356
Related parties (Note 31)	3,441,971	1,372,445
Interest payable (Note 31)	2,615,731	2,456,026
DRP Obligation	223,401	261,590
	P164,600,578	P145,597,876

Accounts payable and accrued expenses are non-interest bearing and are normally settled on 15- to 60-day terms. Other payables are non-interest bearing and are normally settled within one year.

In 2015, accounts payable includes non-interest bearing liability of the Parent Company to DBS Bank Ltd. (DBS) in relation to the acquisition of 309.3 million BPI common shares and 37.6 million LHI Class B common shares amounting to ₱3.3 billion (see Note 12). In 2016, the Parent Company fully paid its outstanding payable to DBS.

Project costs represent accrual for direct costs associated with the commercial, residential and industrial project development and construction like engineering, design works, contract cost of labor and direct materials.

Accrued operating expenses include accruals for utilities, postal and communication, supplies, transportation and travel, subcontractual costs, security, insurance and representation.

Liability for purchased land pertains to the portion of unpaid unsubdivided land acquired payable during the year. These are normally payable in quarterly or annual installment payments or upon demand.

Taxes payable consists of net output VAT, withholding taxes, business taxes, and other statutory payables, which are due within one year.

Development Rights Payment (DRP) obligation pertains to the liability arising from the assignment agreement between ALI's subsidiary, North Triangle Depot Commercial Corporation (NTDCC), and MRT Development Corporation for the development rights of the 8.3 hectare portion of the MRT Depot.

19. Other Current Liabilities

This account consists of:

	2016	2015
	(In Thousands)	
Customers' deposits	₱16,849,188	₱4,204,260
Derivative liability (Note 33)	569,350	3,771
Nontrade payables	100,338	414,585
Installment payable	4,108	7,064
	₱17,522,984	₱4,629,680

Customers' deposits consist of collections from real estate customers which have not reached the 10% threshold to qualify for revenue recognition and excess of collections over the recognized receivables based on percentage of completion. These also include security deposits equivalent to one (1) to three (3) months' rent of tenants with cancellable lease contracts and whose lease term will end in the succeeding year. This will be refunded to the lessees at the end of the lease term or be applied to the last months' rentals on the related contracts.

Nontrade payables pertain mainly to non-interest bearing real estate-related payables to contractors and various non-trade suppliers which are due within one year.

20. Short-term and Long-term Debt

Short-term debt consists of:

	2016	2015
	(In Thousands)	
Philippine peso debt - with interest rates ranging from 2.30% to 3.13% per annum in 2016 and 1.83% to 2.90% per annum in 2015	₱28,137,450	₱21,078,249
Foreign currency debt - with interest rates ranging from 1.23% to 3.16% in 2016 and 1.03% to 1.50% in 2015	2,720,687	3,309,266
	₱30,858,137	₱24,387,515

Parent Company

On December 16, 2015, the Parent Company issued a promissory note to BPI amounting to ₱8.0 billion payable after 30 days with fixed interest rate of 2.75% per annum. The loan under this note was secured by an assignment of deposits belonging to AYCFL amounting to US\$175.0 million (₱8.2 billion). The short-term debt was fully paid by the Parent Company on January 15, 2016.

ALI Group

The short-term debt of ALI Group amounting to ₱25.2 billion and ₱10.5 billion as of December 31, 2016 and 2015, respectively, represents unsecured peso-denominated bank loans and dollar-denominated bank loans with various interest rates. In compliance with BSP rules on directors, officers, stockholders and related interests, certain short-term and long-term debt with a carrying value of ₱5.7 billion and ₱12.6 billion as of December 31, 2016 are secured by a real estate mortgage dated September 2, 2014 covering both land and building of Greenbelt. Net book value of the property amounted to ₱3.0 billion and ₱3.2 billion as of December 31, 2016 and 2015, respectively which is accounted as part of the "Investment properties" account. Interest rates for these short-term loans are 2.3% to 3.0% in 2016 and 2.1% to 3.1% in 2015 for Philippine-peso loans and nil in 2016 and 1.1% to 1.3% in 2015 for US Dollar loans.

AITHI Group

The Philippine peso debt of AITHI Group pertains to short-term loans with various banks and institutions amounting to ₱3.8 billion and ₱3.4 billion as of December 31, 2016 and 2015, respectively. These loans are unsecured and bear interest rate of 2.6% to 3.1% per annum in 2016 and 2.6% to 2.9% per annum in 2015.

AIVPL Group

The peso-denominated and dollar-denominated debt of AIVPL Group pertains to short-term loans with various banks amounting to ₱253.0 million and ₱520.8 million as of December 31, 2016 and 2015, respectively. These loans are unsecured and bear interest rates ranging from 5.5% to 7.0% in 2016 and 5.0% to 8.0% in 2015.

IMI Group

As of December 31, 2016 and 2015, IMI Group has short-term loans aggregating to US\$51.4 million (₱2,557.8 million) and US\$42.3 million (₱1,990.6 million), respectively. These short-term loans have maturities ranging from 30-180 days and bear fixed interest rates ranging from 1.23% to 3.16% in 2016 and 1.03% to 1.50% in 2015.

Long-term debt consists of:

	2016	2015
	(In Thousands)	
The Parent Company:		
Bank loans - with interest rates ranging from 2.0% to 5.3% per annum in 2016 and 2.8% to 5.3% per annum in 2015 and varying maturity dates up to 2022	₱10,835,726	₱11,070,146
Bonds	39,780,649	39,780,544
	50,616,375	50,850,690
Subsidiaries:		
Loans from banks and other institutions:		
Foreign currency - with interest rates ranging from 1.23% to 1-month EURIBOR plus 1.20% in 2016 and 1.2% to 2.9% in 2015	47,693,785	37,780,645
Philippine peso - with interest rates ranging from 1.8% to 9.0% in 2016 and 2.8% to 9.0% in 2015 (Note 23)	54,689,899	38,833,218
Bonds:		
Exchangeable bonds due 2019	14,198,775	13,159,894
Due 2016	-	2,182,850
Due 2019	12,286,298	9,304,168
Due 2020	3,978,794	3,973,778
Due 2022	12,576,988	12,555,367
Due 2023	6,935,625	-
Due 2024	14,874,523	14,886,169
Due 2025	14,857,292	7,927,851
Due 2026	7,926,123	-
Due 2033	1,983,403	1,982,849
	192,001,505	142,586,789
Floating Rate Corporate Notes (FRCNs)	-	1,000,000
FXCNs	22,377,934	44,515,700
	264,995,814	238,953,179
Less current portion	19,792,669	28,153,532
	₱245,203,145	₱210,799,647

Reconciliation of carrying amount against nominal amount follows:

	2016	2015
	(In Thousands)	
Nominal amount	₱267,269,402	₱241,223,638
Unamortized discount	(2,273,588)	(2,270,461)
	₱264,995,814	₱238,953,177

The Parent Company

Generally, the Parent Company's long-term loans are unsecured. Due to certain regulatory constraints in the local banking system regarding loans to directors, officers, stockholders and related interest, some of the Parent Company's credit facilities with a local bank are secured by shares of stock of a subsidiary with a fair value of ₱12.6 billion and ₱13.8 billion as of December 31, 2016 and 2015, respectively, in accordance with BSP regulations. All credit facilities of the Parent Company outside of this local bank are unsecured, and their respective credit agreements provide for this exception. The Parent Company positions its deals across various currencies, maturities and product types to provide utmost flexibility in its financing transactions.

Bank loans - with interest rates ranging from 2.0% to 5.3% per annum in 2016 and 2.8% to 5.3% per annum in 2015 and varying maturity dates up to 2022

In October 2012, the Parent Company availed ₱2.0 billion loan from a local bank to mature in 2017. The ₱2.0 billion loan shall have interest rate per annum equal to the 3-month PDST-R2 plus a spread of seventy five basis points (0.75%) per annum, or BSP reverse repurchase (RRP) rate, whichever is higher. The second principal payment for the ₱2.0 billion loan amounting to ₱100.0 million was paid in October 2016.

In November and December 2013, the Parent Company availed ₱2.0 billion and ₱4.3 billion loan from various banks to mature in 2018 and 2020, respectively. The ₱2.0 billion loan shall have interest rate per annum equal to the 3-month PDST-R2 plus a spread of 100 basis points (1%) per annum, or BSP overnight reverse repurchase (RRP) rate plus a spread of 25 basis points (0.25%), whichever is higher. The ₱4.3 billion loan shall have interest rate per annum equal to the 6-month PDST-R1 plus a spread of thirty basis points (0.30%) for the first six months and 3-month PDST-R1 plus a spread of sixty basis points (0.60%) thereafter. In December 2016, the Parent Company paid the second principal payment for the ₱4.3 billion which amounted to ₱42.5 million.

On August 17, 2015, the Parent Company availed a 7-year loan from a local bank amounting to ₱3.0 billion which bears fixed interest rate of 5.2883% per annum. Principal repayments amounting to ₱30.0 million shall be made at the end of the third year until the sixth year and payment of remaining principal balance amounting to ₱2.9 million at maturity date.

Bonds

Below is the summary of the outstanding Peso bonds issued by the Parent Company:

Year Issued	Term	Interest rate	Principal Amount (In thousands)	Carrying Value (In thousands)		Features
				2016	2015	
2010	7 years	7.20%	₱10,000,000	₱9,994,372	₱9,975,487	Puttable on the 20th coupon payment date 20% balance puttable on the 5th anniversary of the issue date; balance puttable on the 8th anniversary issue date
2011	10 years	6.80%	10,000,000	9,948,974	9,939,287	Puttable from the 10th anniversary issue until every year thereafter until the 14th anniversary issue date
2012	15 years	6.875%	10,000,000	9,933,361	9,926,931	Puttable from the 4th anniversary issue until every year thereafter until the 6th anniversary issue date
2012	7 years	5.45%	10,000,000	–	9,994,772	Puttable from the 5.5th anniversary issue until every year thereafter until the 7th anniversary issue date
2016	7 years	3.92%	10,000,000	9,903,942	–	
			₱50,000,000	₱39,780,649	₱39,836,477	

The outstanding Peso bonds of the Parent Company have been rated “PRS Aaa” by PhilRatings.

Bonds due 2019

On November 11, 2016, there was an early redemption of the bonds issued in November 2012. The bonds were redeemed at a rate of 7.45%, which reflects the 5.45% nominal rate and the additional 0.5% of the redemption amount at a total cash outlay of ₱10.2 billion, inclusive of interest of ₱136.3 million.

Subsidiaries

Foreign Currency Debt

AYCFL

On December 16, 2010, AYCFL entered into a 6-year syndicated term loan facility with a foreign bank with the Parent Company as guarantor for US\$229.2 million. On November 16, 2011 and December 12, 2012, AYCFL drewdown US\$100.0 million and US\$129.2 million on the syndicated term loan facility at a rate of 1.46 basis points over the 1-, 3- or 6-month US\$ LIBOR at the Parent Company's option. On December 16, 2015, AYCFL settled the first principal payment, including interests, amounting to US\$46.1 million. In 2016, AYCFL fully paid the remaining loan balance amounting to US\$183.4 million.

On March 28, 2011, AYCFL entered into a US\$150.0 million 6.5-year transferrable term loan facility with a foreign bank. The transferrable term loan facility was subsequently amended on September 28, 2012 and on August 30, 2013. On September 5, 2013 and January 7, 2014, AYCFL drewdown US\$50.0 million and US\$100.0 million on the transferrable term loan facility at a rate of 139.4 basis points over the 1-, 3- or 6-month LIBOR at the option of AYCFL. In September 2015, AYCFL partially paid the term loan facility amounting to US\$100.0 million. In 2016, AYCFL fully paid the outstanding loan balance amounting to US\$50.0 million.

On November 28, 2013, AYCFL, entered into a 5-year syndicated term loan with a foreign bank, with the Parent Company as guarantor, for US\$225.0 million. On January 14, 2014, AYCFL drewdown the full amount of the term loan at a rate of 135 basis points over the 1-, 3- or 6-month LIBOR at the option of AYCFL. As of December 31, 2016, the outstanding balance of the loan amounted to US\$225.0 million.

In March 2016, AYC Finance, Ltd. increased the existing Bilateral Term Loan Facility with The Bank of Tokyo-Mitsubishi UFJ, Ltd from up to US\$100.0 million to up to US\$200.0 million with interest rates at certain basis points over LIBOR and maturing in September 2022. The Bilateral Term Loan Facility has an availability period of 5 years which offers the same flexibility as a Revolving Credit Facility. Furthermore, AYCFL undertook the conversion of the US\$200.0 million Club Term Loan facility into Revolving Credit facility with Mizuho Bank, Ltd. and Sumitomo Mitsui Banking Corporation with interest rates at certain basis points over LIBOR and maturing in March 2020. The loan facility is guaranteed by the Parent Company. As of December 31, 2016, the loan facilities are still undrawn.

IMI Group

IMI Philippines

On August 12, 2015, IMI Philippines obtained a \$20.0 million five-year term loan from a local bank payable as the end of the loan term subject to a fixed interest rate per annum equal to the 5-year Dollar Benchmark rate plus a spread of 5 bps or the rate of 2.8%, whichever is higher. Interests are payable quarterly in arrears on each interest payment date.

On February 29, 2012, IMI Philippines obtained a €5.00 million (\$5.49 million) five-year term clean loan from a local bank payable in a single balloon payment at the end of the loan term. Interest is payable semi-annually at the rate of six-month LIBOR plus 1.50% spread per annum. The loan which will mature in February 2017 was reclassified to current portion of long-term debt in 2016.

In October 2011, IMI Philippines obtained a five-year term clean loan from a local bank amounting to US\$40.0 payable in a single balloon payment due in 2016. Interest on the loan is payable quarterly and re-priced quarterly at the rate of 3-month LIBOR plus margin of 0.80%. In October 2016, the loan was settled in full and IMI Philippines obtained a new 5-year term loan with the same bank subject to a fixed interest rate of 2.70% p.a.

Cooperatief

Cooperatief's long-term debt aggregating to €14.25 million (US\$20.4 million) as at July 29, 2011 relates primarily to the acquisition of EPIQ shares and receivables of EPIQ NV from IMI EU/MX subsidiaries. Based on the payment schedule in the SPA, this long-term debt will be settled from 2013 to 2018, subject to interest rate of 1.60% plus 1.50%.

Cooperatief had already paid an aggregate amount of €8.0 million from 2013 to 2016 with an annual payment of €2.0 million every July of each year.

Below is the amortization schedule:

Due Dates	In EUR	In USD
	(In thousands)	
2017	€2,000	US\$2,108
2018	4,249	4,479
	€6,249	US\$6,587

IMI BG

IMI BG has a long-term debt from BNP Paribas amounting to US\$0.42 million that relates to the term loan facility for financing the construction of a new warehouse with a term of five years and bears interest based on 3-month EURIBOR plus 2.90%. The warehouse was completed in 2013.

The credit facility with BNP Paribas is subject to the following collateral: Security of Transfer of Ownership Title relating to office and factory equipment with a carrying value of US\$1.35 million.

IMI CZ

On August 14, 2015, IMI CZ obtained a term loan facility from Citibank amounting to €2.0 million that was used to settle intercompany loans. The principal shall be paid in 60 regular monthly installments and bears interest of 3-month EURIBOR plus 1.20% but is not to exceed 15% per annum.

In 2013, IMI CZ has a long-term debt from Citibank amounting to €0.59 million (¥35.9 million) that relates to term loan facility for the purchase of its new Surface Mount Technology machine. The debt bears interest of 1-month EURIBOR plus 2.7% and matures on July 31, 2019.

VIA

VIA has a long-term debt from Sparkasse Bank amounting to €0.27 million. The debt bears annual interest of 5.35% and matures on June 30, 2019.

MWC Group

MWC International Finance Corporation (IFC) Loan

On March 28, 2003, MWC entered into a loan agreement with IFC (the "First IFC Loan") to partially finance MWC's investment program from 2002-2005 to expand water supply and sanitation services, improvement on the existing facilities of MWC, and concession fee payments. The First IFC Loan will be made available in Japanese Yen (JPY) in the aggregate principal amount of JPY3,591.6 million equivalent to US\$30.0 million and shall be payable in 25 semi-annual installments, within 12 years starting on July 15, 2006. As of December 31, 2016 and 2015, the carrying value of the loan amounted to JPY428.1 million (¥182.0 million) and JPY711.0 million (¥278.7 million), respectively.

On May 31, 2004, MWC entered into a loan agreement with IFC (the "Second IFC Loan") comprising of regular loan in the amount of up to US\$20.0 million and a standby loan in the amount of up to US\$10.0 million to finance the investment program from 2004 to 2007 to expand water supply and sanitation services, improvement of existing facilities of MWC, and concession fee payments. This loan was subsequently amended on November 22, 2006, when MWC executed the Amended and Restated Loan Agreement for the restructuring of the Second IFC Loan. The terms of the second loan were amended to a loan in the aggregate amount of up to

US\$30.0 million, no part of which shall consist of a standby loan. On December 12, 2008, MWC made a full drawdown on the said facility. As of December 31, 2016 and 2015, the outstanding balance amounted to nil and US\$2.0 million (₱94.1 million), respectively.

Land Bank of the Philippines (LBP) Loan

On October 20, 2005, MWC entered into a Subsidiary Loan Agreement with LBP to finance the improvement of the sewerage and sanitation conditions in the East Zone. The loan has a term of 17 years, and was made available in Japanese Yen in the aggregate principal amount of JPY6.6 billion payable via semi-annual installments after the 5-year grace period. MWC made its last drawdown on October 26, 2012.

The total drawn amount for the loan is JPY4.0 billion. As of December 31, 2016 and 2015, outstanding balance of the LBP loan amounted to JPY1,857.3 million (₱789.5 million) and JPY2,192.9 million (₱859.6 million), respectively.

On September 25, 2012, MWC entered into a Subsidiary Loan Agreement with LBP under the Metro Manila Wastewater Management Project (MWMP) with the World Bank. The MWMP aims to improve used water services in Metro Manila through increased wastewater collection and treatment. The loan has a term of 25 years, and was made available in US Dollars in the aggregated principal amount of US\$137.5 million via semiannual installments after the 7-year grace period. MWC made four drawdowns in 2015 aggregating to US\$22.6 million (₱1,123.7 million) and three drawdowns in 2016 aggregating to US\$17.5 million (₱868.1 million). The carrying value of the MWMP loan as of December 31, 2016 and 2015 is US\$39.8 million (₱1,977.9 million) and US\$22.4 million (₱1,115.2 million), respectively.

European Investment Bank (EIB) Loan

On June 20, 2007, MWC entered into a Finance Contract (the "EIB Loan") with EIB to partially finance the capital expenditures of MWC from 2007 to 2010, as specified under Schedule 1 of the Finance Contract. The loan, in the aggregate principal amount of €60 million, having a term of 10 years, is subject to the Relevant Interbank Rate plus a spread to be determined by EIB, and may be drawn in either fixed-rate or floating-rate tranches. The loan has two tranches as described below:

- Sub-Credit A: In an amount of €40 million to be disbursed in US Dollars or Japanese yen payable via semi-annual installments after the two and a half-year grace period. This loan tranche is guaranteed against all commercial risks by a consortium of international commercial banks composed of ING Bank, Development Bank of Singapore and Sumitomo-Mitsui Banking Corporation under a Guaranty Facility Agreement; and
- Sub-Credit B: In an amount of €20 million to be disbursed in US Dollars, European Euro or Japanese Yen payable via semi-annual installments after the two and a half-year grace period. This loan tranche is guaranteed against all commercial risks by ING Bank under a Guaranty Facility Agreement.

On May 21, 2012, the Sub-Credit A Guaranty Facility Agreement was amended to extend the effectivity of the guarantee. Two of the original guarantors, ING Bank and Sumitomo Mitsui Banking Corporation, agreed to extend the guarantee by another five years towards the maturity of the loan.

On July 30, 2013, the Sub-Credit B Guaranty Facility Agreement was amended to extend the effectivity of the guarantee. The original guarantor, ING Bank, agreed to extend the guarantee by another five years towards the maturity of the loan.

On February 20, 2015, MWC prepaid the EIB Loan amounting to JPY1,807.98 million and US\$9.38 million.

NEXI Loan

On October 21, 2010, MWC entered into a term loan agreement (NEXI Loan) amounting to US\$150.0 million to partially finance capital expenditures within the East Zone. The loan has a tenor of 10 years and is financed by a syndicate of four banks - ING N.V Tokyo, Mizuho Corporate Bank, Ltd., The Bank of Tokyo-Mitsubishi UFJ Ltd. and Sumitomo Mitsui Banking Corporation and is insured by Nippon Export and Investment Insurance. First, second and third drawdowns of the loan amounted to US\$84.0 million, US\$30.0 million and US\$36.0 million, respectively. The carrying value of this loan as of December 31, 2016 and 2015 amounted to US\$73.0 million (₱3,629.6 million) and US\$90.6 million (₱4,263.6 million), respectively.

ALI Group

In October 2012, ALI executed and fully drawn a US\$58.5 million long-term facility. The loan bears a floating interest rate based on a credit spread over the three-month US Dollar London Interbank Offered Rate (LIBOR), repriced quarterly. The loan will mature on the third month succeeding the tenth anniversary of the initial drawdown date. In January 2014 and October 2015, ALI made partial prepayments on the loan in the amount of US\$5.8 million (₱272.9 million) and US\$12.8 million (₱572.4 million), respectively. Subsequently in March 2016, a US\$30.0 million long-term facility was assigned by ALI Makati Hotel Property, Inc. (AMHPI) to ALI. The assigned loan bears a floating interest rate based on a credit spread over the three-month US Dollar London Interbank Offered Rate (LIBOR), repriced quarterly and had a remaining term of 3 years and 4 months from the time of assignment.

Philippine Peso Debt

MWC Group

MWC Parent Company

On April 8, 2011, MWC issued ₱10.0 billion notes fixed rate corporate notes (FXCN) with ₱5.0 billion having a term of five (5) years (Five-Year FXCN Note) from the issue date and the other ₱5.0 billion with a term of ten (10) years (Ten-Year FXCN Note) from the issue date which is both payable quarterly. MWC may repay the whole and not a part only of the Ten-Year FXCN Notes on the 7th anniversary of the drawdown date of such FXCN Note or on any FXCN interest payment date thereafter. The amount payable in respect to such prepayment shall be calculated as 102.00% of the principal amount being prepaid and accrued interest on the prepayment date.

On April 8, 2016, MWC prepaid the outstanding balance of the Five-Year FXCN Note. The carrying value of the FXCN as of December 31, 2016 and 2015 amounted to ₱4.9 billion and ₱9.8 billion, respectively.

On August 16, 2013, MWC entered into a Credit Facility Agreement with a local bank having a fixed nominal rate of 4.42% and with a term of 7 year from the issue date which is payable annually. MWC may repay the whole and not a part only of the loan starting on the 3rd anniversary of the drawdown date of such loan or on any interest payment date thereafter. The amount payable in respect to such prepayment shall be calculated as 102% of the principal amount being prepaid and accrued interest if such prepayment occurs on or after the 3rd anniversary but before the 4th anniversary of the drawdown date. The amount payable in respect to such prepayment shall be calculated as 101.5% of the principal amount being prepaid and accrued interest if such prepayment occurs on or after the 4th anniversary but before the 5th anniversary of the drawdown date. The amount payable in respect to such prepayment shall be calculated as 101% of the principal amount being prepaid and accrued interest if such prepayment occurs on or after the 5th anniversary but before the 6th anniversary of the drawdown date. The amount payable in respect to such prepayment shall be calculated as 100.5% of the principal amount being prepaid and accrued interest if such prepayment occurs on or after the 6th anniversary but before the 7th anniversary of the drawdown date. The carrying value of the loan as of December 31, 2016 and 2015 amounted to ₱4.9 billion.

On July 17, 2008, MWC, together with all of its Lenders signed an Omnibus Amendment Agreement and Intercreditor Agreement and these agreements became effective on September 30, 2008.

Prior to the execution of the Omnibus Amendment Agreement, the obligation of MWC to pay amounts due and owing committed to be repaid to the lenders under the existing facility agreements were secured by Assignment of Interest by Way of Security executed by MWC in favor of a trustee acting on behalf of the lenders. The Assignments were also subject to the provisions of the Amended and Restated Intercreditor Agreement dated March 1, 2004 and its Amendatory Agreement dated December 15, 2005 executed by MWC, the lenders and their appointed trustee.

Under the Omnibus Amendment Agreement, the lenders effectively released MWC from the assignment of its present and future fixed assets, receivables and present and future bank accounts, all the Project Documents (except for the Agreement, Technical Corrections Agreement and the Department of Finance Undertaking Letter), all insurance policies where MWC is the beneficiary and performance bonds posted in its favor by contractors or suppliers.

In consideration for the release of the assignment of the above-mentioned assets, MWC agreed not to create, assume, incur, permit or suffer to exist, any mortgage, lien, pledge, security interest, charge, encumbrance or other preferential arrangement of any kind, upon or with respect to any of its properties or assets, whether now owned or hereafter acquired, or upon or with respect to any right to receive income, subject only to some legal exceptions. The lenders shall continue to enjoy their rights and privileges as Concessionaire Lenders (as defined under the Agreement), which include the right to appoint a qualified replacement operator and the right to receive payments and/or other consideration pursuant to the Agreement in case of a default of either MWC or MWSS. Currently, all lenders of MWC (including the bondholders) are considered Concessionaire Lenders and are on *pari passu* status with one another.

In November and December 2014, MWC signed the Amendment Agreements to its loan agreements with its existing lenders. This effectively relaxed certain provisions in the loan agreements providing MWC more operational and financial flexibility.

On September 30, 2015, MWC signed a 7-year JPY40.0 billion term loan facility with three international banks: The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Bank, Ltd., and Sumitomo Mitsui Banking Corporation to finance MWC's capital expenditures. MWC made its first drawdown on March 9, 2016 amounting to JPY13.4 billion (₱5.7 billion). The loan's carrying value as of December 31, 2016 is JPY12.2 billion (₱5.2 billion).

CWC

On April 10, 2015, CWC entered into a loan agreement with a domestic bank, whereby the bank extended credit to CWC for up to ₱1.2 billion to partially finance its concession capital expenditures program. Under the agreement, the loan bears interest at a rate of 6.179% and principal payments will be made in forty eight (48) consecutive equal quarterly installments starting July 2018.

The first and second drawdowns on the loan were made in September and December 2015, amounting to ₱800.0 million and ₱200.0 million, respectively. The third drawdown was made on August 2016 for ₱150.0 million. The carrying value of the loan amounted to ₱1,140.6 million and ₱990.9 million as of December 31, 2016 and 2015, respectively.

LAWC

On September 7, 2010, LAWC, entered into a loan agreement with two local banks for the financing of its construction, operation, maintenance and expansion of facilities in its servicing area. Pursuant to the loan agreement, the lenders have agreed to provide loans to LAWC up to ₱500.0 million, principal payments of which will be made in 30 consecutive equal quarterly installments starting August 2013. First and second drawdowns from the loan were made in

November 2010 and July 2011 amounting to ₱250.0 million each. The carrying value of this loan amounted to ₱265.1 million and ₱330.9 million as of December 31, 2016 and 2015, respectively.

On April 29, 2013, LAWC entered into a loan agreement with Development Bank of the Philippines (DBP) to partially finance the modernization and expansion of the water network system and water supply facilities in Biñan, Sta. Rosa and Cabuyao, Laguna. Under the loan agreement, the lender has agreed to provide loans to the borrowers through the Philippine Water Revolving Fund (PWRF) in the aggregate principal amount of up to ₱500.0 million bearing an effective interest rate of 7.25%. First and second drawdowns were made in July and December 2013 amounting to ₱250.0 million each. The carrying value of this loan as of December 31, 2016 and 2015 amounted to ₱491.6 million and ₱498.8 million, respectively.

On January 9, 2014, LAWC exercised its option to avail of the second tranche of its loan agreement with DBP to finance its water network and supply projects, including the development of a well-field network on the Biñan, Sta. Rosa area of Laguna. Under the expanded facility agreement, DBP provided additional loans to LAWC in the aggregate principal amount of ₱833.0 million. The first and second drawdowns were made in January 2014 and May 2014, respectively, amounting to ₱416.5 million each. The carrying value of the loans amounted to ₱831.1 million and ₱830.9 million as of December 31, 2016 and 2015, respectively.

On October 23, 2015, LAWC entered into a loan agreement with Security Bank Corporation (SBC) to finance the modernization and expansion of its water network system and water supply facilities throughout the province of Laguna. Under the loan agreement, the lender agreed to provide a loan to the borrower in the aggregate principal amount of up to ₱2.5 billion for an applicable fixed interest rate, as determined in respect of each drawdown. The first drawdown was made in December 2015, amounting to ₱600.0 million bearing an effective interest rate of 6.03%. The second drawdown was made in two tranches in April 2016 amounting to ₱150.0 million and ₱300.0 million bearing effective interest rates of 5.98% and 6.39%, respectively. The third drawdown was made in September 2016 amounting to ₱400.0 million bearing an effective interest rate of 5.53%. The carrying value of the loan amounted to ₱1,440.0 million and ₱600.0 million as of December 31, 2016 and 2015, respectively.

BIWC

On July 29, 2011, BIWC, entered into an omnibus loan and security agreement with DBP and SBC to finance the construction, operation, maintenance and expansion of facilities for the fulfillment of certain service targets for water supply and waste water services for the Service Area under the Concession Agreement, as well as the operation and maintenance of the completed drainage system. The loan shall not exceed the principal amount of ₱500.0 million and is payable in twenty (20) years inclusive of a three (3)-year grace period.

The loan shall be available in three sub-tranches, as follows:

- Sub-tranche 1A, the loan in the amount of ₱250.0 million to be provided by DBP and funded through PWRF;
- Sub-tranche 1B, the loan in the amount of ₱125.0 million to be provided by SBC and funded through PWRF; and
- Sub-tranche 1C, the loan in the amount of ₱125.0 million to be provided by SBC and funded through its internally-generated funds.

The first loan draw down made on August 25, 2011 amounted to ₱150.0 million, second draw down on August 25, 2012 amounted ₱155.0 million and final draw down on August 23, 2013 amounted to ₱195.0 million. The carrying value of the loan as of December 31, 2016 and 2015 amounted to ₱443.4 million and ₱474.2 million, respectively.

The Agreement provided BIWC the option to borrow additional loans from the lenders. On November 14, 2012, BIWC entered into the second omnibus loan and security agreement with DBP and SBC. The agreed aggregate principal of the loan amounted to ₱500.0 million which is available in three sub-tranches:

- Sub-tranche 2A, the loan in the amount of ₱250.0 million to be provided by DBP and funded through PWRF
- Sub-tranche 2B, the loan in the amount of ₱125.0 million to be provided by SBC and funded through PWRF
- Sub-tranche 2C, the loan in the amount of ₱125.0 million to be provided by SBC and funded through BIWC's internally-generated funds.

On November 23, 2012, BIWC made its first loan drawdown amounting to ₱75.0 million and the second loan drawdown on August 26, 2014 amounted to ₱200.0 million. The carrying value of the loan as of December 31, 2016 and 2015 amounted to ₱445.9 million and ₱476.9 million, respectively.

On October 9, 2014, BIWC signed a Third Omnibus Loan and Security Agreement in the amount of ₱650.0 million with SBC to fund capital expenditures related to water and sewerage services in the concession area of BIWC. BIWC made its first drawdown on this loan on November 25, 2016 amounting to ₱200.0 million. The carrying value of loan as of December 31, 2016 amounted to ₱200.0 million.

CMWD

On December 19, 2013, the CMWD entered into an omnibus loan and security agreement (the Agreement) with DBP to partially finance the construction works in relation to its bulk water supply project in Cebu, Philippines. The lender has agreed to extend a loan facility in the aggregate principal amount of ₱800.0 million or up to 70% of the total project cost whichever is lower.

The first, second and final drawdowns on the loan facility amounted to ₱541.1 million on December 20, 2013, ₱195.6 million on May 20, 2014 and ₱14.2 million on November 14, 2014, respectively. The carrying value of the loan as of December 31, 2016 and 2015 amounted to ₱742.6 million and ₱741.8 million, respectively.

Zamboanga Water Company, Inc.(ZWC)

On June 30, 2016, ZWC, a 70% joint venture company of MWC, signed a term loan agreement in the amount of ₱85.00 million with DBP. The proceeds of the loan will be used to partially finance ZWC's capital expenditures in relation to its NRW reduction and management program in Zamboanga City. The first and second loan drawdowns were made on July 30 and September 2, 2016 amounting to ₱30.0 million for each drawdown. The carrying value of the loan as of December 31, 2016 amounted to ₱60.0 million.

Manila Water Philippine Ventures, Inc. (MWPVI)

On October 5, 2016, MWPVI signed a 15-year fixed rate term loan facility amounting to ₱4.0 billion with various domestic banks. The terms of the loan include an option to increase the size of the facility to a maximum of ₱7.0 billion. The proceeds of the loan will be used to finance MWPVI's capital expenditures, future acquisitions and other general corporate requirements. As of December 31, 2016, MWPVI has not made any drawdowns from this facility.

TWC

On October 7, 2016, TWC signed a term loan agreement for ₱450.0 million. The proceeds of the loan will be used to partially finance the development, construction, operation and maintenance of bulk water supply facilities, including the delivery and sale of treated bulk water exclusively to the TWD. As of December 31, 2016, TWC has not made any drawdown from this facility.

ALI Group

Philippine Peso-denominated Long-term Loans

In August to September 2015, ALI assumed an aggregate of ₱15,442.3 million various long-term facilities of some subsidiaries from various banks. The loans bear fixed interest rates ranging from 4.5% to 4.7% p.a. and terms ranging from 4.4 years to 10.5 years. In 2016, the ₱251.5 million current portion of the loans was paid. As of December 31, 2016, the outstanding balance of peso-denominated long-term loans amounted to ₱15,190.7 million.

Subsidiaries

The Philippine Peso bank loans include ALI subsidiaries' loans that will mature on various dates up to 2025. Peso-denominated loans bear various floating interest rates at 60 bps to 80 bps spread over the benchmark 91-day PDST-R1/R2 or and fixed interest rates ranging from 3.56% to 5.75% p.a. Certain loans which are subject to floating interest rates are subject to floor floating interest rates equivalent to 95.0% or par of the Overnight Reverse Repurchase Agreement Rate of the Bangko Sentral ng Pilipinas (BSP Overnight Rate) or at the BSP Overnight Rate plus a spread of 20 bps to 75 bps p.a.. Dollar-denominated loans bear floating interest rates at a credit spread over the benchmark three-month US Dollar LIBOR, repriced quarterly. The total outstanding balance of ALI subsidiaries' loans as of December 31, 2016 and 2015 amounted to ₱33,920.7 million and ₱35,112.0 million loans, respectively. Movements are due to peso-denominated loans amounting to ₱1,436.5 million availed by AMHPI in 2016. The subsidiaries also paid ₱1,508.9 million dollar-denominated loans, ₱1,031.4 million peso-denominated loans and ₱87.5 million fixed rate corporate notes in 2016.

In compliance with BSP rules on directors, officers, stockholders and related interests, certain short-term and long-term debt with a carrying value of ₱5,669.1 million and ₱12,585.0 million as of December 31, 2016 are secured by a real estate mortgage dated September 2, 2014 covering both land and building of Greenbelt. Net book value of the property amounted to ₱2,982.4 million and ₱3,207.5 million as of December 31, 2016 and 2015, respectively which is accounted as part of the "Investment properties" account.

ACEHI Group

ACEHI Parent Company

On various dates in 2016, ACEHI entered into a Revolving Credit Facility and an Omnibus Line with various domestic banks amounting to ₱1.0 billion each with a term of 180-days at the prevailing market lending rate to finance its operating and financing requirements. As of December 31, 2016, no drawdowns were made on both facilities.

GNPK

The peso-denominated and dollar-denominated debt of GNPK pertains to a construction and term loan facility having an aggregate principal amount of 1,700.0 million and US\$605.0 million, respectively, with interests ranging from 6.88% to variable at LIBOR plus a margin of three and one-quarter of one percent (3.25%). The dollar-denominated debt is composed of the following:

- Tranche A Loan US\$375 million;
- Tranche B Loan US\$60 million; and
- Tranche C Loan US\$170 million.

As of December 31, 2016, substantially all of GNPK's assets are pledged as collateral. The carrying value of the loans amounted to 17.0 billion.

Bonds

AYCFL

AYCFL Exchangeable Bonds

On May 2, 2014, AYCFL issued at face US\$300.0 million Exchangeable Bonds (the Bonds) due on May 2, 2019 with a fixed coupon rate of 0.50% per annum, payable semi-annually. The Bonds are guaranteed by the Parent Company and constitute direct, unsubordinated, unconditional and

unsecured obligations of AYCFL, ranking pari passu and without any preference or priority among themselves. The Bonds are listed in the Singapore Stock Exchange and include features such as exchange option, put option and early redemption options. The exchange option entitles the bondholders to exchange the Bonds for ALI's common shares at any time on or after June 11, 2014 up to the close of business on the 10th day prior to maturity date, or if such bonds shall have been called for redemption by AYCFL before the maturity date, then up to the close of business on a date no later than 10 days prior to the date fixed for redemption. The exchange price per principal amount to be exchanged, translated into at the fixed exchange rate of ₱44.31/US\$1.00, is equal to 36.48, subject to anti-dilutive adjustments contingent on certain events. The exchange option was assessed to be an equity component of the Bonds at the consolidated financial statements as the Bonds are denominated in the functional currency of AYCFL and to be settled by the Parent Company through issuance of a fixed number of ALI's common shares.

The put option entitles the bondholders to require AYCFL to redeem, in whole or in part, the Bonds on May 2, 2017 (put option date) at 100% of the principal amount together with accrued and unpaid interest. Moreover, if a change of control event occurs (the change of control put) or in the event that the common shares of ALI are delisted or suspended from trading for a period of more than 20 consecutive trading days (the delisting put), the bondholders may require AYCFL to redeem the Bonds, in whole but not in part, at 100% of the principal amount together with accrued and unpaid interest.

The early redemption option gives the right to AYCFL to redeem the Bonds, in whole but not in part, at any time after May 2, 2017 at 100% of the principal amount on the date fixed for such redemption, provided, however, that no such redemption may be made unless the closing price of the common shares of ALI (translated into US\$ at the prevailing average to US\$ exchange rate as published by the BSP) for any 30 consecutive trading days was at least 130% of the exchange price then in effect (translated into US\$ at the fixed exchange rate of ₱44.31/US\$1.00). In addition, if at any time the aggregate principal amount of the Bonds outstanding is less than 10% of the aggregate principal amount originally issued or if a tax event occurs, AYCFL may redeem the Bonds, in whole but not in part, at 100% of principal amount together with accrued and unpaid interest.

The put and early redemption options were assessed to be embedded derivatives that are clearly and closely related to the host contract, therefore, not required to be bifurcated. As the Bonds were determined to be a compound instrument at the consolidated level, (i.e., it has a liability and an equity component which pertains to the exchange option), the Group applied split accounting. The value allocated to the equity component at issue date amounted ₱1.1 billion, being the residual amount after deducting the fair value of the liability component amounting to ₱11.9 billion from the issue proceeds of the Bonds.

ALI Group

Philippine Peso Homestarter Bond due 2016

In October 2012, ALI issued a ₱1,000.0 million bond due 2015 at a fixed rate equivalent to 5.00% p.a. As of December 31, 2015, ALI's total payment amounted to ₱780.3 million and the remaining balance of ₱219.7 million was settled on January 7, 2016. In May 2013, ALI issued the second tranche of the bonds registered with the SEC in 2012, at an aggregate principal amount of ₱2,000.0 million. The bonds have a term of three (3) years from the issue date, and will bear interest on its principal amount at a fixed rate of 4.00% p.a. Interest will not be compounded and shall be payable on maturity date or on the date of effectivity of an Early Downpayment Application, as may be applicable, less the amount of any applicable withholding taxes. The total payments of ALI as of December 31, 2015 amounted to ₱36.8 million and the remaining balance of the bonds amounting to ₱1,963.2 million matured and was paid on May 31, 2016.

Philippine Peso 3-Year Homestarter Bond due 2019 and 7-year Bonds due 2023

In October 2016, ALI issued a total of ₱10,000.0 million bonds, broken down into a ₱3.0 billion Homestarter bond due 2019 at a fixed rate of 3.0% p.a. and a ₱7.0 billion fixed rate bond due 2023 at a rate equivalent to 3.8915% p.a. The Bonds represent the first tranche of

Homestarter Bonds series and the third tranche of the Fixed-rate Bonds Series issued under ALI's ₱50.0 billion Debt Securities Program registered with the SEC, and listed in the Philippine Dealing & Exchange Corp. (PDEX). The Bonds have been rated PRS "AAA".

Philippine Peso 7-Year and 10-year Bonds due 2019 and 2022

In April 2012, ALI issued a total of ₱15.0 billion bonds, broken down into a ₱9.4 billion bond due 2019 at a fixed rate equivalent to 5.625% p.a. and a ₱5.7 billion bond due 2022 at a fixed rate equivalent to 6.00% p.a. The Philippine Rating Services Corporation (PhilRatings) assigned a PRS "AAA", the highest credit rating possible on PhilRatings' rating scales for long-term issuances.

Philippine Peso 7-Year and 20-year Bonds due 2020 and 2033

In October 2013, ALI issued a total of ₱6.0 billion bonds, broken down into a ₱4.0 billion bond due 2020 at a fixed rate equivalent to 4.625% p.a. and a ₱2.0 billion bond due 2033 at a fixed rate equivalent to 6.00% p.a. The Credit Rating and Investors Services Philippines (CRISP) assigned a "AAA" rating on the bonds.

Philippine Peso 10-year and 6-month Bonds due 2024

In July 2013, ALI issued a total of ₱15.0 billion bonds due 2024 at a fixed rate equivalent to 5.0% p.a. CRISP assigned a "AAA" on the bonds.

Philippine Peso 11-year Bonds due 2025

In April 2014, ALI issued a total of ₱8.0 billion bonds due 2025 at a fixed rate equivalent to 5.625% p.a. The Bonds have been rated PRS "AAA" by PhilRatings.

Philippine Peso 9-year and 6-month Bonds due 2025

In April 2016, ALI issued a total of ₱7.0 billion bonds due 2025 at a fixed rate equivalent to 4.75% p.a. The Bonds is the second tranche of the Fixed-rate Bonds Series under ALI's ₱50.0 billion Debt Securities Program registered in the SEC. The Bonds were assigned an issue credit rating of PRS Aaa, with a Stable Outlook by PhilRatings.

Philippine Peso 10-year Bonds due 2026

In March 2016, ALI issued a total of ₱8.0 billion bonds due 2026 at a fixed rate equivalent to 4.85% p.a. The Bonds is the first tranche of the Fixed-rate Bonds Series under ALI's ₱50.0 billion Debt Securities Program registered in the SEC. The Bonds was assigned an issue credit rating of PRS Aaa, with a Stable Outlook, by PhilRatings.

Philippine Peso 7.0 Billion Fixed Rate Bonds due 2022

In April 2015, ALI issued a total of ₱7.0 billion bonds due 2022 at a fixed rate equivalent to 4.5% p.a. The Bonds have been rated PRS "AAA" by PhilRatings.

Philippine Peso 5.0 Billion Fixed Rate Bonds due 2021

In June 2014, CHI issued a total of ₱5.0 billion bonds due 2021 at a fixed rate equivalent to 5.32% p.a. The Bonds have been rated PRS "AAA" by PhilRatings.

Philippine Peso 7-year FRCN due 2016

In October 2009, ALI executed a ₱1.0 billion committed FRCN facility with a local bank, of which an initial ₱10.0 million was drawn on October 12, 2009. The balance of ₱990.0 million was subsequently drawn on November 18, 2011. The FRCN bears a floating interest rate based on the 3-month PDST-R1 plus a spread of 0.96%, repriced quarterly. The FRCNs matured on October 12, 2016, the seventh anniversary of the initial drawdown date.

Philippine Peso 5-, 7- and 10-year FXCNs due in 2011, 2013 and 2016

In September 2006, ALI issued ₱3.0 billion FXCNs consisting of 5-, 7- and 10-year notes issued to various financial institutions and will mature on various dates up to 2016. The FXCNs bear fixed interest rates ranging from 7.25% to 7.75% p.a. depending on the term of the notes. In January 2011, simultaneous to a new corporate note offering, ALI undertook a liability management

exercise by offering to prepay holders of the corporate notes issued in 2006 while inviting the same institutions to participate in the new issuance. A number of investors holding up to ₱875.0 million of notes maturing in 2013 and 2016 accepted the offer to be prepaid. On September 23, 2011, the 5-year and one (1) day FXCNs amounting to ₱1.8 billion matured and were fully paid by ALI. Subsequently in September 2013, the balance of the 7-year FXCNs amounting to ₱195.0 million matured and was fully repaid by ALI. In September 2016, the balance of the 10-year FXCNs amounting to ₱100.0 million matured and was fully repaid by ALI.

Philippine Peso 5-, 7- and 10-year FXCN due 2014, 2016 and 2019

In January 2009, ALI issued an aggregate ₱2.4 billion in 5-, 7- and 10-year FXCNs to various financial institutions and retail investors that will mature on various dates up to 2019. The FXCNs bear fixed interest rates ranging from 7.76% to 8.90%. ₱220.0 million and ₱830.0 million notes due in 2014 and 2016, respectively, were prepaid on January 28, 2013. Subsequently, the ₱1.3 billion note due in 2019 was prepaid on January 28, 2016.

Philippine Peso 5-, 10-, 15-Year FXCN due on 2016, 2021 and 2026

In January 2011, ALI issued ₱10.0 billion FXCNs to various financial institutions and retail investors that will mature on various dates up to 2026. The FXCNs bear fixed interest rates ranging from 5.62% to 7.50% p.a. depending on the term of the notes. ₱1.95 billion note due in 2016 was prepaid on January 19, 2013. In 2014, ALI paid ₱50.8 million for the matured portion of the loan. In January 2016, ALI paid ₱3.8 billion notes for the matured portion of the loan. As of December 31, 2016, the remaining balance of the FXCN amounted to ₱4.3 billion.

Philippine Peso 10-year Note due 2022

In December 2012, ALI executed a ₱5.0 billion committed Corporate Note facility with a local bank, of which an initial ₱3.5 billion was drawn in 2012. The balance of ₱1.5 billion was subsequently drawn in January 2013. The Corporate Notes currently bear a fixed interest rate of 4.50% and will mature on the third month succeeding the tenth anniversary of the initial drawdown date. In 2015, the ₱50.0 million was prepaid by ALI. In 2016, another ₱50.0 million was prepaid by ALI. As of December 31, 2016, the remaining balance of the note amounted to ₱4.9 billion.

The loan agreements on long-term debt of the Parent Company and certain subsidiaries provide for certain restrictions and requirements with respect to, among others, payment of dividends, incurrence of additional liabilities, investment and guaranties, mergers or consolidations or other material changes in their ownership, corporate set-up or management, acquisition of treasury stock, disposition and mortgage of assets and maintenance of financial ratios at certain levels.

These restrictions and requirements were complied with by the Group as of December 31, 2016 and 2015.

Total interest paid amounted to ₱14.0 billion in 2016, ₱13.3 billion in 2015 and ₱12.0 billion in 2014.

Interest capitalized by subsidiaries amounted to ₱1,680.9 million in 2016, ₱629.9 million in 2015 and ₱453.7 million in 2014. The average capitalization rate is 4.57% in 2016, 7.02% in 2015 and 7.01% to 8.78% in 2014.

21. Other Noncurrent Liabilities

This account consists of the following:

	2016	2015
	(In Thousands)	
Deposits and deferred credits	₱20,943,757	₱17,027,323
Contractors payable	9,266,399	8,272,014
Retentions payable	6,485,226	5,122,306
Liability for purchased land	2,099,051	110,475
DRP obligation	656,638	551,182
Provisions (Note 36)	501,099	1,003,512
Subscriptions payable	516,695	16,500
Others	401,657	135,460
	₱40,870,522	₱32,238,772

Deposits and deferred credits

Deposits include security deposits from tenants of retail and office spaces and deferred credits arising from sale of real estate properties. Security deposits are equivalent to one (1) to three (3) months' rent of long-term tenants with noncancellable leases. This will be refunded to the lessees at the end of the lease term or be applied to the last months' rentals on the related contracts. Deferred credits pertains to advances from buyers of real estate properties to cover various processing fees including, but not limited to, fees related to transfer of title such as registration fees, documentary taxes and transfer taxes. Payments made by ALI Group for the processing of title are charged to this account.

Contractors payable

Contractors payable are estimates for additional project cost to be incurred for project development.

Retentions payable

Retentions payable pertains to amount withheld by the Group from the contractors' progress billings which will be later released after the guarantee period, usually one year after the completion of the project. The retention serves as a security from the contractor should there be defects in the project.

Liability for purchased land

Liability for purchased land pertains to the portion of unpaid unsubdivided land acquired during the year. These are normally payable in quarterly or annual installment payments within three (3) or five (5) years.

DRP obligation

DRP obligation pertains to the liability arising from the assignment agreement between NTDCC and MRT Development Corporation (MRTDC) of the latter's development rights (see Note 34). In consideration of the lease, NTDCC will be charged an annual rent related to the original DRP obligation on the MRTDC and 5% of the rental income from the NTDCC's commercial center business.

Provisions

Provisions relate to pending unresolved claims and assessments. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these claims and assessments.

Subscriptions payable

Subscription payable mainly pertains to POPI's investment in Cyber Bay.

On April 25, 1995, Central Bay, a wholly-owned subsidiary of Cyber Bay, entered into a Joint Venture Agreement with the Philippine Reclamation Authority (PRA; formerly Public Estates Authority) for the complete and entire reclamation and horizontal development of a portion of the Manila-Cavite Coastal Road and Reclamation Project (the Project) consisting of three partially reclaimed and substantially eroded islands (the Three Islands) along Emilio Aguinaldo Boulevard in Parañaque and Las Piñas, Metro Manila with a combined total area of 157.8 hectares, another area of 242.2 hectares contiguous to the Three Islands and, at Central Bay's option as approved by the PRA, an additional 350 hectares more or less to regularize the configuration of the reclaimed area.

On March 30, 1999, the PRA and Central Bay executed an Amended Joint Venture Agreement (AJVA) to enhance the Philippine Government's share and benefits from the Project which was approved by the Office of the President of the Philippines on May 28, 1999.

On July 9, 2002, the Supreme Court (SC) (in the case entitled "Francisco Chavez vs. Amari Coastal Bay and Reclamation Corp.") issued a ruling declaring the AJVA null and void. Accordingly, PRA and Central Bay were permanently enjoined from implementing the AJVA. On July 26, 2002, Central Bay filed a Motion for Reconsideration (MR) of said SC decision. On May 6, 2003, the SC En Banc denied with finality Central Bay's MR. On May 15, 2003, Central Bay filed a Motion for Leave to Admit Second MR. In an En Banc Resolution of the SC dated July 8, 2003, the SC resolved to admit the Second MR of Central Bay.

On November 11, 2003, the SC rendered a 7-7 split decision on Central Bay's Second MR. Because of the new issues raised in the SC's latest resolution that were never tried or heard in the case, Central Bay was constrained to file on December 5, 2003 a Motion for Re-deliberation of the SC's latest resolution which motion was denied with finality by the SC.

With the nullification of the AJVA, Central Bay has suspended all Project operations. On August 10, 2007, in view of the failure by the PRA to comply with its obligations and representations under the AJVA, Cyber Bay and Central Bay have filed their claims for reimbursement of Project expenses in the amount of ₱10,200.0 million with the PRA. Cyber Bay and Central Bay provided the PRA with the summary and details of their claims on September 5, 2007.

On July 15, 2008, Cyber Bay sent a follow-up letter to the PRA. The PRA, in its letter dated July 18, 2008, informed Cyber Bay that its claim is still being evaluated by the PRA. As at October 3, 2013, the claim is still being evaluated by the PRA.

On November 13, 2012, the SEC approved the conversion of debt to equity of Cyber Bay resulting to a change in percentage ownership of POPI from 22.3% to 10.5%. The management assessed that POPI ceased to have significant influence over Cyber Bay. As a result of the debt to equity conversion, the investment in Cyber Bay was reclassified to AFS financial asset.

As at December 31, 2016, ALI Group has unpaid subscription in Cyber Bay amounting to ₱481.7 million. The investment in Cyber Bay under "Investment in bonds and other securities" amounted to ₱777.3 million as of December 31, 2016 (see Note 10).

22. Equity

The details of the Parent Company's preferred and common shares follow:

	Preferred A shares		Preferred B shares		Preferred C shares		Voting Preferred shares		Common shares	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	<i>(In Thousands, except par value per share)</i>									
Authorized shares	12,000	12,000	58,000	58,000	40,000	40,000	200,000	200,000	900,000	900,000
Par value per share	₱100	₱100	₱100	₱100	₱100	₱100	₱1	₱1	₱50	₱50
Issued and subscribed shares	-	-	47,000	47,000	-	-	200,000	200,000	620,224	619,611
Outstanding shares										
At beginning of year	-	-	47,000	47,000	-	-	200,000	200,000	619,611	619,436
Issued shares on exercise of share options	-	-	-	-	-	-	-	-	82	175
Subscribed shares	-	-	-	-	-	-	-	-	531	-
At end of year	-	-	47,000	47,000	-	-	200,000	200,000	620,224	619,611

Details of Preferred B shares as follows:

Preferred B	Series 1		Series 2	
	2016	2015	2016	2015
Par value per share	₱100	₱100	₱100	₱100
Issued and subscribed shares	20,000	20,000	27,000	27,000
Outstanding shares	20,000	20,000	27,000	27,000

Preferred Shares

Preferred A shares

On November 11, 2008, the Parent Company filed a primary offer in the Philippines of its Preferred A shares at an offer price of ₱500.00 per share to be listed and traded on the PSE.

Preferred A shares are cumulative, nonvoting and redeemable at the option of the Parent Company under such terms that the BOD may approve at the time of the issuance of shares and with a dividend rate of 8.88% per annum. The Preferred A shares may be redeemed at the option of the Parent Company starting on the fifth year.

On June 28, 2013, the BOD approved and authorized the exercise of call option on Preferred A shares effective November 25, 2013 based on the dividend rate of 8.88% per annum. The redemption of Preferred A shares is presented as part of treasury stock.

Preferred B shares

In July 2006, the Parent Company filed a primary offer in the Philippines of its Preferred B shares at an offer price of ₱100.00 per share to be listed and traded in the PSE. The Preferred B shares are cumulative, nonvoting and redeemable at the option of the Parent Company under such terms that the BOD may approve at the time of the issuance of shares and with dividend rate of 9.4578% per annum. The Preferred B shares may be redeemed at the option of the Parent Company starting on the fifth year from the date of issuance.

On March 14, 2011, the BOD approved and authorized the exercise of call option on its Preferred B shares effective July 21, 2011 based on the dividend rate of 9.5% per annum. The redemption of Preferred B shares is presented as part of treasury stock.

Preferred B Series 1 shares

In September 2013, the BOD approved and authorized the re-issuance and offering of 20.0 million Preferred B Series 1 shares from its 58.0 million authorized Class "B" preferred treasury share capital for an aggregate amount of ₱10.0 billion. The Preferred B Series 1 shares were offered at a price of ₱500.00 per share with a fixed quarterly dividend rate of 5.25% per annum.

Preferred B Series 2 shares

On August 22, 2014, the BOD approved and authorized the re-issuance and offering of 27.0 million Preferred B Series 2 shares, which comprise a second and separate series from the Parent Company's outstanding 5.25% Preferred B Series 1 shares, from its 58.0 million authorized Class "B" preferred treasury share capital, for an aggregate amount of ₱13.5 billion. The Preferred B Series 2 shares were offered at a price of ₱500.00 per share with a fixed quarterly dividend rate of 5.575%. The reissuance resulted to the Parent Company recognizing ₱10.7 billion additional paid-in capital net of direct expenses from re-issuance.

Preferred C shares

Preferred C shares are cumulative, non-participating, non-voting and redeemable at the option of the Parent Company under such terms that the BOD may approve at the time of the issuance of the shares.

Voting Preferred shares

On March 15, 2010, the BOD approved the reclassification of 4.0 million unissued common shares with a par value of ₱50.00 per share into 200.0 million Voting Preferred shares with a par value of ₱1.00 per share and the amendment of the Parent Company's amended Articles of Incorporation to reflect the reclassification of the unissued common shares into new Voting Preferred shares.

On April 16, 2010, the Parent Company's stockholders ratified the reclassification.

On April 22, 2010, the SEC approved the amendments to the Parent Company's Articles of Incorporation embodying the reclassification of the unissued common shares to new Voting Preferred shares.

The Voting Preferred shares are cumulative, voting and redeemable at the option of the Parent Company under such terms that the BOD of the Parent Company may approve at the time of the issuance of shares and with a dividend rate of 5.3% per annum. In 2013, the dividend rate was repriced to 1.875%.

Common Shares

The common shares may be owned or subscribed by or transferred to any person, partnership, association or corporation regardless of nationality, provided that at any time at least 60% of the outstanding capital stock shall be owned by citizens of the Philippines or by partnerships, associations or corporations with 60% of the voting stock or voting power of which is owned and controlled by citizens of the Philippines.

In July 2013, the SEC approved the amendments to the Parent Company's Articles of Incorporation for the exemption of 100 million common shares from the exercise of pre-emptive rights of holders of common shares. These shares are allocated to support the financing activities of the Parent Company.

Treasury shares

As of December 31, 2016 and 2015, treasury shares include 12.0 million Preferred A shares and 11.0 million Preferred B shares amounting to ₱1.2 billion and ₱1.1 billion, respectively.

The details of the Parent Company's paid-in capital follow:

2016

	Preferred Stock - A	Preferred Stock - B	Preferred Stock - Voting	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital
At January 1, 2015	₱1,200,000	₱5,800,000	₱200,000	₱30,808,747	₱171,810	₱36,316,709	(₱577,944)	₱73,919,322
Exercise/cancellation of ESOP/ESOWN	-	-	-	4,116	26,557	611,617	(321,196)	321,094
Collection of subscription receivables	-	-	-	-	-	-	139,344	139,344
At December 31, 2015	₱1,200,000	₱5,800,000	₱200,000	₱30,812,863	₱198,367	₱36,928,326	(₱759,796)	₱74,379,760

2015

	Preferred Stock - A	Preferred Stock - B	Preferred Stock - Voting	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital
(In Thousands)								
At January 1, 2015	₱1,200,000	₱5,800,000	₱200,000	₱30,799,997	₱171,810	₱36,115,565	(₱715,867)	₱73,571,505
Exercise/cancellation of ESOP/ESOWN	-	-	-	8,750	-	201,144	137,923	347,817
At December 31, 2015	₱1,200,000	₱5,800,000	₱200,000	₱30,808,747	₱171,810	₱36,316,709	(₱577,944)	₱73,919,322

2014

	Preferred Stock - A	Preferred Stock - B	Preferred Stock - Voting	Common Stock	Subscribed	Additional Paid-in Capital	Subscriptions Receivable	Total Paid-in Capital
(In Thousands)								
At January 1, 2014	₱1,200,000	₱5,800,000	₱200,000	₱29,821,726	₱150,176	₱13,432,506	(₱438,279)	₱50,166,129
Exercise/cancellation of ESOP/ESOWN	-	-	-	22,530	38,420	660,682	(277,588)	444,044
Reclassification of ESOWN shares	-	-	-	16,786	(16,786)	-	-	-
Issuance of new common shares	-	-	-	938,955	-	11,298,256	-	12,237,211
Reissuance of treasury stocks	-	-	-	-	-	10,724,121	-	10,724,121
At December 31, 2014	₱1,200,000	₱5,800,000	₱200,000	₱30,799,997	₱171,810	₱36,115,565	(₱715,867)	₱73,571,505

In accordance with SRC Rule 68, as Amended (2011), Annex 68-D, below is a summary of the Parent Company's track record of registration of securities.

	Number of shares registered	Issue/offer price	Date of approval	2016 Number of holders of securities as of December 31	2015 Number of holders of securities as of December 31
Common shares	200,000,000*	₱1.00 par value**; ₱4.21 issue price	July 1976	6,706	6,791
Preferred A shares***	12,000,000	₱100 par value; ₱500 issue price	November 2008	-	-
Preferred B shares	18,000,000	₱100 par value; ₱500 issue price	July 2006	-	-
Preferred B shares- Series 1****	20,000,000	₱100 par value; ₱500 issue price	October 2013	18	18
Preferred B shares- Series 2*****	27,000,000	₱100 par value; ₱500 issue price	October 2014	10	9
Voting preferred shares	200,000,000	₱1 par value; ₱1 issue price	March 2010	1,010	1,010

*Initial number of registered shares only.

**Par value now is ₱50.00

***The Preferred A shares were fully redeemed on November 25, 2013.

****The Preferred B- Series 1 shares were re-issued on November 15, 2013.

*****The Preferred B-Series 2 shares were re-issued on November 6, 2014.

Retained Earnings

Retained earnings include the accumulated equity in undistributed net earnings of consolidated subsidiaries and associates and joint ventures accounted for under the equity method amounting to ₱112,620.0 million, ₱92,897.0 million and ₱77,702.0 million as of December 31, 2016, 2015 and 2014, respectively, which are not available for dividend declaration by the Parent Company until these are declared by the investee companies.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury.

In accordance with the SRC Rule 68, as Amended (2011), Annex 68-C, the Parent Company's retained earnings available for dividend declaration as of December 31, 2016 and 2015 amounted to ₱30.5 billion and ₱29.1 billion, respectively.

Dividends consist of the following:

	2016	2015	2014
	(In Thousands, except dividends per share)		
Dividends to common shares			
Cash dividends declared during the year	₱3,572,400	₱3,568,930	₱2,927,822
Cash dividends per share	5.76	5.76	4.80
Dividends to equity preferred shares declared during the year			
Cash dividends to Preferred B shares	1,277,625	1,277,625	1,277,625
Cash dividends to Voting Preferred shares	7,390	3,750	3,750

Capital Management

The primary objective of the Parent Company's capital management policy is to ensure that it maintains a robust balance sheet in order to support its business and maximize shareholder value. The Parent Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Parent Company may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2016, 2015 and 2014.

The Parent Company monitors capital using a gearing ratio of debt to equity, and net debt to equity. Debt consists of short-term and long-term debt. Net debt includes short-term and long-term debt less cash and cash equivalents, short-term investments and restricted cash. The Parent Company considers as capital the equity attributable to equity holders of the Parent Company.

	2016	2015
	(In Thousands)	
Short-term debt	₱30,858,137	₱24,387,515
Long-term debt	264,995,814	238,953,179
Total debt	295,853,951	263,340,694
Less:		
Cash and cash equivalents	60,223,324	82,154,542
Short-term investments	1,008,705	2,052,288
Net debt	₱234,621,922	₱179,133,864
Equity attributable to owners of the parent	₱230,922,532	₱208,657,359
Debt to equity	128.1%	126.2%
Net debt to equity	101.6%	85.9%

The Parent Company is not subject to externally imposed capital requirements.

23. Other Income and Costs and Expenses

Other income consists of:

	2016	2015	2014
	(In Thousands)		
Revenue from rehabilitation works (Note 15)	₱6,804,908	₱5,085,532	₱3,285,900
Gain on sale of investments (Notes 2, 12 and 24)	2,138,620	2,377,381	2,633,329
Collateral income on automotive sales	624,396	552,249	333,284
Dividend income	570,455	229,362	224,767
Connection fees	529,674	622,013	496,377
Mark to market gain on financial assets at FVPL and derivatives (Notes 9 and 31)	473,855	243,452	392,002
Revenue from management contracts	224,818	437,442	645,087
Insurance claim	39,727	46,034	40,131
Gain on sale of other assets	5,182	76,888	711,001
Recoveries of accounts written off (Note 7)	1,603	–	49,807
Foreign exchange gain/(loss) (Note 31)	(56,035)	97,424	(177,404)
Others	1,788,858	1,529,160	545,973
	₱13,146,061	₱11,296,937	₱9,180,254

“Others” mainly includes income derived from ancillary services and miscellaneous income of consolidated subsidiaries. This include, among others, marketing fees; integrated used water and other water services (e.g., sale of packaged water, septic sludge disposal and bacteriological water analysis); and income from sale of scrap.

Details of costs of rendering services included in the consolidated statements of income are as follows:

	2016	2015	2014
	(In Thousands)		
Personnel costs (Notes 27 and 30)	₱7,261,015	₱10,301,230	₱9,466,055
Depreciation and amortization (Notes 13, 14, 15 and 16)	9,711,215	8,023,955	7,981,039
Rental, utilities and supplies	7,315,333	6,504,930	6,223,666
Repairs and maintenance	3,276,559	2,032,569	1,664,722
Professional and management fees	3,075,871	1,404,319	5,980,762
Taxes and licenses	2,508,810	2,272,950	1,821,705
Contract labor	692,791	1,890,244	353,468
Transportation and travel	388,431	290,891	164,247
Insurance	193,350	150,462	230,036
Others	1,174,056	701,695	609,982
	₱35,597,431	₱33,573,245	₱34,495,682

“Others” include various costs such as communication, dues and fees and miscellaneous overhead, among others.

General and administrative expenses included in the consolidated statement of income are as follows:

	2016	2015	2014
	(In Thousands)		
Personnel costs (Notes 27 and 30)	₱9,028,939	₱9,201,418	₱8,451,329
Depreciation and amortization (Notes 13, 14, 15 and 16)	1,849,256	1,419,134	1,177,156
Professional fees	1,792,108	1,216,319	1,171,376
Taxes and licenses	1,411,866	1,421,262	1,203,119
Advertising and promotions	845,082	794,388	540,951
Provision for doubtful accounts (Note 7)	812,997	261,066	182,383
Contract labor	756,859	510,354	314,895
Rental and utilities	734,745	597,187	481,518
Repairs and maintenance	526,265	282,804	276,481
Transportation and travel	459,175	408,002	415,097
Insurance	303,649	201,168	203,413
Postal and communication	265,356	218,722	203,296
Entertainment, amusement and recreation	178,306	239,625	159,620
Donations and contributions	150,915	274,036	360,208
Supplies	123,698	144,136	124,169
Dues and fees	110,652	81,979	93,359
Research and development	54,315	28,534	47,133
Provision for (reversal of) inventory obsolescence (Note 8)	(127,976)	74,435	149,077
Others	135,986	677,672	276,420
	₱19,412,193	₱18,052,241	₱15,831,000

“Others” include various expenses such as management fees, marketing, collection charges, sales commission, bank service charge, periodicals and miscellaneous operating expenses.

Depreciation and amortization expense included in the consolidated statement of income follows:

	2016	2015	2014
	(In Thousands)		
Included in:			
Costs of sales and services	₱9,711,215	₱8,023,955	₱7,981,039
General and administrative expenses	1,849,256	1,419,134	1,177,156
	₱11,560,471	₱9,443,089	₱9,158,195

Personnel costs included in the consolidated statement of income follow:

	2016	2015	2014
	(In Thousands)		
Included in:			
Costs of sales and services	₱7,261,015	₱10,301,230	₱9,466,055
General and administrative expenses	9,028,939	9,201,418	8,451,329
	₱16,289,954	₱19,502,648	₱17,917,384

Interest and other financing charges consist of:

	2016	2015	2014
	(In Thousands)		
Interest expense on:			
Short-term debt	₱1,039,030	₱882,759	₱131,939
Long-term debt	11,337,401	11,247,615	10,439,736
Amortization of service concession obligations and deposits	613,044	558,434	576,757
Amortization of discount on long-term debt	592,811	267,540	313,730
Others	675,903	320,066	471,619
	₱14,258,189	₱13,276,414	₱11,933,781

“Others” include, among others, various charges such as, pretermination costs, bond offering fees, and credit card charges.

Other charges consist of:

	2016	2015	2014
	(In Thousands)		
Cost of rehabilitation works (Note 15)	₱6,804,908	₱5,085,532	₱3,285,900
Provision for impairment/Losses on:			
Investments in associates and joint ventures (Note 12)	1,436,854	546,333	–
Property, plant and equipment (Note 14)	45,737	88,753	–
Intangible assets (Notes 16 and 24)	–	182,298	335,731
Investments in bonds and other securities (Note 10)	–	61,701	66,834
Write offs and other charges	–	–	2,080
Others	37,925	5,857	138,475
	₱8,325,424	₱5,970,474	₱3,829,020

“Others” include cost and expenses relating to income derived from ancillary services of subsidiaries as shown in other income.

24. Business Combinations and Transactions with Non-controlling Interests

2016 Acquisitions

Prime Orion Philippines, Inc. (POPI)

On February 24, 2016, ALI purchased 2.5 billion common shares or 51% interest in POPI for a total consideration ₱5,625.0 million. On July 4, 2016, ALI obtained control over POPI. Accordingly, POPI financial statements were consolidated on a line-by-line basis with that of the Group as of December 31, 2016.

The purchase price allocation has been prepared on a preliminary basis as the fair values of leasehold rights, investment property and property, plant and equipment are being finalized. The following are the preliminary fair values of the identifiable assets and liabilities assumed (in thousands):

Assets	
Cash	₱1,300,869
Trade and other receivables	6,119,799
Inventories	273,299
Other current assets	293,598
Financial assets at FVPL	17,903
AFS investments	1,394,192
Leasehold rights	3,611,808
Investment properties	1,562,098
Property, plant and equipment	88,876
Other noncurrent assets	93,012
	14,755,454
Liabilities	
Accounts and other payables	1,160,303
Deferred tax liabilities – net	1,422,162
Deposits and other liabilities	788,175
	3,370,640
Net assets	11,384,814
Total net assets acquired	5,813,086
Acquisition cost	5,625,000
Negative goodwill	(₱188,086)

The fair value of the trade and other receivables approximate their carrying amounts since these are short-term in nature. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected. The negative goodwill amounting to ₱188.1 million is included under “Other income”.

Of the total consideration of ₱5,625.0 million, only 25% or ₱1,406.3 million was paid on February 24, 2016, the remaining ₱4,218.8 million which is to be paid upon fulfillment of certain terms and conditions is included as part of “Trade receivables”.

From July 4 to December 31, 2016, ALI Group’s share in POPI’s revenue and net income amounted to ₱229.8 million and ₱12.9 million, respectively. If the combination had taken place at the beginning of 2016, the Group’s share in POPI’s revenue and net income (loss) would have been ₱435.8 million and (₱202.2 million), respectively.

VIA Optronics GmbH (VIA)

On August 16, 2016, Cooperatief and the shareholders of VIA entered into a Sale and Purchase Agreement (SPA) under which Cooperatief will acquire a 76.01% stake in VIA for a total cash consideration of €47.79 million (US\$53.46 million), while the remaining 23.99% to be retained by the company founder.

The SPA also provided details regarding the sale of additional shares from the non-controlling interest through the grant of put and call options, as follows:

Options	Description	Trigger Events	Option Shares	Option Price
Call Option	Right of IMI to buy all shares held by the non-controlling shareholder	<ul style="list-style-type: none"> Termination for a cause or expiration of the service agreement 	All shares of non-controlling shareholder at the date of exercise	FV of the shares at the time of exercise determined either by agreement by the parties or by an appointed auditor or expert
Exit put option	Right of the non-controlling shareholder to sell all shares held to IMI	<ul style="list-style-type: none"> Termination for a cause or expiration of the service agreement Share capital of VIA is increased that will dilute the holding of non-controlling interest to below 10% 	All shares of non-controlling shareholder at the date of exercise	FV of the shares at the time of exercise determined either by agreement by the parties or by an appointed auditor or expert
5% put option	Right of the non-controlling shareholder to sell to IMI a portion of its shareholding that is approximately 5% of the issued and outstanding nominal share capital of VIA	<ul style="list-style-type: none"> Exercisable any time between 1st and 3rd anniversary of the agreement If prior to the 3rd anniversary, the share capital of VIA is increased, the option may be exercised within 3 months from registration of the capital increase 	One share with a nominal value of €3,666	€3.1 million

The call option is accounted for under PAS 39, *Financial Instruments: Recognition and Measurement*, as a derivative asset carried at fair value through profit or loss. Given that the call option is exercisable at the fair value of the shares at the exercise date, the value of the derivative is nil. The financial liability for the put option is accounted for under PAS 39 like any other written put option on equity instruments. On initial recognition, the corresponding debit is made to a component of equity attributable to the parent, not to the non-controlling interest. All subsequent changes in the carrying amount of the financial liability that result from the remeasurement of the present value payable on exercise are recognized in profit or loss also attributable to the parent.

If the put option is exercised, the entity accounts for an increase in its ownership interest. At the same time, the entity derecognizes the financial liability and reverses the component of equity that was reduced on initial recognition. If the put option expires unexercised, the financial liability is reclassified to the same component of equity that was reduced on initial recognition.

The Group accounted for the put options as financial liabilities measured at the present value of the redemption amount, with a debit to "Equity Reserve" account, amounting to US\$12.1 million (P601.6 million) on initial valuation. Mark-to-market loss from valuation date until December 31, 2016 amounting to US\$0.40 million was recognized in the consolidated statements of income (see Note 23).

The purchase price allocation for the acquisition of VIA has been prepared on a preliminary basis due to unavailability of certain information to facilitate fair valuation computation, and reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are property, plant and equipment, intangible assets and goodwill. The provisional goodwill recognized on the acquisition can be attributed to its strong position to address the growing demand for displays in automotive and industrial outdoor applications and its experience in high reliability markets that matches IMI Group's existing offerings in the automotive, industrial and medical markets.

The provisional fair values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follows (in thousands):

	In US\$	In Php*
Assets		
Cash and cash equivalents	US\$6,585	₱327,406
Receivables	18,745	932,001
Inventories	5,448	270,875
Prepayments and other current assets	660	32,815
Property, plant and equipment	3,149	156,568
Intangible asset	493	24,512
Deferred tax asset	558	27,744
Other noncurrent asset	159	7,905
	35,797	1,779,826
Liabilities		
Accounts payable	18,393	914,500
Accrued expenses	1,757	87,358
Current portion of long-term debt	126	6,265
Loans payable	8,478	421,526
Other current liabilities	1,184	58,868
Long-term debt	209	10,391
	30,147	1,498,908
Net Assets	US\$5,650	₱280,918
Cost of acquisition	53,463	2,658,180
Less: Share in the fair value of net assets acquired (76.01%)	4,295	213,547
Provisional goodwill	US\$49,168	₱2,444,633
Non-controlling interest (23.99%)	US\$1,355	₱67,392

*Translated using the exchange rate at the reporting date (US\$1:₱49.72 on December 31, 2016).

Analysis of cash flows on acquisition (in thousands):

	In US\$	In Php*
Cost of acquisition	US\$53,463	₱2,658,180
Less: Cash acquired with the subsidiary	6,585	327,406
Net cash flow (included in cash flows from investing activities)	US\$46,878	₱2,330,774

*Translated using the exchange rate at the reporting date (US\$1:₱49.72 on December 31, 2016).

Acquisition-related costs, which consist of professional and legal fees, financing and transaction costs, representation and travel expenses amounting to US\$1.36 million were recognized as expense in 2016.

From the date of acquisition up to December 31, 2016, IMI Group's share in VIA's revenue and net loss amounted to US\$19.4 million and US\$0.4 million, respectively. If the combination had taken place at the beginning of 2016, the Group's total revenue would have increased by US\$64.6 million, while net income before tax would have decreased by \$0.1 million.

Northwind

On November 21, 2016, ACEHI, through its wholly-owned subsidiary Presage Corporation, purchased an additional 17.79% stake in Northwind amounting to ₱355.9 million. This transaction resulted to an increase in ACEHI's ownership interest in Northwind from 50.00% to 67.79%.

Below is a summary of the fair values of assets acquired and liabilities assumed as of the date of the acquisition (amount in thousands):

Assets	
Cash	₱241,033
Receivables	348,248
Prepayments and other current assets	234,723
Investments - Ilocos Mango Growers, Inc.	209
Property and equipment	4,136,655
	4,960,868
Liabilities	
Accounts payable and accrued expenses	211,957
Deferred tax liability	129,675
Loans payable	2,237,909
	2,579,541
Net Assets	2,381,327
Negative goodwill	(149,849)
Fair value of previously held interest	(1,099,998)
Non-controlling interest	(775,598)
Acquisition cost	₱355,882

The cost of the acquisition is determined as follows (amounts in thousands):

Cash paid	₱355,882
Fair value of previously held interest	1,099,998
	₱1,455,880

Cash on acquisition follows (amounts in thousands):

Cash acquired from Northwind	₱241,033
Cash paid	(355,882)
Net cash flow	(₱114,849)

2015 Acquisitions

University of Nueva Caceres

On July 28, 2015, AEI acquired 59% ownership interest in the shares of stock of UNC amounting to ₱450.0 million. UNC is located in Naga, Camarines Sur and was founded in 1948 as the first university in Southern Luzon outside Manila. UNC has around 7,500 students, with many well-recognized programs in arts and sciences, business and accountancy, computer studies, criminal justice, education, engineering and architecture, graduate studies, law, nursing and basic education (K-10).

The purchase price allocation was determined using the June 30, 2015 financial information resulting in zero goodwill. The purchase price has been allocated based on management's estimates after considering independent appraisals of the fair values of the acquired identifiable assets and assumed liabilities at the date of acquisition as follows (amount in thousands):

Assets	
Cash	₱148,550
Receivables	50,680
Prepaid expense and other current assets	1,170
Properties and equipment	836,060
Other noncurrent assets	4,360
	1,040,820

(Forward)

Liabilities	
Accounts payable and accrued expenses	₱57,870
Income tax payable	18,780
Special funds and deposits payable	157,490
Pension liability	27,860
Deferred income	22,580
	284,580
Net assets	756,240
Goodwill	—
Non-controlling interest	307,660
Acquisition cost	₱448,580

The gross amount and fair value of the receivables amounts to ₱66.4 million and ₱50.7 million, respectively. From the date of acquisition, the Group's share in the revenue and net income of UNC amounted to ₱85.7 million and ₱23.3 million, respectively.

As of December 31, 2016, AEI owns 51% of the common shares of UNC.

Monte Solar Energy, Inc.

On September 8, 2015, ACEHI signed the Subscription and Shareholder's Agreement with Bronzeoak Philippines, Inc. for the development, construction and operation of a solar power farm in Bais City, Negros Oriental. The project will be owned and operated by Monte Solar a special purpose vehicle, and shall be undertaken in two phases. The first phase is for an 18MW solar power plant with total project cost of ₱1.3 billion and is targeted for completion by March 2016. The second phase is for the expansion of the initial 18MW solar power farm to up to 40MW. In February 2016, the solar farm began full commercial operations dispatching 18MWp to the grid.

ACEHI acquired 96.0% economic interest in Monte Solar. Below is a summary of the fair value of assets acquired and liabilities assumed as of the date of the acquisition (in thousands):

Assets	
Cash	₱304
Input VAT	306
Properties and equipment - net	5,740
Security deposits	134
	6,484
Liabilities	
Trade and other payables	1,628
Advances from affiliates	5,757
	7,385
Net liability	(901)
Goodwill	1,585
Non-controlling interest	36
Acquisition cost	₱720

Cash on acquisition is as follows (in thousands):

Cash acquired from Monte Solar Energy, Inc.	₱304
Cash paid	(720)
Net cash flow	(₱416)

ALO Prime Realty Corporation (APRC) formerly Aegis People Support Realty Corporation

On April 8, 2015, ALI purchased all of the 8,200,000 common shares of Equinox Technoparks Ltd, Inc. in APRC, which is a Philippine Export Zone Authority (PEZA)-registered entity, owns the Aegis building along Villa Street, Cebu IT Park, Lahug, Cebu City. The building is a certified LEED-Gold Office with a gross leasable area of 18,092 square meters and is largely occupied by Teleperformance under a long-term lease.

The purchase price allocation has been prepared on a preliminary basis as the fair values are being finalized. The following are the final fair values of the identifiable assets and liabilities assumed (in thousands):

Assets	
Cash	₱15,580
Trade and other receivables	305,070
Other current assets	5,740
Investment properties	1,584,929
Other noncurrent assets	4,095
	<hr/>
	1,915,414
Liabilities	
Accounts and other payables	1,336,692
Other current liabilities	56,962
Deferred tax liabilities	8,083
	<hr/>
	1,401,737
Total net assets acquired	513,677
Acquisition cost	513,677
Goodwill	₱-

The fair value of the trade and other receivables approximate their carrying amounts. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

From April 8 to December 31, 2015, ALI's share in APRC's revenue and net income amounted to ₱141.1 million and ₱72.3 million, respectively. If the combination had taken place at the beginning of 2015, ALI's share in APRC's total revenue and net income would have been ₱189.8 million and ₱94.8 million, respectively.

Island Transvoyager, Inc. (ITI)

On December 1, 2015, ALI Capital Corp. (formerly Varejo Corp.), a wholly owned subsidiary of ALI, acquired 100% ownership interest in ITI following the purchase of all outstanding shares from existing shareholders, in the amount of ₱15.0 million.

ITI was incorporated on October 2, 2002 with the primary purpose of carrying on the general business of a common carrier and/or private carrier. It was granted the Air Carrier Operating Certificate by the Air Transportation Office to enable it to operate as a scheduled domestic air transportation service provider.

ITI is the only airline commercially flying from Manila to Lio in El Nido, Palawan. On November 26, 2015, ITI launched "AirSwift" as its new brand and introduced its new Cebu-El Nido-Cebu route. As of end-2015, it currently operates a fleet of two (2) ATR 42-500 that can seat a maximum of 50 passengers each, and operates 3x-4x daily flights to El Nido. It is also expected to be a key player in the industry as it flies to more tourism destinations not serviced by the bigger commercial airlines.

If the combination had taken place at the beginning of 2015, ALI's share in ITI's total revenue and net income would have been ₱434.8 million and ₱0.2 million, respectively.

Transactions with Non-controlling Interest

Parent Company

MWC

In 2016 and 2015, the Parent Company purchased additional 1,040,600 and 77,629,900 shares amounting to ₱21.3 million and ₱1.9 billion, respectively. In December 2016, the Parent Company disposed of 437,300 shares amounting to ₱3.7 million. The Parent Company recognized ₱9.4 million gain on sale. The transactions resulted to an increase in the Parent Company's ownership interest in MWC by 0.02%. As of December 31, 2016 and 2015, ownership interest of the Parent Company in MWC is at 35.3%.

The difference between the fair value of the consideration paid and the amount of which the noncontrolling interest is adjusted amounting to ₱675.4 million is recognized in equity under "Equity Reserve".

ALI Group

CHI

In February 2016, ALI purchased additional 906,000 common shares of CHI from BPI Securities Corporation totaling ₱4.1 million which brought ALI's ownership from 56.36% to 56.40%. Subsequently, on March 14, 2016, ALI bought additional 200,953,364 CHI's common shares from First Metro Securities Brokerage Corporation for ₱1,200.0 million resulting into an increase to 66.9% of the total outstanding capital stock of CHI.

In 2016, ALI purchased additional 201,859,364 common shares of CHI for total consideration of ₱1,209.8 million which brought ALI's ownership from 56.4% to 66.9%. The transaction was accounted for as an equity transaction since there was no change in control. The difference between the fair value of the consideration paid and the amount of which the noncontrolling interest is adjusted amounting to ₱461.0 million is recognized in equity under "Equity Reserve".

Nuevo Centro, Inc. (Nuevo Centro)

From March 2016 to July 2016, LLHI subscribed to 18,150,931 common and 48,876,456 preferred shares of Nuevo Centro or equivalent to 45.0% stake of NCI's total outstanding capital. This transaction resulted into lower ALI's interest to 55.0% in NCI as of December 31, 2016.

North Triangle Depot Commercial Corporation (NTDCC)

On December 10, 2014, ALI purchased its proportionate share in Anglo Philippine Holdings Corporation's (APHC) 15.79% ownership interest in NTDCC for ₱738.3 million which consists of 539,249 common shares and 2,265,507 preferred shares. This increased ALI's ownership interest in NTDCC from 49.29% to 58.53% of the total outstanding capital stock of NTDCC which owns and operates the Trinoma Commercial Centre in North Triangle, Quezon City.

On December 22, 2014, ALI purchased the shares of Allante Realty and Development Corporation (ARDC) and DBH Incorporated (DBH) in NTDCC for ₱211.2 million which comprises of 154,287 common shares and 648,196 preferred shares for each company. This resulted to an increase in ALI's ownership interest in NTDCC from 49.29% to 63.82% of the total outstanding capital stock of NTDCC.

On February 6, 2015, ALI purchased the remaining interest of APHC in NTDCC consisting of 382,072 common shares and 1,605,169 preferred shares amounting to ₱523.0 million. The transaction increased ALI's ownership interest from 63.82% to 70.36% of the total outstanding capital stock of NTDCC.

ALI subsequently purchased the combined remaining interest of ARDC and DBH in NTDCC consisting of 167,548 common shares and 703,904 preferred shares amounting to ₱229.0 million which increased ALI's ownership interest in NTDCC from 70.36% to 73.24% of the total outstanding capital stock of NTDCC. This acquisition is aligned with ALI's thrust of expanding its leasing business.

Philippine Intergrated Energy Solutions, Inc. (PhilEnergy)

ALI acquired Mitsubishi Corporation's (MC) 40% equity ownership interest in PhilEnergy which effectively made PhilEnergy a wholly owned subsidiary ALI. The transaction which was executed last March 13, 2014 through a Share Purchase Agreement involving 2,957,200 shares held by MC in PhilEnergy amounting to ₱322.3 million.

IMI Group

STEL

On December 26, 2016, STEL acquired the remaining non-controlling interest in Shenzhen Speedy-Tech Electronics Co., Ltd. for a total consideration of US\$0.4 million.

The details of the transaction are as follows (in thousands):

	In US\$	In Php*
Non-controlling interest acquired	US\$190	₱9,447
Consideration paid to the non-controlling shareholder	(360)	(17,899)
Total amount recognized in "Equity Reserves" account within equity	(US\$170)	(₱8,452)

**Translated using the exchange rate at the reporting date (US\$1:₱49.72 on December 31, 2016).*

PSi

On January 5, 2015, Deeds of Assignment of Shares effective December 29, 2014 were executed between IMI and the minority shareholders of PSi namely Narra Venture and Narra Associate II Limited for the purchase of the remaining 16.75% interest in PSi for a total consideration of US\$0.5 million. The purchase of the remaining minority shares resulted to the 100% ownership of IMI in PSi.

Details of the transactions are as follows (amounts in thousands):

		2014
Change in ownership interest		83.25% to 100%
Non-controlling interests acquired	(US\$3,145)	(₱140,644)
Consideration paid to non-controlling shareholders	US\$500	₱22,360
Value of the option exercised	—	—
Total consideration	500	22,360
Total amount recognized against "Equity Reserves"	(US\$3,645)	₱163,004

^a Share of the Parent Company in the exercise price

Microenergia

In October 2014, IMI BG acquired the remaining 30% ownership interest in Microenergia for a total consideration of US\$138,622.

The details of the transaction are as follow (amounts in thousands):

	In US\$	In Php*
Non-controlling interest acquired	US\$200	₱8,974
Consideration paid to the non-controlling shareholder	(138)	(6,211)
Total amount recognized in "Equity Reserves"	US\$62	₱2,763

**Translated using the exchange rate at the reporting date (US\$1:₱49.72 on December 31, 2016).*

25. Income Tax

The components of the Group's deferred taxes are as follows:

Net deferred tax assets

	2016	2015
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	₱6,655,930	₱5,334,046
Accrued expenses	2,416,227	1,492,455
Allowance for probable losses	1,230,459	1,208,469
Service concession obligation	1,136,592	891,967
Retirement benefits	682,398	420,325
Unrealized foreign exchange loss	69,832	63,012
Allowance for doubtful accounts	53,970	24,917
Allowance for inventory obsolescence	23,199	19,498
Fair value adjustment on property, plant and equipment arising from business combination	14,031	20,538
Advanced rental	4,856	4,620
Remeasurement loss	3,125	182,319
Others	648,919	621,310
	12,939,538	10,283,476
Deferred tax liabilities on:		
Capitalized interest and other expenses	(512,191)	(532,862)
Others	(12,700)	(7,817)
	(524,891)	(540,679)
Net deferred tax assets	₱12,414,647	₱9,742,797

Net deferred tax liabilities

	2016	2015
	(In Thousands)	
Deferred tax assets on:		
Fair value adjustments on:		
Long-term debt	₱114,943	₱125,060
AFS financial asset	1,116	1,116
Allowance for probable losses	66,214	89,213
Difference between tax and book basis of accounting for real estate transactions	24,178	298,848
Advanced rental	21,074	8,849
Accrued expenses	20,020	-
NOLCO	15,586	189,630
Unrealized foreign exchange loss	727	27,662
Retirement benefits	619	26,106
Others	20,141	21,569
	284,618	788,053
Deferred tax liabilities on:		
Fair value adjustments on arising from business combination:		
Service concession assets	(4,090,901)	(4,294,580)
Land and improvements	(625,490)	(625,490)
Property, plant and equipment	(226,722)	(239,778)

(Forward)

	2016	2015
Service concession obligation	(P34,091)	(P34,091)
Customers' guaranty and other deposits	(18,691)	(18,691)
Fair value adjustment arising from business combination	(2,064,770)	-
Difference between tax and book basis of accounting for real estate transactions	(1,767,512)	(1,423,376)
Capitalized interest and other expenses	(148,767)	(64,450)
Unrealized gain on AFS financial assets	(108,226)	(15,989)
Insurance recovery	(98,382)	-
Concession finance receivable	(68,677)	(68,677)
Accrued receivables	(44,726)	-
Retirement benefits	(18,739)	-
Unrealized foreign exchange gain	(10,601)	(11,819)
Unrealized fair value gain less costs to sell of biological assets	(9,508)	(6,938)
Depreciation	(7,796)	-
Prepaid expenses	(11,088)	(119,525)
Service concession obligation	-	(4,823)
Others	(473,685)	(300,331)
	(9,828,372)	(7,228,558)
Net deferred tax liabilities	(P9,543,754)	(P6,440,505)

The Group has NOLCO amounting to P16.6 billion and P14.6 billion in 2016 and 2015, respectively, on which deferred tax assets have not been recognized. Further, deferred tax assets from the excess MCIT over regular corporate income tax amounting to P58.8 million in 2016 and P46.6 million in 2015, respectively, were also not recognized, since management believes that there could be no sufficient taxable income against which the benefits of the deferred tax assets may be utilized.

As of December 31, 2016, NOLCO and MCIT that can be claimed as deduction from future taxable income or used as deductions against income tax liabilities, respectively, are as follows:

Year incurred	Expiry Date	NOLCO	MCIT
		(In Thousands)	
2014	2017	P5,767,695	P28,670
2015	2018	4,923,841	19,606
2016	2019	5,947,835	21,789
		P16,639,371	P70,065

As of December 31, 2016 and 2015 deferred tax liabilities have not been recognized on the undistributed earnings and cumulative translation adjustment of foreign subsidiaries since the timing of the reversal of the temporary difference can be controlled by the Group and management does not expect the reversal of the temporary differences in the foreseeable future. The undistributed earnings and cumulative translation adjustment amounted to P10.7 billion and P7.8 billion as of December 31, 2016 and 2015, respectively.

The reconciliation between the statutory and the effective income tax rates follows:

	2016	2015	2014
Statutory income tax rate	30.00%	30.00%	30.00%
Tax effects of:			
Nontaxable share of profit of associates and joint ventures	(10.10)	(9.54)	(9.79)
Nondeductible expenses	4.57	0.78	1.44
Interest income and capital gains subjected to lower rates	(0.58)	(0.72)	(2.03)
Income under income tax holiday	(3.94)	(0.17)	(0.31)
Others	(0.47)	(1.31)	0.83
Effective income tax rate	19.48%	19.04%	20.14%

The income tax on profits of overseas subsidiaries have been calculated at the rates of tax prevailing in the countries where such subsidiary operates, based on existing legislation, interpretations and practices in respect thereof.

Revenue Regulations (RR) No. 16-2008

RR No. 16-2008 provided the implementing guidelines for Section 34 of Republic Act No. 9504 on the use of the Optional Standard Deduction (OSD) for corporations. The OSD allowed shall be an amount not exceeding 40% of the gross income. Gross income earned refers to gross sales or gross revenue derived from any business activity, net of returns and allowances, less cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses. This was applied by MWC and for the years ended December 31, 2016, 2015 and 2014.

MWC availed of the income tax holiday granted for Board of Investments (BOI) registered projects, the Antipolo Water Supply Project in 2011 and East La Mesa (Rodriguez) Water Treatment Plant Project in 2012.

The tax rate of 18% for the years in which OSD is projected to be utilized was used in computing the deferred income taxes on the net service concession obligation starting 2009.

The availment of OSD affected the recognition of several deferred tax assets and liabilities, in which the related income and expenses are not considered in determining gross income for income tax purposes. MWC forecasts that it will continue to avail of the OSD, such that the manner by which it will recover or settle the underlying assets and liabilities, for which the deferred tax assets and liabilities were initially recognized, would not result in any future tax consequence under OSD.

Registration with the PEZA and Board of Investments (BOI) Incentives

Some activities of certain local subsidiaries are registered with the PEZA and BOI. Under the registration, these subsidiaries are entitled to certain tax and nontax incentives, which include, but are not limited to, income tax holiday (ITH) and duty-free importation of inventories and capital equipment. Upon the expiration of the ITH, the subsidiaries will be liable for payment of a five percent (5%) tax on gross income earned from sources within the PEZA economic zone in lieu of payment of national and local taxes.

26. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to owners of the Parent Company:

	2016	2015	2014
	(In Thousands, except EPS figures)		
Net income attributable to the owners of the Parent Company	₱26,011,263	₱22,278,955	₱18,609,229
Less dividends on preferred stock	1,281,375	1,281,375	622,828
	24,729,888	20,997,580	17,986,401
Less profit impact of assumed conversions of potential ordinary shares of investees	262,166	225,795	205,014
	₱24,467,722	₱20,771,785	₱17,781,387
Weighted average number of common shares	620,058	619,562	603,060
Dilutive shares arising from stock options	2,379	2,637	2,751
Adjusted weighted average number of common shares for diluted EPS	622,437	622,199	605,811
Basic EPS	₱39.88	₱33.89	₱29.83
Diluted EPS	₱39.31	₱33.38	₱29.35

27. Defined Benefit Plan

The Parent Company and certain subsidiaries have their respective funded, noncontributory tax-qualified defined benefit type of retirement plans covering substantially all of their employees. The benefits are based on defined formula with a certain minimum lump-sum guarantee of effective salary per year of service. The consolidated retirement costs charged to operations amounted to ₱871.4 million, ₱817.4 million and ₱839.3 million in 2016, 2015 and 2014, respectively.

The Parent Company's pension fund is known as the AC Employees Welfare and Retirement Fund (ACEWRF). ACEWRF is a legal entity separate and distinct from the Parent Company, governed by a board of trustees appointed under a Trust Agreement between the Parent Company and the initial trustees. It holds common and preferred shares of the Parent Company in its portfolio. All such shares have voting rights under certain conditions, pursuant to law. ACEWRF's portfolio is managed by a committee appointed by the fund's trustees for that purpose. The members of the committee include the Parent Company's Chief Finance Officer, Group Head of Corporate Governance, General Counsel, Corporate Secretary and Compliance Officer, Head for Strategic Human Resources, Treasurer and Comptroller. ACEWRF has not exercised voting rights over any shares of the Parent Company that it owns.

For the subsidiaries, the funds are generally administered by a trustee bank under the supervision of the Board of Trustees of the plan for each subsidiary. The Board of Trustees is responsible for investment of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes account of the plans' objectives, benefit obligations and risk capacity.

Existing regulatory framework in the Philippines requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. The Group also provides additional post employment healthcare benefits to certain senior employees in the Philippines. These benefits are unfunded.

The components of expense (included in personnel costs under “Cost of services” and “General and administrative expenses”) in the consolidated statement of income follow:

	2016	2015	2014
		(In Thousands)	
Current service cost	₱704,932	₱704,928	₱768,166
Past service cost	14,350	28,458	6,903
Net interest cost on benefit obligation	153,556	84,832	64,070
Loss (gain) on curtailment and settlements	(1,416)	(791)	114
Total pension expense	₱871,422	₱817,427	₱839,253

The remeasurement effects recognized in other comprehensive income (included in Equity under “Remeasurement losses/(gains) on defined benefit plans”) in the consolidated statement of financial position follow:

	2016	2015	2014
		(In Thousands)	
Loss on plan assets (excluding amount included in net interest)	₱236,148	₱87,456	₱193,384
Actuarial loss (gain) due to liability assumption changes – demographic	(336,353)	(150,092)	(300,898)
Actuarial loss (gain) due to liability assumption changes – financial	(62,177)	(15,516)	(196,820)
Remeasurements in other comprehensive income	(₱162,382)	(₱78,152)	(₱304,334)

The funded status and amounts recognized in the consolidated statement of financial position for the pension plan as of December 31, 2016 and 2015, as follows:

	2016	2015
		(In Thousands)
Benefit obligations	₱9,586,617	₱9,442,829
Plan assets	(7,354,356)	(6,963,028)
Net pension liability position	₱2,232,261	₱2,479,801

As of December 31, 2016 and 2015 pension assets (included under “Pension and Other Noncurrent Assets”) amounted to ₱236.9 million, and ₱66.2 million (see Note 17), respectively, and pension liabilities amounted to ₱2.5 billion and ₱2.5 billion, respectively.

The following tables present the changes in the present value of defined benefit obligation and fair value of plan assets:

Present value of defined benefit obligation

	2016	2015
		(In Thousands)
Balance at beginning of year	₱9,442,829	₱9,167,101
Current service cost	704,932	704,928
Past service cost	14,350	28,458
Interest cost	465,361	295,396
Loss (gain) on curtailment and settlements	(1,416)	(791)
Benefits paid from plan assets	(694,115)	(591,813)
(Forward)		

	2016	2015
	(In Thousands)	
Remeasurements in other comprehensive income:		
Actuarial changes arising from changes in demographic	(P336,353)	(P148,248)
Actuarial changes arising from experience adjustments	(62,177)	(15,516)
Transfers	50,032	9,445
Foreign currency exchange difference	3,174	(6,131)
	P9,586,617	P9,442,829

Fair value of plan assets

	2016	2015
	(In Thousands)	
Balance at beginning of year	P6,963,028	P7,006,199
Contributions	956,459	359,060
Interest income on plan assets	311,805	210,564
Return on plan assets (excluding amount included in net interest)	(236,148)	(87,456)
Benefits paid	(694,115)	(524,791)
Transfers	53,076	5,034
Foreign currency exchange difference	251	(5,582)
	P7,354,356	P6,963,028

The fair value of plan assets by each classes as at the end of the reporting period are as follow:

	2016	2015
	(In Thousands)	
Assets		
Cash and cash equivalents	P520,202	P243,009
Debt investments	3,562,291	3,150,587
Equity investments	2,962,189	3,312,254
Other assets	304,326	192,454
	7,349,008	6,898,304
Liabilities		
Trust fee payable	(2,464)	(2,337)
Other liabilities	-	(5,011)
	(2,464)	(7,348)
Net Asset Value*	P7,346,544	P6,890,956

*The difference of P7.8 million and P72.0 million in the fair value of plan assets as of December 31, 2016 and 2015, respectively, pertains to movements after the valuation date.

All equity and debt instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets have diverse investments and do not have any concentration risk.

The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension and post-employment medical benefit obligations for the defined benefit plans are shown below:

	2016	2015
Discount rates	2.0% to 8.2%	2.0% to 5.3%
Future salary increases	3.0% to 10.0%	3.0% to 8.0%

There were no changes from the previous period in the methods and assumptions used in preparing sensitivity analysis.

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

	Increase (decrease)	2016	2015
		Net Pension Liabilities	
		(In Thousands)	
Discount rates	1%	(P639,250)	(P554,323)
	(1%)	791,969	640,094
Future salary increases	1%	759,878	623,851
	(1%)	(516,854)	(530,083)

The management performed an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The Group's current strategic investment strategy consists of 48.5% of debt instruments, 40.3% of equity instruments and 11.2% other assets.

The Group expects to contribute ₱633.0 million to the defined benefit pension plan in 2017.

The average duration of the defined benefit obligation at the end of the reporting period is 4.5 to 25 years in 2016 and 5.3 to 27.1 years in 2015.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2016 (amounts in thousands):

Less than 1 year	₱915,860
More than 1 year to 5 years	3,895,336
More than 5 years	10,548,393
	₱15,359,589

As of December 31, 2016 and 2015, the plan assets include shares of stock of the Parent Company with total fair value of ₱738.7 million and ₱559.3 million, respectively. The Parent Company gives the trustee bank the discretion to exercise voting rights over the shares.

The fund includes investment in securities of its related parties. Details of the investment per type of security are as follows (in thousands):

2016	Historical Cost	Fair Value	Unrealized Gains
		(In Thousands)	
Equity securities	₱1,241,891	₱1,249,321	₱7,430
Debt securities	447,185	441,592	(5,593)
Unit investment trust funds	755,613	753,914	(1,699)
	₱2,444,689	₱2,444,827	₱138
<hr/>			
2015	Historical Cost	Fair Value	Unrealized Gains
		(In Thousands)	
Equity securities	₱917,694	₱1,046,696	₱129,002
Debt securities	935,928	957,698	21,770
Unit investment trust funds	428,229	426,330	(1,899)
	₱2,281,851	₱2,430,724	₱148,873

The overall expected rate of return on assets is determined based on the market prices prevailing on that date.

The Group's transactions with the fund mainly pertain to contributions, benefit payments, settlements and curtailments.

28. Stock Option Purchase Plans

The Parent Company has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (Employee Stock Ownership Plan - ESOWN) covering 3.0% of the Parent Company's authorized capital stock. The grantees are selected based on certain criteria like outstanding performance over a defined period of time.

ESOP

The ESOP grantees may exercise in whole or in part the vested allocation in accordance with the vesting percentage and vesting schedule stated in the ESOP. Also, the grantee must be an employee of the Parent Company or any of its subsidiaries during the 10-year option period. In case the grantee retires, he is given 3 years to exercise his vested and unvested options. In case the grantee resigns, he is given 90 days to exercise his vested options.

A summary of the Parent Company's stock option activity and related information for the years ended December 31, 2016, 2015 and 2014 follows:

	2016		2015		2014	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, at beginning of year	1,338,693	₱301.51	1,621,606	₱301.80	2,893,368	₱249.13
Exercised	(136,955)	(356.29)	(282,913)	(301.17)	(666,299)	(231.63)
Cancelled	-	-	-	-	(605,463)	(127.32)
Outstanding, at end of year	1,201,738	₱295.27	1,338,693	(₱301.51)	1,621,606	₱301.80

The options have a contractual term of 10 years. As of December 31, 2016 and 2015, the weighted average remaining contractual life of options outstanding is 5.33 years and 7 years, respectively, and the range of exercise prices amounted from ₱500.00 to ₱227.50.

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model. The fair values of stock options granted under ESOP at each grant date and the assumptions used to determine the fair value of the stock options are as follows:

	April 26, 2013	April 18, 2011	April 16, 2010
Weighted average share price	₱640.00	₱352.08	₱303.70
Exercise price	₱500.00	₱316.87	₱273.03
Expected volatility	42.40%	41.21%	41.31%
Option life	10 years	10 years	10 years
Expected dividends	0.54%	0.86%	0.92%
Risk-free interest rate	3.04%	6.64%	8.56%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also necessarily be the actual outcome.

ESOWN

The Parent Company also has ESOWN granted to qualified officers and employees wherein grantees may subscribe in full to the shares awarded to them based on the average market price and discounted market price that was determined by the Personnel and Compensation Committee as the offer price set at grant date. To subscribe, the grantee must be an employee of the Parent Company or any of its subsidiaries during the 10-year payment period. In case the grantee resigns, the unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, or payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may subscribe to the unsubscribed shares anytime within the 10-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the plan are subject to the Parent Company's Right to Repurchase.

The subscribed shares are effectively treated as options exercisable within a given period which is the same time as the grantee's payment schedule. The fair values of these options are estimated at the date of grant using the Binomial Tree Model. The Binomial Tree model requires six inputs to produce an option stock value namely; market value of the share, book value of the share, time to maturity, volatility rate, dividend yield, and risk free rate.

Subscriptions receivable from the stock option plans covering the Parent Company's shares are presented under equity.

For the unsubscribed shares, the employee still has the option to subscribe from the start of the fifth year but not later than on the start of the seventh year from date of grant. Movements in the number of options outstanding under ESOWN as of December 31, 2016 and 2015 follow:

	2016		2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
At January 1	61,154	₱301.51	61,154	₱296.17
Granted	515,299		533,350	
Subscribed	(515,299)	717.3	(533,350)	718.88
Exercised/cancelled	(35,348)	(200.03)	—	—
At December 31	25,806	₱373.09	61,154	₱296.17

In 2015, the Parent Company introduced a revised ESOWN plan wherein grantees are given one (1) month from the time an allocation is awarded to subscribe in full. Share options totaling 515,299 and 533,350 were granted in 2016 and 2015, respectively.

The fair value of stock options granted is estimated on the date of grant using the Binomial Tree Model and Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

	December 9, 2016*	December 23, 2015*	April 11, 2014	April 30, 2012
Number of unsubscribed shares	—	—	8,344	17,462
Fair value of each option	₱392.19	₱444.59	₱619.00	₱259.97
Weighted average share price	₱717.3	₱718.88	₱673.96	₱434.47
Exercise price	₱717.3	₱611.05	₱480.00	₱322.00
Expected volatility	38.38%	38.23%	42.13%	41.78%
Dividend yield	0.70%	0.67%	0.74%	0.74%
Interest rate	4.78%	4.81%	4.38%	5.59%

*The grant of 2016 and 2015 ESOWN shares was approved by the Personnel and Compensation Committee on December 9, 2016 and December 23, 2015, respectively.

Total expense arising from share-based payments of the Parent Company (included under “General and administrative expenses”) in the consolidated statement of income amounted to ₱248.0 million, ₱373.2 million and ₱222.4 million and in 2016, 2015 and 2014, respectively.

ALI

ALI has stock option plans for key officers (ESOP) and employees (ESOWN) covering 2.5% of ALI’s authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a three-year period.

The ESOP grantees may exercise in whole or in part the vested allocation in accordance with the vesting percentage and vesting schedule stated in the ESOP. Also, the grantee must be an employee of ALI or any of its subsidiaries during the 10-year option period. In case the grantee retires, he is given 3 years to exercise his vested and unvested options. In case the grantee resigns, he is given 90 days to exercise his vested options.

ESOP

Movements in the number of stock options outstanding under ESOP are as follows:

PFRS 2 Options

	2015	Weighted average exercise price
At January 1	₱2,858,360	₱5.63
Exercised	(₱2,858,360)	5.63
At December 31	₱—	₱—

No ESOP grant and availment during 2016. In 2015, the options exercised had a weighted average exercise price of ₱5.63 per share or ₱16.1 million. The average fair market value of the shares at the exercise date was ₱36.53 per share or about ₱104.4 million.

The fair value of stock options granted are estimated as at the date of grant using the Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The fair value of stock options granted under ESOP at June 30, 2005 grant date, and the assumptions used to determine the fair value of the stock options are as follows:

Weighted average share price	₱8.36
Exercise price	₱6.75
Expected volatility	46.30%
Option life	10 years
Dividend yield	3.21%
Interest rate	12.60%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also necessarily be the actual outcome.

ESOWN

In November 2001, ALI offered all its ESOWN subscribers with outstanding ESOWN subscriptions the option to cancel the subscriptions within the 5-year holding period. In December 2001, the program for ESOWN was indefinitely suspended.

In 2005, ALI introduced a revised ESOWN Plan (the Plan) wherein grantees may subscribe in whole or in part to the shares awarded to them based on a discounted market price that was determined by the Compensation Committee of ALI as the offer price set at grant date. The grantees paid for the shares subscribed through installments over a maximum period of ten (10) years. The subscription is subject to a holding period stated in the plan. To subscribe, the grantee must be an employee of ALI or any of its subsidiaries during the ten (10)-year payment period. In case the grantee resigns, unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, or payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may subscribe to the unsubscribed shares anytime within the ten (10)-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the Plan are subject to ALI's right to repurchase.

The subscribed shares are effectively treated as options exercisable within a given period which is the same time as the grantee's payment schedule. The fair values of these options are estimated on the date of grant using the Binomial Tree Model. The Binomial Tree model requires six inputs to produce an option stock value namely: market value of the share, book value of the share, time to maturity, volatility rate, dividend yield, and risk free rate.

For the unsubscribed shares, the employee still has the option to subscribe within seven (7) years.

Movements in the number of options outstanding and weighted average exercise prices (WAEP) under ESOWN follow:

	2016	WAEP	2015	WAEP
At January 1	8,734,420	₱16.96	12,279,280	₱15.61
Granted	15,182,203	-	14,632,157	-
Subscribed	(17,051,221)	24.11	(17,856,271)	26.16
Cancelled availment	678,086	-	727,385	-
Cancelled	(407,975)	-	(1,048,131)	-
At December 31	7,135,513	₱19.95	8,734,420	₱16.96

The fair values of stock options granted are estimated on the date of grant using the Binomial Tree Model and Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The expected volatility was determined based on an independent valuation. Option maturity is 4 years from the date of grant.

The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

	Grant Date					
	April 05, 2016	March 20, 2015	March 20, 2014	March 18, 2013	March 13, 2012	March 31, 2011
Number of unsubscribed shares	181,304	–	1,369,887	1,713,868	3,967,302	3,843,057
Fair value of each option (BTM)	₱13.61	₱16.03	₱12.60	₱16.05	₱9.48	₱7.81
Fair value of each option (BSM)	₱18.21	₱20.63	₱12.16	₱11.85	₱6.23	₱7.27
Weighted average share price	₱35.58	₱36.53	₱31.46	₱30.00	₱21.98	₱15.5
Exercise price	₱26.27	₱29.58	₱22.55	₱21.45	₱14.69	₱13.2
Expected volatility	32.03%	31.99%	33.50%	36.25%	33.00%	36.25%
Dividend yield	1.27%	1.02%	1.42%	1.93%	0.9%	1.01%
Interest rate	4.75%	4.11%	3.13%	2.78%	5.70%	5.60%

	Grant Date					
	March 31, 2010	April 30, 2009	May 15, 2008	September 20, 2007	June 5, 2006	November 16, 2005
Number of unsubscribed shares	2,298,247	5,418,619	15,057,840	494,400	5,270,333	3,036,933
Fair value of each option (BTM)	₱8.88	₱4.05	₱6.77	₱6.93	₱7.33	₱5.58
Fair value of each option (BSM)	₱7.62	₱3.08	₱6.14	₱8.92	₱9.18	₱6.76
Weighted average share price	₱13.00	₱6.40	₱10.50	₱15.00	₱13.00	₱9.30
Exercise price	₱9.74	₱4.96	₱9.74	₱12.00	₱10.35	₱7.03
Expected volatility	43.57%	37.45%	32.04%	34.67%	46.03%	46.32%
Dividend yield	0.48%	0.85%	0.49%	0.41%	1.56%	0.77%
Interest rate	5.95%	5.94%	8.53%	6.93%	10.55%	11.30%

Total expense (included under “General and administrative expenses”) recognized in 2016, 2015 and 2014 in the consolidated statement of income arising from share-based payments of ALI amounted to and ₱208.3 million, ₱213.6 million and ₱196.1 million, respectively.

IMI

IMI Group has an ESOWN, which is a privilege extended to IMI Group’s eligible managers and staff whereby IMI Group allocates up to 10% of its authorized capital stock for subscription by said personnel under certain terms and conditions stipulated in the ESOWN.

The key features of the plan are as follows:

- The subscription price per share shall be based on the average closing price at the PSE for 20 consecutive trading days with a discount to be determined by the Compensation Committee of IMI.
- Term of payment is eight years reckoned from the date of subscription:

Initial payment	2.5%
1 st Anniversary	5.0%
2 nd Anniversary	7.5%
3 rd Anniversary	10.0%
Over the remaining years	75.0% balance
- Holding period:

40%	after one (1) year from subscription date
30%	after two (2) years from subscription date
30%	after three (3) years from subscription date

On August 5, 2015, the Executive Committee of IMI approved the grant of ESOWN to qualified executives covering up to 27,189,000 shares at a subscription price of ₱5.11 per share, equivalent to the average closing price of IMI's common shares, at the PSE for 20 consecutive trading days ending June 25, 2015, net of 15% discount. Out of the total shares granted, 10,393,394 shares were subscribed by 78 executives of the IMI Group.

On October 13, 2014, the Executive Committee of IMI approved the grant of stock options (ESOWN) to qualified executives covering up to 35,900,000 shares at a subscription price of ₱5.91 per share, equivalent to the average closing price of IMI's common shares, at the PSE for 20 consecutive trading days ending September 24, 2014, net of 15% discount. Out of the total shares granted, 31,797,958 shares were subscribed by 38 executives of IMI Group, of which 7,821,848 shares are from unissued shares and 23,976,110 shares were issued from ESOWN Trust Account where all the previously cancelled ESOWN subscriptions were held.

The fair value of stock options granted in 2015 and 2014 is estimated at the date of grant using the Black-Scholes Melton Formula, taking into account the terms and conditions upon which the stock options were granted. The expected volatility was determined based on an independent valuation.

Movements in the number of shares outstanding under ESOWN in 2016, 2015 and 2014 follow:

	2016		2015		2014	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
At beginning of year	143,740,493	₱6.69	135,902,428	₱6.71	107,380,812	₱6.95
Forfeitures	(2,175,240)	6.99	(2,555,329)	6.37	(3,276,342)	6.95
Subscriptions	–	–	10,393,394	5.11	31,797,958	5.91
At end of year	141,565,253	₱6.69	143,740,493	₱6.69	135,902,428	₱6.71

Total expense arising from share-based payments of IMI (included under "General and administrative expenses") in the consolidated statement of income amounted to US\$0.7 million (₱33.2 million), US\$1.5 million (₱72.0 million) and US\$0.2 million (₱7.5 million) in 2016, 2015 and 2014, respectively.

MWC

Executive Stock Option Plan (Executive SOP), Expanded Executive SOP and ESOWN

On January 6, 2015, the Remuneration Committee of MWC approved the grant to the qualified executives, officers and employees of MWC, pursuant to the ESOWN, of stock options covering up to 7,281,647 common shares at a subscription price of ₱26.00 per share which is equivalent to the average closing price of MWC's common shares at the Philippine Stock Exchange for 20 consecutive trading days ending November 26, 2014, net of 10% discount.

The subscribed shares are effectively treated as options exercisable within a given period which is the same time as the grantee's payment schedule. The fair values of these options are estimated on the date of grant using the Binomial Tree Model.

For the unsubscribed shares, the employee still has the option to subscribe within 7 years.

The fair values of stock options granted are estimated on the date of grant using the Binomial Tree Model and Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The expected volatility was determined based on an independent valuation.

The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

	Grant Dates				
	February 10, 2015	November 19, 2013	October 5, 2012	September 19, 2011	April 30, 2009
Number of shares granted	7,281,647	6,627,100	4,772,414	5,073,000	9,241,025
Number of unsubscribed shares	884,873	351,680	460,000	992,000	1,442,000
Fair value of each option	₱11.58	₱10.58	₱11.76	₱8.68	₱5.90
Weighted average share price	₱21.35	₱23.00	₱26.24	₱19.80	₱13.50
Exercise price	₱26.00	₱22.92	₱24.07	₱17.38	₱9.63
Expected volatility	26.53%	24.90%	30.66%	33.68%	44.66%
Dividend yield	2.55%	3.47%	2.56%	2.68%	2.92%
Risk-free interest rate	3.79%	2.99%	4.57%	4.76%	8.53%
Expected life of option	4 years	4 years	4 years	4 years	4 years

The expected life of the options is based on management's estimate and is not necessarily indicative of exercise patterns that may occur. The expected volatility used for the 2007 and 2006 grants was based on the average historical price volatility of several water utility companies within the Asian region. For the grants beginning 2008, MWC's volatility was used as input in the valuation. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily reflect the actual outcome.

No other features of the options granted were incorporated into the measurement of fair value.

To enjoy the rights provided for in the ESOWN, the grantee should be with MWC at the time the holding period expires. The Holding Period of the ESOWN shares follows:

Year	Holding Period
After one year from subscription date	40%
After two years from subscription date	30%
After three years from subscription date	30%

The ESOWN grantees are allowed to subscribe fully or partially to whatever allocation may have been granted to them. In case of partial subscriptions, the employees are still allowed to subscribe to the remaining unsubscribed shares granted to them provided that this would be made at the start of Year 5 from grant date up to the end of Year 6. Any additional subscription made by the employee (after the initial subscription) will be subjected to another 3-year holding period.

Movements in the number of stock options outstanding under ESOWN are as follows:

	2016	Weighted average exercise price	2015	Weighted average exercise price
At January 1	4,996,593	₱23.49	4,193,347	₱22.92
Granted	—	—	7,281,647	26.00
Exercised	—	—	(6,396,774)	26.00
Cancelled	(72,863)	—	(81,627)	—
At December 31	4,923,730	₱23.49	4,996,593	₱23.49

Total expense arising from equity-settled share-based payment transactions of MWC (included under "General and administrative expenses") in the consolidated statement of income amounted to ₱33.2 million, ₱68.7 million and ₱63.1 million in 2016, 2015 and 2014, respectively.

29. Operating Segment Information

For management purposes, the Group is organized into the following business units:

- Parent Company - represents operations of the Parent Company including its financing entities such as ACIFL, AYCFL, PFIL and MHI.
- Real estate and hotels - planning and development of large-scale fully integrated mixed-used communities that become thriving economic centers in their respective regions. This include development and sale of residential, leisure and commercial lots and the development and leasing of retail and office space and land in these communities; construction and sale of residential condominiums and office buildings; development of industrial and business parks; development and sale of high-end, upper middle-income and affordable and economic housing; strategic land bank management; hotel, cinema and theater operations; and construction and property management.
- Financial services and insurance - commercial banking operations with expanded banking license. These include diverse services such as deposit taking and cash management (savings and time deposits in local and foreign currencies, payment services, card products, fund transfers, international trade settlement and remittances from overseas workers); lending (corporate, consumer, mortgage, leasing and agri-business loans); asset management (portfolio management, unit funds, trust administration and estate planning); securities brokerage (on-line stock trading); foreign exchange and capital markets investments (securities dealing); corporate services (corporate finance, consulting services); investment banking (trust and investment services); a fully integrated bancassurance operations (life, non-life, pre-need and reinsurance services); and other services (internet banking, foreign exchange and safety deposit facilities).
- Telecommunications (Telecoms) - provider of digital wireless communications services using a fully digital network; domestic and international long distance communication services or carrier services; broadband internet and wireline voice and data communication services; also licensed to establish, install, operate and maintain a nationwide local exchange carrier (LEC) service, particularly integrated local telephone service with public payphone facilities and public calling stations, and to render and provide international and domestic carrier and leased line services. In recent years, operations include developing, designing, administering, managing and operating software applications and systems, including systems designed for the operations of bill payment and money remittance, payment facilities through various telecommunications systems operated by telecommunications carriers in the Philippines and throughout the world and to supply software and hardware facilities for such purposes.
- Water infrastructure - contractor to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery, sewerage and sanitation, distribution services, pipeworks, used water management and management services. In 2016, a new business initiative was undertaken where the group will exclusively provide water and used water services and facilities to all property development projects of major real estate companies.
- Electronics manufacturing - global provider of electronics manufacturing services (EMS) and power semiconductor assembly and test services with manufacturing facilities in Asia, Europe, and North America. It serves diversified markets that include those in the automotive, industrial, medical, telecommunications infrastructure, storage device, and consumer electronics industries. Committed to cost-effective and innovative customized solutions (from design and product development to manufacturing and order fulfillment), the company's comprehensive capabilities and global manufacturing presence allow it to take on specific outsourcing needs.

- Power generation - unit that will build a portfolio of power generation assets using renewable and conventional technologies which in turn will operate business of generating, transmission of electricity, distribution of electricity and supply of electricity, including the provision of related services.
- Automotive, IT/BPO and Others - includes operations of Automotive unit's business on manufacturing, distribution and sale and providing repairs and services for passenger cars and commercial vehicles. In 2016, this unit launched initiatives to include industrial manufacturing activity for long-term synergy and integration with automotive business. This segment also includes the Information Technology and BPO services unit (venture capital for technology businesses and emerging markets; onshore and offshore outsourcing services in the research, analytics, legal, electronic discovery, document management, finance and accounting, full-service creative and marketing, human capital management solutions, and full-service accounting); International unit (investments in overseas property companies and projects); Aviation (air-chartered services); consultancy, agri-business and other operating companies. This business segment group also includes the start-up companies like Infrastructure (development arm for its transport infrastructure investments); education, human capital resource management and health services.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Intersegment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. Segment revenue, segment expense and segment results include transfers between operating segments. Those transfers are eliminated in consolidation.

The following tables regarding operating segments present assets and liabilities as of December 31, 2016 and 2015 and revenue and income information for each of the three years in the period ended December 31, 2016 (amounts in millions):

2016

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecoms	Infrastructure	Water	Electronics	Power Generation	Automotive and Others	Intersegment Eliminations	Consolidated
Income											
Sales to external customers	P298	P117,532	P-	P-	P16,090	P39,994	P203	P25,092	P-	P199,209	
Intersegment	181	168	-	-	414	-	-	481	(1,244)	-	
Share of profit of associates and joint ventures	-	554	10,637	4,754	369	-	1,542	298	-	18,154	
Interest income	656	5,614	-	-	258	14	56	80	99	6,777	
Other income	1,104	660	-	-	8,077	(215)	2,174	2,006	(660)	13,146	
Total income	2,239	124,528	10,637	4,754	25,208	39,793	3,975	27,957	(1,805)	237,286	
Operating expenses	3,293	83,552	-	-	9,916	37,856	1,251	26,516	(1,622)	160,762	
Operating profit (loss)	(1,054)	40,976	10,637	4,754	15,292	1,937	2,724	1,441	(183)	76,524	
Interest and other financing charges and other charges	4,558	8,268	-	-	8,183	183	222	1,069	101	22,584	
Provision for (benefit from) income tax	6	8,278	-	-	1,543	324	143	230	(17)	10,507	
Net income (loss)	(P5,618)	P24,430	P10,637	P4,754	P5,566	P1,430	P2,359	P142	(P267)	P43,433	
Other information											
Segment assets	P49,110	P501,579	P-	P-	P95,040	P31,540	P43,067	P26,245	(P27,605)	P718,976	
Investments in associates and joint ventures	130,954	24,985	-	-	6,200	-	13,743	4,432	-	180,314	
Deferred tax assets	280	9,869	-	-	1,656	77	1	137	395	12,415	
Total assets	P180,344	P536,433	P-	P-	P102,896	P31,617	P56,811	P30,814	(P27,210)	P911,705	
Segment liabilities	P101,980	P359,393	P-	P-	P40,993	P19,727	P27,903	P8,772	(P27,603)	P531,165	
Deferred tax liabilities	97	4,357	-	-	4,728	63	203	96	-	9,544	
Total liabilities	P102,077	P363,750	P-	P-	P45,721	P19,790	P28,106	P8,868	(P27,603)	P540,709	
Segment additions to property, plant and equipment and investment properties	P105	P33,649	P-	P-	P944	P2,404	P21,703	P734	(P6,746)	P52,793	
Depreciation and amortization	P333	P5,873	P-	P-	P3,734	P1,158	P86	P371	P5	P11,560	
Non-cash expenses other than depreciation and amortization	P388	P434	P-	P-	P46	(P121)	P488	P971	P-	P2,206	
Cash flows provided by (used in):											
Operating activities	(P5,244)	P12,807	P-	P-	P1,256	P2,441	P7,166	(P131)	P16,922	P35,217	
Investing activities	(P2,406)	(P39,648)	P-	P-	(P598)	(P5,136)	(P21,268)	P626	(P7,753)	(P76,183)	
Financing activities	(P22,387)	P28,683	P-	P-	(P3,239)	P2,220	P22,757	P170	(P9,169)	P19,035	

2015

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecoms	Water Infrastructure	Electronics	Power Generation	Automotive and Others	Intersegment Eliminations	Consolidated
Income										
Sales to external customers	P52	P100,266	P-	P-	P15,867	P36,958	P-	P20,892	P-	P174,035
Intersegment	153	395	-	-	163	-	-	442	(1,153)	-
Share of profit of associates and joint ventures	-	(140)	8,856	4,899	403	-	1,026	(6)	-	15,038
Interest income	867	5,980	-	-	318	30	15	87	-	7,297
Other income	1,424	683	-	-	6,220	(81)	1,794	1,731	(474)	11,297
Total income	2,496	107,184	8,856	4,899	22,971	36,907	2,835	23,146	(1,627)	207,667
Operating expenses	3,605	72,099	-	-	14,443	35,152	893	22,355	(1,464)	147,083
Operating profit (loss)	(1,109)	35,085	8,856	4,899	8,528	1,755	1,942	791	(163)	60,584
Interest and other financing charges and other charges	4,259	7,334	-	-	1,402	124	13	136	9	13,277
Provision for (benefit from) income tax	90	6,854	-	-	1,631	271	(48)	207	7	9,012
Net income (loss)	(P5,458)	P20,897	P8,856	P4,899	P5,495	P1,360	P1,977	P448	(P179)	P38,295
Other information										
Segment assets	P69,090	P416,909	P-	P-	P96,401	P24,398	P10,517	P23,792	(P19,486)	P621,621
Investments in associates and joint ventures	121,430	17,522	-	-	5,724	(83)	13,501	4,617	-	162,711
Deferred tax assets	246	7,912	-	-	925	72	108	115	365	9,743
Total assets	P190,766	P442,343	P-	P-	P103,050	P24,387	P24,126	P28,524	(P19,121)	P794,075
Segment liabilities	P103,839	P290,734	P-	P-	P40,952	P13,449	P4,260	P8,576	(P2,720)	P459,090
Deferred tax liabilities	89	1,782	-	-	4,393	64	47	27	39	6,441
Total liabilities	P103,928	P292,516	P-	P-	P45,345	P13,513	P4,307	P8,603	(P2,681)	P465,531
Segment additions to property, plant and equipment and investment properties	P310	P23,339	P-	P-	P726	P1,653	P5,536	P1,559	(P4,662)	P28,461
Depreciation and amortization	P219	P4,247	P-	P-	P3,468	P1,054	P10	P440	P5	P9,443
Non-cash expenses other than depreciation and amortization	P611	P156	P-	P-	P5,139	P104	P271	P113	P154	P6,548
Cash flows provided by (used in):										
Operating activities	(P12,736)	P21,175	P-	P-	P4,927	P2,580	P1,055	P499	P1,085	P18,585
Investing activities	P21,443	(P48,946)	P-	P-	(P622)	(P1,659)	(P3,705)	(P2,166)	(P3,166)	(P38,821)
Financing activities	(P11,401)	P18,583	P-	P-	(P3,705)	(P1,403)	P4,707	P2,761	P2,080	P11,622

2014

	Parent Company	Real Estate and Hotels	Financial Services and Insurance	Telecoms	Water Infrastructure	Electronics	Power Generation	Automotive and Others	Intersegment Eliminations	Consolidated
Income										
Sales to external customers	P730	P88,422	P-	P-	P15,412	P37,558	P5	P14,290	P-	P156,417
Intersegment	106	-	-	-	110	-	-	318	(534)	-
Share of profit of associates and joint ventures	-	647	8,482	4,017	357	-	(85)	(233)	-	13,185
Interest income	454	4,778	-	-	186	9	5	65	(3)	5,494
Other income	391	709	-	-	4,054	647	(11)	3,626	(236)	9,180
Total income	1,681	94,556	8,482	4,017	20,119	38,214	(86)	18,066	(773)	184,276
Operating expenses	3,263	65,092	-	-	11,755	36,527	150	15,681	(539)	131,929
Operating profit (loss)	(1,582)	29,464	8,482	4,017	8,364	1,687	(236)	2,385	(234)	52,347
Interest and other financing charges and other charges	4,553	5,602	-	-	1,548	125	9	97	-	11,934
Provision for (benefit from) income tax	4	6,092	-	-	1,621	272	26	123	-	8,138
Net income (loss)	(P6,139)	P17,770	P8,482	P4,017	P5,195	P1,290	(P271)	P2,165	(234)	P32,275
Other information										
Segment additions to property, plant and equipment and investment properties	P646	P15,782	P-	P-	P376	P1,091	P379	P1,147	P187	P19,608
Depreciation and amortization	P119	P4,363	P-	P-	P3,312	P1,021	P3	P333	P7	P9,158
Non-cash expenses other than depreciation and amortization	P113	P139	P-	P-	P36	P457	P-	P113	(P28)	P830
Cash flows provided by (used in):										
Operating activities	(P1,621)	P34,747	P-	P-	P5,028	P1,817	(P20)	(P1,549)	P807	P39,209
Investing activities	(P14,860)	(P51,505)	P-	P-	(P397)	(P251)	(P8,952)	P5,575	(P12,356)	(P82,746)
Financing activities	P53,691	P17,052	P-	P-	(P5,359)	P1,517	P9,430	(P4,364)	(P3,315)	P68,652

Geographical Segments

	Income			Total Assets		Investment Properties and Property, Plant and Equipment Additions	
	2016	2015	2014	2016	2015	2016	2015
	Philippines	₱196,170	₱170,628	₱143,309	₱863,719	₱767,974	₱48,170
Japan	666	681	3,180	19	17	–	–
USA	9,138	10,816	12,027	3,754	2,909	720	290
Europe	16,946	19,451	18,680	11,866	5,644	2,861	459
Others (mostly Asia)	14,366	6,091	7,080	32,347	17,531	1,042	483
	₱237,286	₱207,667	₱184,276	₱911,705	₱794,075	₱52,793	₱28,461

30. Leases

Finance leases - as lessee

The Group has finance leases for various items of property, plant and equipment. These leases have lease terms of 3 to 10 years. Future minimum lease payments under the finance leases together with the present value of the net minimum lease payments follow:

	2016		2015	
	Minimum Payments	Present values of payments	Minimum Payments	Present values of payments
	(In Thousands)			
Within one year	₱6,760	₱6,712	₱52,293	₱49,639
After one year but not more than five years	6,337	6,919	120,299	118,120
Total minimum lease payments	13,097	13,631	172,592	167,759
Less amounts representing finance charges	1,407	–	470	–
Present value of minimum lease payments	₱11,690	₱13,631	₱172,122	₱167,759

Operating lease commitments - as lessee

ALI Group

ALI Group entered into lease agreements with third parties covering real estate properties. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Future minimum rentals payable under noncancellable operating leases of ALI Group follows:

	2016	2015
	(In Thousands)	
Within one year	₱806,744	₱659,677
After one year but not more than five years	3,643,254	3,001,038
More than five years	17,895,388	16,189,004
	₱22,345,386	₱19,849,719

NTDCC

ALI Group, through its majority owned subsidiary, NTDCC, entered into an assignment agreement with MRTDC, wherein the latter assigned its development rights on an 8.3 hectare portion of the MRTDC, which is located on the North Triangle property, and enabled ALI Group to develop and construct a commercial center. ALI Group has determined that all the significant risks and rewards of ownership of this property is retained by the owner. This agreement was accounted for as a lease as it involves an exclusive right to use or develop the property in exchange for a series of payments.

Arvo Commercial Corporation (Arvo)

On August 7, 2014, Arvo Commercial Corporation signed a Memorandum of Understanding with Liberty Commercial Center, Inc. (LCC) to lease and operate a 5-storey commercial complex/mall building with an aggregate gross floor area of approximately 32,000 sqm on a 10,000 sqm portion

of the leased land. The commercial complex mall building is situated within the Central Business District, Legaspi Port, Legaspi City, adjacent to Quezon Avenue and Rizal Street.

On October 15, 2014, Arvo Commercial Corporation signed a Lease Agreement with Rotonda Development Corporation for the lease of a parcel of land with an area of approximately 23,759.50 sqm located along Liwasang Kalayaan, Marikina Heights, Marikina City. Arvo signed a 42-year lease contract with an option to renew for another 40 years by mutual agreement.

On September 2, 2014, Arvo signed a Lease Agreement with D.M. Wenceslao & Associates Inc. for the lease of several parcels of land along Asean Avenue and Macapagal Boulevard, Aseana City, Paranaque City with an aggregate area of 92,317 sqm. Arvo signed a 45-year lease contract with an option to renew for another 45 years subject to such terms and conditions as may be mutually agreed upon by the lessor and Arvo.

Ayalaland MetroNorth, Inc. (AMNI)

On January 28, 2011, the Board of Regents of the University of the Philippines awarded to AMNI the ₱4.0 billion development of a 7.4-hectare lot at the University of the Philippines' Diliman East Campus, also known as the UP Integrated School, along Katipunan Avenue, Quezon City. AMNI signed a 25-year lease contract for the property last June 22, 2011, with an option to renew for another 25 years subject to mutual agreement of the parties. The lease payments shall commence as soon as sales are registered by the merchants.

A retail establishment with about 63,000 sqm of gross leasable area and an office/BPO building about 8,000 sqm of gross leasable area shall be constructed on the property. For the year ended December 31, 2012, lease payments have been capitalized as construction was still in progress. For the year ended December 31, 2013, Phase 1a (with gross leasable area of 5,000 sqm.) of the retail establishment has commenced operations on September 30, 2013.

On December 18, 2013, AMNI has donated the New UPIS facilities at a total cost of ₱224.7 million and the rehabilitated and upgraded UPIS "K-2" and "3-6" Buildings at a cost of ₱40.0 million to the University of the Philippines.

Subic Bay Town Center, Inc. (SBTCI)

On October 16, 2009, ALI has executed a lease agreement with the Subic Bay Metropolitan Authority (SBMA), for the development of a 7.5-hectare property along Rizal Highway within the Subic Bay Freeport Zone, located between the two main gates linking the Freeport Zone to Olongapo City. The lease commitment is expected to be completed in 2060 after the 50-year lease term. The lease may be renewed for another 25 years upon mutual agreement of the parties. ALI offered to develop a mall with an estimated gross leasable area of 38,000 sqm. On March 25, 2010, ALI entered into an assignment of lease agreement whereby ALI assigned its rights and obligations granted to or imposed under the lease agreement to its subsidiary, SBTCI. The lease payments to SBMA started from the commencement of the commercial operation of the mall last April 26, 2012 which was completed during the same period.

Station Square East Commercial Corporation (SSECC)

ALI has an existing contract with Bases Conversion and Development Authority (BCDA) to develop, under a lease agreement signed on July 2000, a mall with an estimated gross leasable area of 152,000 sqm on a 9.8-hectare lot inside Fort Bonifacio. The lease commitment is expected to be completed in 2015. The lease agreement covers 25 years, renewable for another 25 years subject to reappraisal of the lot at market value. The annual fixed lease rental amounts to ₱106.5 million while the variable rent ranges from 5% to 20% of gross revenues. Subsequently, ALI transferred its rights and obligations granted to or imposed under the lease agreement to SSECC, a subsidiary, in exchange for equity. As part of the bid requirement, ALI procured a performance bond in 2003 from the Government Service Insurance System in favor of BCDA amounting to ₱3.9 billion to guarantee the committed capital to BCDA. Moreover, SSECC obtained standby letters of credit to guarantee the payment of the fixed and variable rent as prescribed in the lease agreement.

POPI

On August 28, 1990, ALI, through a Deed of Assignment, acquired all the rights, titles, interests and obligations of Gotesco Investment, Inc. in a contract of lease of the land owned by PNR for the Tutuban Terminal. The contract provided for a payment of a guaranteed minimum annual rental plus a certain percentage of gross sales. The lease covers a period of 25 years until 2014 and is automatically renewable for another 25 years, subject to compliance with the terms and conditions of the lease agreement. On December 22, 2009, ALI entered into an agreement with PNR for the renewal of its lease contract for another 25 years beginning September 5, 2014. Rent expense charged to operations amounted to ₱56.02 million for the six months ended December 31, 2016.

IMI Group

IMI Group has various operating lease agreement in respect of plant facilities, office spaces and land. These lease agreements have terms ranging from 5 to 15 years, fixed payment subject to escalation clauses, renewal option and early termination penalties.

Future minimum rentals payable under operating leases of IMI Group as of December 31, 2016 and 2015 follow:

	2016	2015
	(In Thousands)	
Within one year	₱243,918	₱277,875
After one year but not more than five years	680,488	550,717
More than five years	239,090	269,537
	₱1,163,496	₱1,098,129

Operating leases - as lessor

ALI Group have lease agreements with third parties covering their investment properties portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Future minimum rentals receivable under noncancellable operating leases of ALI Group are as follows:

	2016	2015
	(In Thousands)	
Within one year	₱2,943,141	₱3,648,626
After one year but not more than five years	7,026,142	10,790,610
More than five years	14,667,364	12,179,151
	₱24,636,647	₱26,618,387

31. Related Party Transactions

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 or common significant influence which include affiliates. Related parties may be individuals or corporate entities.

The Group, in its regular conduct of business, has entered into transactions with associates, joint ventures and other related parties principally consisting of advances, loans and reimbursement of expenses, purchase and sale of real estate properties, various guarantees, construction contracts, and development, management, underwriting, marketing and administrative service agreements. Sales and purchases of goods and services as well as other income and expense to and from related parties are made at normal commercial prices and terms.

The transactions and balances of accounts with related parties follow:

a. Transactions with BPI, an associate

- i. As of December 31, 2016 and 2015, the Group maintains current and savings account, money market placements and other short-term investments with BPI broken down as follows (amounts in thousands):

	2016	2015
Cash in banks	₱4,227,508	₱13,722,080
Cash equivalents	19,751,912	42,852,439
Short-term investments	405,523	1,415,451
Financial assets at FVPL	977,589	288,229

From the Group's placements and short-term investments with BPI, the Group has accrued interest receivable amounting to ₱23.1 million and ₱69.2 million as of December 31, 2016 and 2015, respectively. Cash in banks earns interest at 0.01% to 0.75% per annum. Cash equivalents earn interest from 1.2% to 2.8% per annum. Investment in FVPL are UITF which earns interest depending on the duration of time invested in the fund. Interest income earned amounted to ₱511.8 million in 2016, ₱650.4 million in 2015 and ₱586.5 million in 2014.

The Group also has short-term and long-term debt payable to BPI amounting to ₱33.4 billion and ₱28.9 billion as of December 31, 2016 and 2015, respectively. These short-term and long-term debts are interest bearing with varying rates ranging from 3.92% to 4.70%, have various maturities starting 2016 and varying schedules of payments for interest. The Group has accrued interest payable pertaining to the outstanding balance of the short-term and long-term debt amounting to ₱78.3 million and ₱30.7 million as of December 31, 2016 and 2015, respectively. Interest expense incurred from the debt amounted to ₱1.0 billion in 2016, ₱250.3 million in 2015 and ₱402.7 million in 2014.

b. Outstanding balances of related party transactions follow (amounts in thousands):

	Receivables		Payables	
	2016	2015	2016	2015
Associates:				
BPI	₱653,923	₱614,607	₱142,412	₱97,710
Isuzu Philippines Corporation (IPC)	214,152	75,645	746,752	254,574
Honda Cars Philippines, Inc.(HCP)	94,760	67,586	724,967	346,041
CDPEI	-	114,993	-	-
Milestone Group Pty, Ltd.	-	11,785	-	-
First Gen Northern Energy (FGNEC)	-	5,531	-	-
Bonifacio Land Corp. (BLC)	374	-	211,893	212,696
	963,209	890,147	1,826,024	911,021
Joint ventures:				
Globe	350,666	620,093	38,618	62,202
Integreon	-	694,864	-	-
GNPower Dinginin Ltd. Co.	-	206,218	-	-
Lagoon Development Corporation (Lagoon)	5,922	-	-	20,000
	356,588	1,521,175	38,618	82,202
Other related parties:				
FBDC	455,170	38,207	1,141,047	47,403
DGA NLREC B.V.	-	685,900	-	-
Bestridge Investment Limited	-	90,591	-	-
Columbus Holdings, Inc. (Columbus)	-	-	267,355	267,355
Others	564,671	146,404	168,927	64,464
	1,019,841	961,102	1,577,329	379,222
	₱2,339,638	₱3,372,424	₱3,441,971	₱1,372,445

- i. Receivable from BPI includes trade receivables on vehicles sold and financing dealer incentives by AITHI group and accrued interest receivables on short-term placements by the Group.
 - ii. Receivable from Globe includes trade receivables on vehicles sold and project management and professional fees.
 - iii. Receivable from FBDC largely pertains to management fees which are included under "Other income."
 - iv. Receivable from DGA NLREC BV in 2015 represents 25% of the US\$58.3 million proceeds from AIHL's sale of Luzon Wind shares, which is non-interest bearing. The Group collected the receivable in 2016.
 - v. Receivable from Integreon in 2015 pertains to convertible promissory notes with interest ranging from 9% to 12%.
 - vi. Other outstanding balances of receivable from related parties at year-end pertain mostly to advances, including those for project development, and reimbursement of operating expenses. These also include receivables on sale of vehicles. In addition, these also include a receivable, which is fully provided for with allowance, from a company undergoing process of dissolution. All these are unsecured, interest free, will be settled in cash and are due and demandable.
 - vii. Payable to Columbus and BLC represent non-interest bearing advances for stock redemption.
 - viii. Payable to IPC and HCP consist of purchased parts and accessories and vehicles that are trade in nature, interest-free, unsecured and are payable within 15 to 30 days.
 - ix. Payable to BPI includes interest payable on Group's borrowings payable at various payments terms like monthly or quarterly and insurance premiums payable which are due in 30-60 days.
 - x. The other outstanding balances of payable to related parties at year-end consist of advances, including those for development costs and land acquisitions, and expenses incurred on utilities, professional services and other miscellaneous services. In addition, these also include a receivable, which is fully provided for with allowance, from a company undergoing process of dissolution. All these are unsecured, interest-free, will be settled in cash and are due and demandable.
 - xi. Allowance for doubtful accounts on amounts due from related parties amounted to ₱208.1 million and ₱135.1 million as of December 31, 2016 and 2015, respectively. Provision for doubtful accounts amounted to (₱0.6 million), ₱0.3 million and ₱0.3 million in 2016, 2015 and 2014, respectively.
 - xii. In 2014, Alveo acquired a 6,986 sq. m. property located along Valero St., Salcedo Vill., Makati City from BPI for ₱1,590.0 million, resulting into a gain of ₱700.0 million.
- c. Receivables from officers and employees amounting to ₱1.1 billion and P1.1 billion as of December 31, 2016 and 2015 pertain to housing, car, salary and other loans granted to the Group's officers and employees which are collectible through salary deduction, are interest bearing ranging from 5.0% to 10.0% per annum and have various maturity dates ranging from 2017 to 2027.
 - d. The fair value of the Group's total investment in the BPI Fund amounted ₱1,529.1 million and ₱282.2 million, as of December 31, 2016 and 2015, respectively.

e. Revenue and expenses from related parties follow:

	Revenue			Expenses		
	2016	2015	2014	2016	2015	2014
	(In Thousands)					
Associates:						
BPI	₱757,791	₱852,681	₱558,814	₱1,082,322	₱ 264,997	₱427,263
Joint ventures:						
Globe	236,299	82,733	101,381	143,207	120,172	124,563
Integreon	–	45,716	38,973	–	–	–
Asiacom	–	191	613	–	–	–
	994,090	981,321	699,781	1,225,529	385,169	551,826
Other related parties:						
FBDC	₱–	₱–	₱176,194	₱–	₱–	₱155,099
Lagoon	–	–	49,135	–	–	1,315
6750 Ayala Avenue	–	–	17,697	–	–	–
Others	26,936	5,412	25,981	12,135	5,075	–
	26,936	5,412	269,007	12,135	5,075	156,414
	₱1,021,026	₱986,733	₱968,788	₱1,237,664	₱390,244	₱708,240

Revenue recognized from related parties includes:

- i. Leasing and project development and management services rendered by ALI Group.
- ii. Water and sewerage services rendered by MWC.
- iii. Automotive sales and repair services rendered by AITHI Group.
- iv. Interest and miscellaneous income from cash deposits and money market placement as well as financing dealer incentive from BPI and other entities.
- v. Others include various income such as interest and management fees.

Expenses recognized from related parties include:

- i. Interest expense from short-term and long-term debt and credit card and other bank charges payable to BPI.
- ii. Purchases of communications software and billings for mobile phone charges and internet connections with Globe.
- iii. Building rental, leased lines, internet connections and ATM connections with Innove, subsidiary of Globe.
- iv. Others include miscellaneous operating expenses such as professional and management services.

f. The Group's Compensation of key management personnel by benefit type follows:

	2016	2015	2014
	(In Thousands)		
Short-term employee benefits	₱1,709,872	₱1,652,622	₱1,369,942
Post-employment benefits (Note 27)	156,923	73,264	69,079
Share-based payments (Note 28)	65,893	125,641	37,957
	₱1,932,688	₱1,851,527	₱1,476,978

Key management personnel of the Group include all officers with position of vice president and up.

32. Financial Instruments

Financial Risk Management

General

Like any other risks, financial risks are inherent in the its business activities and are typical of any large holding company. The financial risk management of the Parent Company seeks to effectively contribute to better decision making, enhance performance, and satisfy compliance demands.

The Parent Company defines financial risks as risk that relates to the Parent Company's ability to meet financial obligations and mitigate funding risk, credit risk and exposure to broad market risks, including volatility in foreign currency exchange rates and interest rates. Funding risk refers to the potential inability to meet contractual or contingent financial obligations as they arise and could potentially impact the Parent Company's financial condition or overall financial position. Credit risk is the risk of financial loss arising from a counterparty's failure to meet its contractual obligations or non-payment of an investment. These exposures may result in unexpected losses and volatilities in the Parent Company's profit and loss accounts.

The Parent Company maintains a strong focus on its funding strategy to help provide access to sufficient funding to meet its business needs and financial obligations throughout business cycles. The Parent Company's plans are established within the context of our annual strategic and financial planning processes. The Parent Company also take into account capital allocations and growth objectives, including dividend pay-out. As a holding company, the Parent Company generates cash primarily on dividend payments of its subsidiaries, associates and joint ventures and other sources of funding.

The Parent Company also establishes credit policies in setting up limits for counterparties that are reviewed quarterly and monitoring of any changes in credit standing of counterparties.

The Parent Company has a formal foreign exchange and interest rate risk management policy. The Parent Company actively monitors foreign exchange exposure and interest rate changes. And in addition, the Parent Company ensures that all loan covenants and regulatory requirements are complied with.

The Ayala Group continues to monitor and manage its financial risk exposures in accordance with Board approved policies. The succeeding discussion focuses on Ayala Group's financial risk management.

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise financial assets at FVPL, AFS financial assets, bank loans, corporate notes and bonds. The financial debt instruments were issued primarily to raise financing for the Group's operations. The Group has various financial assets such as cash and cash equivalents, short-term investments, accounts and notes receivables and accounts payable and accrued expenses which arise directly from its operations.

The Group's main risks arising from the use of financial instruments are interest rate risk, foreign exchange risk, price risk, liquidity risk, and credit risk.

The Group also uses hedging instruments, the purpose of which is to manage the currency and interest rate risks arising from its financial instruments.

The Group's risk management policies relevant to financial risks are summarized below:

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Parent Company's and its subsidiaries' obligations. The policy is to keep a certain level of the total obligations as fixed to minimize earnings volatility due to fluctuation in interest rates.

The following table demonstrates the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates as of December 31, 2016 and 2015, with all variables held constant.

Cash flow interest rate risk

	Change in basis points	Effect on profit before tax	
		2016	2015
		(In Thousands)	
Parent Company -			
Floating rate			
Borrowings	+100	(P30,250)	(P51,750)
	-100	30,250	51,750
Subsidiaries -			
Floating rate			
Borrowings	+100	(P435,510)	(P304,900)
	-100	435,510	304,900

There is no other impact on the Group's equity other than those already affecting the net income.

The terms and maturity profile of the interest-bearing financial assets and liabilities, together with its corresponding nominal amounts and carrying values follows:

December 31, 2016

Group	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Parent Company							
Long-term debt							
Fixed							
	Fixed at the date of investment	Various	P60,195,546	P60,195,546	P-	P-	P60,195,546
	Fixed at the date of investment or revaluation cut-off	Various	1,008,705	1,008,705	-	-	1,008,705
	Fixed at the date of sale or transaction	Various	1,189,971	1,028,046	103,828	58,097	1,189,971
	Fixed at the date of investment or revaluation cut-off	Various	115,621	-	115,621	-	115,621
			P62,509,843	P62,232,297	P219,449	P58,097	P62,509,843
Floating							
	Fixed at 3.92% to 7.20%	7 years	P20,000,000	P9,994,372	P-	P9,903,942	P19,898,314
	Fixed at 6.80%	10 years	10,000,000	-	-	9,948,974	9,948,974
	Fixed at 6.88%	15 years	10,000,000	-	-	9,933,361	9,933,361
	Variable at 0.30% to 1% over 3-month PDST R2 or 0% to 0.95% over BSP RRP	3 months	10,865,000	1,948,128	6,019,533	2,868,064	10,835,725
Subsidiaries							
Short-term debt	Ranging from 1.23% to 2.24%	Monthly, quarterly	3,453,298	2,720,687	-	-	2,720,687
Long-term debt	Ranging from 2.30% to 3.13%	Monthly, quarterly	28,137,450	28,137,450	-	-	28,137,450
Fixed							
	Fixed at 0.50% to 10.21%	3, 4, 5, 7, 10 and 15 years	168,992,056	4,806,986	74,357,583	89,189,278	168,353,847
	Fixed at 0.50%	5 years	14,916,000	-	-	14,198,775	14,198,775
Floating							
	Variable at Libor+1.50% to 3.50%	3 months, semi-annual	32,194,550	3,043,183	22,199,501	6,584,134	31,826,818
			P298,558,354	P50,650,806	P102,576,617	P141,626,528	P295,853,951

December 31, 2015

Group	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Parent Company							
Cash and cash equivalents	Fixed at the date of investment Fixed at the date of investment or revaluation cut-off	Various	₱82,109,964	₱82,109,964	₱-	₱-	₱82,109,964
Short-term investments	revaluables	Various	2,052,288	2,052,288	-	-	2,052,288
Accounts and notes receivable	Fixed at the date of sale or transaction	Various	10,430,306	10,008,836	163,470	258,000	10,430,306
AFS financial asset - Quoted debt investments	Fixed at the date of investment or revaluation cut-off	Various	274,550	-	274,550	-	274,550
			₱94,867,108	₱94,171,088	₱438,020	₱258,000	₱94,867,108
Subsidiaries							
Short-term debt	Fixed at 2.75%	1 month	₱8,000,000	₱8,000,000	₱-	₱-	₱8,000,000
Long-term debt							
<i>Fixed</i>							
	Fixed at 6.70% to 8.40%	7 years	20,000,000	-	19,914,326	-	19,914,326
	Fixed at 6.75% to 6.80%	10 years	10,000,000	-	-	9,939,287	9,939,287
	Fixed at 6.88%	15 years	10,000,000	-	-	9,926,281	9,926,281
<i>Floating</i>							
	Variable at 0.50% to 0.67% over 91-day T-bills PDST-R1	3 months	11,107,500	152,843	8,021,844	2,896,108	11,070,795
Subsidiaries							
Short-term debt	Ranging from 2.00% to 8.00%	Monthly, quarterly	3,309,266	3,309,266	-	-	3,309,266
Long-term debt	Ranging from 1.10% to 2.55%	Monthly, quarterly	13,078,249	13,078,249	-	-	13,078,249
<i>Fixed</i>							
	Fixed at 0.50% to 10.21%	3,4,5,7,10 and 15 years	123,700,359	17,162,143	45,602,586	60,497,617	123,262,346
Peso and foreign currency Dollar	Fixed at 0.50%	5 years	13,159,894	-	-	13,159,894	13,159,894
<i>Exchangeable bond</i>							
<i>Floating</i>							
	Variable at Libor+1.50% to 3.50%	3 months, semi-annual	53,950,710	2,791,000	43,909,472	4,979,777	51,680,249
			₱266,305,978	₱44,493,501	₱117,448,228	₱101,398,964	₱263,340,693

Foreign exchange risk

The Group's foreign exchange risk results primarily from movements of the PHP against other currencies. The Group's consolidated statements of income can be affected significantly by movements in the USD and other currencies versus the PHP. In 2016 and 2015, the Group entered into currency forward contracts to hedge its risks associated with foreign currency fluctuations.

IMI Group

The IMI Group's foreign exchange risk results primarily from movements of the USD against other currencies. As a result of significant operating expenses in PHP, IMI Group's consolidated statements of income can be affected significantly by movements in the USD versus the PHP. In 2016 and 2015, IMI Group entered into currency forward contracts to hedge its risks associated with foreign currency fluctuations.

IMI Group also has transactional currency exposures. Such exposure arises from sales or purchases denominated in other than IMI Group's functional currency. Approximately 53% and 47% of the Group's sales for the years ended December 31, 2016 and 2015, respectively, and 43% and 39% of costs for the years ended December 31, 2016 and 2015, respectively, are denominated in currencies other than IMI Group's functional currency.

IMI Group manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into the relevant domestic currency as and when the management deems necessary. The unhedged exposure is reviewed and monitored closely on an ongoing basis and management will consider hedging any material exposure where appropriate.

MWC Group

The MWC Group's foreign exchange risk results primarily from movements of the PHP against the USD and Japanese Yen (JPY). Majority of revenues are generated in PHP, and substantially all capital expenditures are also in PHP. Approximately 44.01% and 33.00% of debt as of December 31, 2016 and 2015, respectively, was denominated in foreign currency. Under Amendment 1 of the Agreement, however, the Group has a natural hedge on its foreign exchange risks on its loans and concession fee payments through a recovery mechanism in the tariff.

Information on the Group's significant foreign currency-denominated monetary assets and liabilities and their Php equivalent follows:

	December 31, 2016		December 31, 2015	
	US\$	Php Equivalent*	US\$	Php Equivalent*
(In Thousands)				
Assets				
Cash and cash equivalents	US\$103,225	₱5,132,368	US\$51,036	₱2,401,762
Short-term investments	350	17,402	8,001	376,513
Accounts and notes receivables	14,394	715,676	24,585	1,156,954
Other current assets	441	21,931	257	12,080
Other noncurrent assets	424	21,101	–	–
Total assets	118,834	5,908,478	83,879	3,947,309
Liabilities				
Accounts payable and accrued expenses	31,048	1,543,716	23,586	1,109,934
Other current liabilities	8,031	399,284	–	–
Short-term debt	–	–	22,375	1,052,958
Long-term debt	152,113	7,563,067	155,046	7,296,443
Other noncurrent liabilities	68,433	3,402,491	76,892	3,618,567
Total liabilities	259,625	12,908,558	277,899	13,077,902
Net foreign currency denominated liabilities	(US\$140,791)	(₱7,000,080)	(US\$194,020)	(₱9,130,593)

*Translated using the exchange rate at the reporting date (US\$1:₱49.72 on December 31, 2016 and US\$1: ₱47.06 on December 31, 2015).

	December 31, 2016		December 31, 2015	
	JPY	Php Equivalent*	JPY	Php Equivalent*
	(In Thousands)			
Assets				
Cash and cash equivalents	JPY37,673	₱16,087	JPY38,281	₱14,968
Accounts and notes receivable	(35,333)	(15,089)	81,597	31,904
Other noncurrent assets	2,799	1,195	2,411	942
Total assets	5,139	2,193	122,289	47,814
Liabilities				
Accounts payable and accrued expenses	170,775	72,928	232,081	90,742
Other current liabilities	–	–	3,933	1,538
Long-term debt	14,494,352	6,161,549	2,903,907	1,138,332
Other noncurrent liabilities	871,689	370,555	1,249,435	489,778
Total liabilities	15,536,816	6,605,032	4,389,356	1,720,390
Net foreign currency denominated liabilities	(JPY15,531,677)	(₱6,602,839)	(JPY4,267,067)	(₱1,672,576)

*Translated using the exchange rate at the reporting date (JPY1:₱0.4251 on December 31, 2016 and JPY1:₱0.3920 on December 31, 2015).

	December 31, 2016		December 31, 2015	
	RMB	Php Equivalent*	RMB	Php Equivalent*
	(In Thousands)			
Assets				
Cash and cash equivalents	RMB115,209	₱824,238	RMB150,318	₱1,090,586
Accounts and notes receivables	421,004	3,011,974	487,404	3,536,202
Total assets	536,213	3,836,212	637,722	4,626,788
Liabilities				
Accounts payable and accrued expenses	295,403	2,113,391	245,661	1,782,316
Net foreign currency denominated assets	RMB240,810	₱1,722,821	RMB392,061	₱2,844,472

*Translated using the exchange rate at the reporting date (RMB1: ₱7.15 on December 31, 2016 and RMB1: ₱7.26 on December 31, 2015).

	December 31, 2016		December 31, 2015	
	EUR	Php Equivalent*	EUR	Php Equivalent
	(In Thousands)			
Assets				
Cash and cash equivalents	EUR19,059	₱989,926	EUR20,655	₱1,068,064
Receivables	70,065	3,638,292	34,563	1,787,260
Other current and noncurrent assets	10	522	–	–
Total assets	89,134	4,628,740	55,218	2,855,324
Liabilities				
Accounts payable and accrued expenses	47,961	2,490,774	16,525	854,489
Short term debt	16,373	850,186	2,687	138,969
Long-term debt	10,883	565,120	13,331	689,370
Other noncurrent liabilities	817	42,406	566	29,268
Total liabilities	76,034	3,948,486	33,109	1,712,096
Net foreign currency denominated assets	EUR13,100	₱680,254	EUR22,109	₱1,143,228

*Translated using the exchange rate at the reporting date (EUR1: ₱51.93 on December 31, 2016 and EUR1: ₱51.71 on December 31, 2015)

	December 31, 2016		December 31, 2015	
	VND	Php Equivalent*	VND	Php Equivalent
	(In Thousands)			
Assets				
Cash and cash equivalents	VND21,236,476	P47,150	VND62,123,859	P129,219
Accounts and notes receivable	33,485,375	74,667	–	–
Total assets	54,721,851	121,817	VND62,123,859	P129,219
Liabilities				
Accounts payable and accrued expenses	430,784	961	489,817	781
Net foreign currency denominated assets	VND54,291,067	P120,856	VND61,634,042	P128,438

*Translated using the exchange rate at the reporting date (VND1:₱0.0022 on December 31, 2016 and VND1:₱0.0021 on December 31, 2015).

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate, with all 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 (amounts in thousands).

Currency	Increase (decrease) in Peso per foreign currency	Increase (decrease) in profit before tax	
		2016	2015
US\$	₱1.00	(P140,791)	(P194,020)
	(1.00)	140,791	194,020
JPY	1.00	(15,531,677)	(4,267,067)
	(1.00)	15,531,677	4,267,067
RMB	1.00	240,810	392,061
	(1.00)	(240,810)	(392,061)
EUR	1.00	13,100	22,109
	(1.00)	(13,100)	(22,109)
VND	1.00	54,291,067	61,634,042
	(1.00)	(54,291,067)	(61,634,042)

There is no other impact on the Group's equity other than those already affecting net income.

Equity price risk

AFS financial assets are acquired at certain prices in the market. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers, or factors affecting all instruments traded in the market. Depending on several factors such as interest rate movements, the country's economic performance, political stability, and domestic inflation rates, these prices change, reflecting how market participants view the developments. The Group's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each sector and market.

The analysis below demonstrates the sensitivity to a reasonably possible change of market index with all other variables held constant, of the Group's equity arising from fair valuation of quoted AFS financial assets (amounts in thousands).

	Market Index	Change in Variables	Effect on Equity Increase (decrease)
			(In Thousands)
2016	PSEi	5%	₱306,121
		(5%)	(306,121)
2015	PSEi	5%	₱342,754
		(5%)	(342,754)

Liquidity risk

Liquidity risk is defined by the Group as the risk of losses arising from funding difficulties due to deterioration in market conditions and/or the financial position of the Group that make it difficult to raise the necessary funds or that forces the Group to raise funds at significantly higher interest rates than usual.

This is also the possibility of experiencing losses due to the inability to sell or convert marketable securities into cash immediately or in instances where conversion to cash is possible but at loss due to wider than normal bid-offer spreads.

The Group seeks to manage its liquidity profile to be able to service its maturing debts and to finance capital requirements. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include bank loans and capital market issues, both on-shore and off-shore.

ALI Group

ALI Group employs scenario analysis and contingency planning to actively manage its liquidity position and guarantee that all operating, investing and financing needs are met. ALI Group has come up with a three-layered approach to liquidity through the prudent management of sufficient cash and cash equivalents, the potential sale of accounts receivables and the maintenance of short-term revolving credit facilities.

Cash and cash equivalents are maintained at a level that will enable it to fund its general and administrative expenses as well as to have additional funds as buffer for any opportunities or emergencies that may arise. Management develops viable funding alternatives through a continuous program for the sale of its receivables and ensures the availability of ample unused short-term revolving credit facilities from both local and foreign banks as back-up liquidity.

MWC Group

MWC Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, preference shares, leases and hire purchase contracts. The Group's policy is to maintain a level of cash that is sufficient to fund its monthly cash requirements, at least for the next four to six months. Capital expenditures are funded through long-term debt, while operating expenses and working capital requirements are sufficiently funded through cash collections.

The table summarizes the maturity profile of the Group's financial liabilities as of December 31, 2016 and 2015, based on contractual undiscounted payments.

	December 31, 2016				Total
	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	
	(In Thousands)				
Accounts payable and accrued expenses					
Accounts payable	P90,791,680	P-	P-	P-	P90,791,680
Project costs	16,721,212	-	-	-	16,721,212
Accrued expenses	11,841,850	-	-	-	11,841,850
Related parties	3,350,342	91,629	-	-	3,441,971
Retentions payable	4,306,272	6,485,226	-	-	10,791,498
Dividends payable	3,503,405	-	-	-	3,503,405
Personnel costs	8,056,866	-	-	-	8,056,866
Liability for purchased land	6,257,097	-	-	2,099,051	8,356,148
Derivative liability	569,350	-	-	-	569,350
Service concession obligation	754,519	1,431,059	-	5,391,803	7,577,381
Customers' deposits	16,849,188	18,036,930	2,631,289	275,538	37,792,945
Short-term debt	30,858,137	-	-	-	30,858,137
Long-term debt	19,792,669	13,558,251	17,005,624	214,639,270	264,995,814
Other liabilities	104,446	1,431,059	2,444,582	7,466,847	11,446,934
Interest payable	9,686,530	22,163,528	13,587,313	8,689,467	54,126,838
	P223,443,563	P63,197,682	P35,668,808	P238,561,976	P560,872,029

	December 31, 2015				Total
	< 1 year	1 to < 2 years	2 to < 3 years	> 3 years	
	(In Thousands)				
Accounts payable and accrued expenses					
Accounts payable	P85,017,853	P356	P-	P-	P85,018,209
Project costs	16,939,548	-	-	-	16,939,548
Accrued expenses	12,995,614	18,621	-	-	13,014,235
Related parties	1,372,445	-	-	-	1,372,445
Retentions payable	1,316,087	-	-	-	1,316,087
Dividends payable	3,414,356	-	-	-	3,414,356
Personnel costs	4,964,387	-	-	-	4,964,387
Liability for purchased land	6,257,097	-	-	2,099,051	8,356,148
Derivative liability	3,771	-	-	-	3,771
Service concession obligation	1,255,644	4,787,287	-	1,686,916	7,729,847
Customers' deposit	4,204,260	-	-	294,884	4,499,144
Short-term debt	24,387,515	-	-	-	24,387,515
Long-term debt	55,326,886	18,283,830	40,730,055	124,612,408	238,953,179
Other noncurrent liabilities	4,541,435	16,456,868	1,765	11,238,704	32,238,772
Interest payable	9,581,040	25,755,474	10,206,066	46,411,392	91,953,972
	P231,577,938	P65,302,436	P50,937,886	P186,343,355	P534,161,615

Cash and cash equivalents, short-term investments, financial assets at FVPL and AFS debt investments are used for the Group's liquidity requirements. Please refer to the terms and maturity profile of these financial assets under the maturity profile of the interest-bearing financial assets and liabilities disclosed in the interest rate risk section.

Credit risk

Credit risk is the risk that the Group's counterparties to its financial assets will fail to discharge their contractual obligations. The Group's holding of cash and short-term investments and receivables from customers and other third parties exposes the Group to credit risk of the counterparty. Credit risk management involves dealing with institutions for which credit limits have been established. The Group's Treasury Policy sets credit limits for each counterparty. The Group trades only with recognized, creditworthy third parties and has a well-defined credit policy and established credit procedures.

Given the Group's diverse base of counterparties, the Group's not exposed to large concentrations of credit risk.

The maximum exposure to credit risk for the components of the consolidated statement of financial position is equal to the carrying values.

ALI Group

For installments receivable from the sale of properties, credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. ALI Group also undertakes supplemental credit review procedures for certain installment payment structures. ALI Group's stringent customer requirements and policies in place contribute to lower customer default than its competitors. Customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements. Exposure to bad debts is not significant as titles to real estate properties are not transferred to the buyers until full payment has been made and the requirement for remedial procedures is minimal given the profile of buyers.

Credit risk arising from rental income from leasing properties is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. In accordance with the provisions of the lease contracts, the lessees are required to make a deposit with ALI Group (e.g. security deposits and advance rentals) which helps reduce ALI Group's credit risk exposure in case of defaults by the tenants. For existing tenants, ALI Group has put in place a monitoring and follow-up system. Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables. Regular meetings with tenants are also undertaken to provide opportunities for counseling and further assessment of paying capacity.

IMI Group

The credit evaluation reflects the customer's overall credit strength based on key financial and credit characteristics such as financial stability, operations, focus market and trade references. All customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that IMI Group's exposure to bad debts is not significant.

MWC Group

It is MWC Group's policy that except for connection fees and other highly meritorious cases, the Group does not offer credit terms to its customers. Credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. Customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements.

The aging analysis of accounts and notes receivables that are past due but not impaired follows:

December 31, 2016

	Neither Past Due nor Impaired	Past Due but not Impaired					Total	Individually Impaired	Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days			
Trade:									
Real estate	P74,867,330	P2,042,497	P1,795,664	P1,378,543	P1,282,877	P7,715,792	P14,215,373	P90,043,604	
Electronics manufacturing	7,888,657	1,205,349	292,233	145,578	81,189	85,137	1,809,486	9,784,345	
Water infrastructure	2,589,207	-	-	-	-	-	-	2,712,944	
Automotive	1,274,943	611,328	356,775	211,618	91,923	205,889	1,477,533	2,791,338	
Information technology and BPO	56,849	32,900	5,966	238	4,914	2,985	47,003	275,198	
International and others	123,481	964	-	139	-	13	1,116	525,154	
Advances to other companies	16,964,533	14,515	5,939	5,196	7,085	43,822	76,557	17,041,090	
Receivable from related parties	1,316,771	374,075	181,987	131,066	70,981	264,758	1,022,867	2,339,638	
Dividend receivable	1,228,133	-	-	-	-	-	-	1,228,133	
Receivable from officers and employees	1,018,843	16,140	22,251	1,721	4,325	27,521	71,958	1,090,801	
Receivable from BWC	529,501	-	-	-	-	-	-	529,501	
Concession financial receivable	1,205,814	-	-	-	-	-	-	1,205,814	
Others	57,852	-	-	-	-	1,102	1,102	58,954	
Total	P109,121,914	P4,297,768	P2,660,815	P1,874,099	P1,543,294	P8,347,019	P18,722,995	P1,781,605	P129,626,514

December 31, 2015

	Neither Past Due nor Impaired	Past Due but not Impaired (In Thousands)				Total	Individually Impaired	Total	
		<30 days	30-60 days	60-90 days	90-120 days				>120 days
Trade:									
Real estate	₱64,074,395	₱1,709,490	₱966,002	₱962,125	₱3,985,508	₱10,625,013	₱75,072,869		
Electronics manufacturing	6,779,757	165,693	9,238	13,235	54,781	1,137,632	7,939,887		
Water infrastructure	2,396,750	—	—	—	—	—	2,437,166		
Automotive	859,668	312,916	242,236	86,788	71,958	1,437,562	2,313,177		
Information technology and BPO	267,081	14,619	14,506	23,092	—	94,092	361,173		
International and others	53,992	453	132	—	—	585	54,577		
Advances to other companies	15,291,274	84,612	59,143	14,956	162,300	547,825	15,980,519		
Receivable from related parties	3,240,441	28,196	3,473	3,651	6,107	94,737	3,372,424		
Dividend receivable	1,153,466	—	—	—	—	—	1,153,466		
Receivable from BWC	529,501	—	—	—	—	—	529,501		
Concession financial receivable	1,198,084	—	—	—	—	—	1,198,084		
Receivable from officers and employees	1,040,625	5,426	1,802	2,030	16,981	29,923	1,070,548		
Investment in bonds classified as loans and receivables	258,000	—	—	—	—	—	258,000		
Others	263,593	—	—	—	—	—	263,593		
Total	₱97,406,627	₱4,948,115	₱2,319,342	₱1,296,400	₱4,297,635	₱13,967,369	₱112,004,984		

The table below shows the credit quality of the Group's financial assets as of December 31, 2016 and 2015 (amounts in thousands):

December 31, 2016

	Neither past due nor impaired			Total	Past due but not impaired	Individually Impaired	Total
	High Grade	Medium Grade	Low Grade				
Cash and cash equivalents	₱60,223,324	—	—	₱60,223,324	—	—	₱60,223,324
Short-term investments	1,008,705	—	—	1,008,705	—	—	1,008,705
FVPL financial assets	—	6,664,015	—	6,664,015	—	—	6,664,015
Other noncurrent assets	—	—	—	—	—	—	—
Deposits and advances-Projects	12,483,625	—	—	12,483,625	—	—	12,483,625
Others	788,716	—	—	788,716	—	—	788,716
Accounts and notes receivables							
Trade							
Real estate	71,381,596	1,421,014	2,064,720	74,867,330	14,215,373	960,901	90,043,604
Electronics manufacturing	364,922	7,523,735	—	7,888,657	1,809,486	86,202	9,784,345
Water infrastructure	1,669,754	919,453	—	2,589,207	—	123,737	2,712,944
Automotive	—	1,042,950	231,993	1,274,943	1,477,533	38,862	2,791,338
Information technology and BPO	56,849	—	—	56,849	47,003	171,346	275,198
International and others	62,436	61,045	—	123,481	1,116	400,557	525,154
Advances to other companies	16,441,387	523,099	47	16,964,533	76,557	—	17,041,090
Receivable from related parties	791,762	446,470	78,539	1,316,771	1,022,867	—	2,339,638
Dividend receivable	1,228,133	—	—	1,228,133	—	—	1,228,133
Receivable from BWC	—	529,501	—	529,501	—	—	529,501
Concession financial receivable	1,205,814	—	—	1,205,814	—	—	1,205,814
Receivable from officers employees	909,369	55,107	54,367	1,018,843	71,958	—	1,090,801
Other receivable	49,597	8,255	—	57,852	1,102	—	58,954
AFS Investments							
Quoted shares of stocks	2,579,137	—	—	2,579,137	—	—	2,579,137
Unquoted shares of stocks	—	1,870,321	—	1,870,321	—	—	1,870,321
Quoted debt investments	115,621	—	—	115,621	—	—	115,621
	₱171,360,747	₱21,064,965	₱2,429,666	₱194,855,378	₱18,722,995	₱1,781,605	₱215,359,978

December 31, 2015

	Neither past due nor impaired			Total	Past due but not impaired	Impaired	Total
	High Grade	Medium Grade	Low Grade				
Cash and cash equivalents	₱82,154,542	—	—	₱82,154,542	—	—	₱82,154,542
Short-term investments	2,052,288	—	—	2,052,288	—	—	2,052,288
FVPL financial assets	—	5,072,792	—	5,072,792	—	—	5,072,792
Other noncurrent assets	—	—	—	—	—	—	—
Deposits and advances-Projects	8,356,278	—	—	8,356,278	—	—	8,356,278
Others	3,714	—	—	3,714	—	—	3,714
Accounts and notes receivables							
Trade							
Real estate	46,553,158	9,467,751	8,053,486	64,074,395	10,625,013	373,461	75,072,869
Electronics manufacturing	339,368	6,353,216	87,173	6,779,757	1,137,632	22,498	7,939,887
Water infrastructure	2,117,830	278,920	—	2,396,750	—	40,416	2,437,166
Automotive	148,331	711,337	—	859,668	1,437,562	15,947	2,313,177
Information technology and BPO	267,081	—	—	267,081	94,092	—	361,173
International and others	51,483	2,509	—	53,992	585	—	54,577
Advances to other companies	14,332,572	894,535	64,167	15,291,274	547,825	141,420	15,980,519
Receivable from related parties	2,710,828	308,092	221,521	3,240,441	94,737	37,246	3,372,424
Dividend receivable	1,153,466	—	—	1,153,466	—	—	1,153,466
Receivable from BWC	—	529,501	—	529,501	—	—	529,501
Concession financial receivable	1,198,084	—	—	1,198,084	—	—	1,198,084
Receivable from officers employees	970,319	68,080	2,226	1,040,625	29,923	—	1,070,548
Investments in bonds classified as loans and receivables	258,000	—	—	258,000	—	—	258,000
Other receivable	263,593	—	—	263,593	—	—	263,593
AFS Investments	1,635,560	—	—	1,635,560	—	—	1,635,560
Quoted shares of stocks	—	1,827,706	—	1,827,706	—	—	1,827,706
Unquoted shares of stocks	—	—	—	—	—	—	—
Quoted debt investments	274,550	—	—	274,550	—	—	274,550
	₱164,841,045	₱25,514,439	₱8,428,573	₱198,784,057	₱13,967,369	₱630,988	₱213,382,414

The credit quality of the financial assets was determined as follows:

Cash and cash equivalents, short-term investments, FVPL financial assets, quoted AFS financial assets, investment in bonds classified as loans and receivable, advances to other companies and related party receivables

High grade pertains to cash and cash equivalents and short-term investments, quoted financial assets, investment in bonds classified as loans and receivable, related party transactions and receivables with high probability of collection.

Medium grade pertains to unquoted financial assets other than cash and cash equivalents and short-term investments with nonrelated counterparties and receivables from counterparties with average capacity to meet their obligation.

Low grade pertains to financial assets with the probability to be impaired based on the nature of the counterparty.

Trade receivables

Real estate, information technology and BPO and international and others - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to 3 defaults in payment in the past; and low grade pertains to receivables with more than 3 defaults in payment.

Electronics manufacturing - high grade pertains to receivable with favorable credit terms and can be offered with a credit term of 15 to 45 days; medium grade pertains to receivable with normal credit terms and can be offered with a credit term of 15 to 30 days; and low grade pertains to receivables under advance payment or confirmed irrevocable Stand-by Letter of Credit and subjected to semi-annual or quarterly review for possible upgrade or transaction should be under advance payment or confirmed and irrevocable Stand-By Letters of credit; subject to quarterly review for possible upgrade after one year.

Water infrastructure - high grade pertains to receivables that are collectible within 7 days from bill delivery; medium grade pertains to receivables that are collectible from 11 to 30 days from bill delivery.

Automotive - high grade pertains to receivables from corporate accounts and medium grade for receivables from noncorporate accounts.

Unquoted AFS financial assets - the unquoted investments are unrated.

33. Fair Value Measurement and Derivative Instruments

Fair Value of Financial and Nonfinancial Instruments

The carrying amounts approximate fair values for the Group's financial assets and liabilities due to its short-term maturities except for the following financial instruments as of December 31, 2016 and 2015 (amounts in thousands):

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS AT FVPL				
Held for trading	₱6,664,015	₱6,664,015	₱5,072,792	₱5,072,792
Derivative assets				
Embedded	241,787	241,787	238,151	238,151
Freestanding	4,100	4,100	3,112	3,112
Total financial assets at FVPL	6,909,902	6,909,902	5,314,055	5,314,055
LOANS AND RECEIVABLES				
Accounts and notes receivables				
Trade receivables				
Real estate	79,286,123	79,618,899	65,809,994	67,103,996
Nontrade receivables				
Receivable from officers and employees	1,090,801	1,087,369	1,071,450	1,083,631
Investment in bonds classified as loans and receivables	–	–	258,000	264,973
Concession financial receivable	1,205,814	2,080,736	1,198,084	2,128,767
Total loans and receivables	81,582,738	82,787,004	68,337,528	70,581,367
AFS FINANCIAL ASSETS				
Quoted equity investments	2,579,137	2,579,137	1,635,560	1,635,560
Unquoted equity investments	1,870,321	1,870,321	1,827,706	1,827,706
Quoted debt investments	115,621	115,621	274,550	274,550
Total AFS financial assets	4,565,079	4,565,079	3,737,816	3,737,816
Total financial assets	₱93,057,719	₱94,261,985	₱77,389,399	₱79,633,238
FINANCIAL LIABILITIES AT FVPL				
Derivative liabilities				
Financial liabilities on put option				
Embedded	₱563,541	₱563,541	₱–	₱–
Freestanding	3,357	3,357	3,274	3,274
Freestanding	2,452	2,452	497	497
	569,350	569,350	3,771	3,771
OTHER FINANCIAL LIABILITIES				
Noncurrent other financial liabilities				
Service concession obligation	7,577,381	9,590,173	8,794,018	11,701,046
Other noncurrent liabilities	19,838,137	20,113,198	22,963,246	32,238,747
Long-term debt	245,203,145	244,111,869	210,799,647	218,017,480
Total other financial liabilities	272,618,663	273,815,240	242,556,911	261,957,273
Total financial liabilities	₱273,188,013	₱274,384,590	₱242,560,682	₱261,961,044

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Financial assets at FVPL – Fair values of investment securities are based on quoted prices as of the reporting date. For other investment securities with no reliable measure of fair value, these are carried at its last transaction price.

The fair value of the investment in UITF is based on net asset values as of reporting dates.

The fair value of the investment in ARCH Capital Fund is determined using the discounted cash flow (DCF) method. Under the DCF method in fund fair valuation, it is estimated using assumptions regarding the benefits and liabilities of ownership over the underlying asset's life

including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream, associated with the underlying asset. The exit yield is normally separately determined and differs from the discount rate. Significant inputs considered were rental, growth and discount rates. The higher the rental and growth rates, the higher the fair value. The higher the discount rates, the lower the fair value.

The fair value of other unquoted financial assets at FVPL is determined using Weighted Average Cost of Capital using market comparable. The rate used ranged from 5% to 10% in 2016 and 2015.

Derivative instrument - The fair value of the freestanding currency forwards is based on counterparty valuation. Derivative asset - The fair value is estimated using a modified stock price binomial tree model for convertible callable bonds.

Financial liabilities on put options - These pertain to the liabilities of IMI arising from the written put options over the non-controlling interest of VIA. The fair value of the financial liabilities is estimated using the discounted, probability-weighted cash flow method. The future cash flows were projected using the equity forward pricing formula with reference to the current equity value of the acquiree and the forecasted interest rate which is the risk-free rate in Germany. The risk-free rate used range from 0.02% to 0.15%. Management applied weights on the estimated future cash flows, based on management's judgment on the chance that the trigger events for the put option will occur.

The current equity value of the acquiree is determined using the discounted cash flow approach. The future cash flows are projected using the projected revenue growth rate of VIA. The discount rate represents the current market assessment of the risk specific to the acquiree, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital.

Noncurrent trade and nontrade receivables - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 1.50% to 6.39% in 2016 and 1.40% to 5.47% in 2015.

AFS quoted debt and equity investments - Fair values are based on the quoted prices published in markets.

AFS unquoted equity investments - Fair value of equity funds are based on the net asset value per share. The fair value of other unquoted equity investments is determined using Weighted Average Cost of Capital using market comparable. The rate used ranged from 5% to 10% in 2016 and 2015. For other unquoted equity shares where the fair value is not reasonably determinable due to the unpredictable nature of future cash flows and the lack of suitable method of arriving at a reliable fair value, these are carried at cost less impairment, if any.

Other financial liabilities - non-current - The fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used for Peso-denominated loans were 0.19% to 7.62% in 2016 and 0.23% to 7.75% in 2015 while the discount rates used for the foreign currency-denominated loans ranged 3.54% to 6.14% in 2016 and 0.02% to 3.10% in 2015.

For variable rate loans that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates.

The following table shows the fair value hierarchy of the Group's assets and liabilities as at December 31, 2016 and 2015 (amounts in thousands):

2016

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Recurring financial assets measured at fair value				
Financial assets at FVPL	P-	P1,736,759	P4,927,256	P6,664,015
Derivative assets				
Embedded	-	-	241,787	241,787
Freestanding	3,335	-	765	4,100
AFS financial assets				
Quoted equity investments	2,579,137	-	-	2,579,137
Unquoted equity investments	-	638,334	1,231,987	1,870,321
Quoted debt investments	-	-	115,621	115,621
	P2,582,472	P 2,375,093	P6,517,416	P11,474,981
Recurring financial assets for which fair values are disclosed:				
Loans and receivables	P-	P-	P80,706,268	P80,706,268
Concession financial receivable	-	-	2,080,736	2,080,736
	P-	P-	P82,787,004	P82,787,004
Recurring financial liabilities measured at fair value				
Derivative liabilities				
Financial liabilities on put option	P-	P-	P563,541	P563,541
Embedded	-	-	3,357	3,357
Freestanding	525	-	1,927	2,452
	P525	P-	P 568,825	P569,350
Recurring financial liabilities for which fair values are disclosed:				
Noncurrent other financial liabilities				
Service concession obligation	P-	P-	P9,590,173	P9,590,173
Other noncurrent liabilities	-	-	20,113,198	20,113,198
Long-term debt	-	-	244,111,869	244,111,869
	P-	P-	P273,815,240	P273,815,240
Nonfinancial assets for which fair values are disclosed:				
Investments in associates and joint ventures*	P168,647,494	P-	P-	P168,647,494
Investment properties	-	-	295,508,639	295,508,639
	P168,647,494	P-	P295,508,639	P464,156,133

*Fair value of investments in listed associates and joint ventures for which there are published price quotations

2015

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Recurring financial assets measured at fair value				
Financial assets at FVPL	₱–	₱288,564	₱4,784,228	₱5,072,792
Derivative assets				
Embedded	–	–	238,151	238,151
Freestanding	3,112	–	–	3,112
AFS financial assets				
Quoted equity investments	1,635,560	–	–	1,635,560
Unquoted equity investments	–	824,798	1,002,908	1,827,706
Quoted debt investments	–	–	274,550	274,550
	₱1,638,672	₱1,113,362	₱6,299,837	₱9,051,871
Recurring financial assets for which fair values are disclosed:				
Loans and receivables	₱–	₱–	₱68,452,600	₱68,452,600
Concession financial receivable	–	–	2,128,767	2,128,767
	₱–	₱–	₱70,581,367	₱70,581,367
Recurring financial liabilities measured at fair value				
Derivative liabilities				
Embedded	₱–	₱–	₱3,274	₱3,274
Freestanding	497	–	–	497
	₱497	₱–	₱3,274	₱3,771
Recurring financial liabilities for which fair values are disclosed:				
Noncurrent other financial liabilities				
Service concession obligation	₱–	₱–	₱11,701,046	₱11,701,046
Other noncurrent liabilities	–	–	32,238,747	32,238,747
Long-term debt	–	–	218,017,480	218,017,480
	₱–	₱–	₱261,957,273	₱261,957,273
Nonfinancial assets for which fair values are disclosed:				
Investments in associates and joint ventures*	₱174,960,463	₱–	₱–	₱174,960,463
Investment properties	–	–	252,993,700	252,993,700
	₱174,960,463	₱–	₱252,993,700	₱427,954,163

*Fair value of investments in listed associates and joint ventures for which there are published price quotations

There was no change in the valuation techniques used by the Group in determining the fair market value of the assets and liabilities.

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

A reconciliation of the beginning and closing balances of Level 3 financial assets at FVPL are summarized below:

	2016	2015
At January 1	₱4,784,228	₱4,766,942
Additions	685,824	639,297
Disposals/redemptions	(846,328)	(642,398)
Recognized in statement of income	303,532	20,387
At December 31	₱4,927,256	₱4,784,228

Derivatives

	2016	2015
Derivative Assets		
Conversion option of BHL	₱135,170	₱207,886
Prepayment option of ACEHI	106,617	30,265
Currency forward of IMI	3,335	3,112
Currency forward of AIVPL	765	–
	₱245,887	₱241,263
Derivative Liabilities		
Financial liabilities on put options of IMI	₱563,541	₱–
Conversion option of AIVPL	3,357	3,274
Currency forwards of AC and IMI	2,452	497
	₱569,350	₱3,771

Financial liabilities on put options

In 2016, the IMI acquired 76.01% interest in VIA. The terms of the acquisition included put options that granted the non-controlling shareholder the right to sell his shares in VIA to the Group. The put options resulted in a financial liability of \$11.3 million as of December 31, 2016.

Free standing derivatives

IMI Philippines and IMI BG entered into various short-term currency forwards with an aggregate notional amount of US\$9.0 million in 2016 and US\$11.0 million and €16.3 million (US\$14.8 million) in 2015. As of December 31, 2016 and 2015, the outstanding forward contracts have a net positive fair value of US\$0.1 million. The changes in fair value of currency forwards recognized in 2016 and 2015 amounted to US\$0.1 million loss and US\$0.2 million gain, respectively (see Note 23).

Embedded derivatives

AIVPL Group

Conversion option

On January 9, 2015, AIVPL made shareholder advances to Integreon amounting to US\$1.5 million, under the following terms:

- a) Final Maturity Date on January 31, 2017.
- b) The Borrower is liable for the principal sum of US\$1.5 million due to AIVPL plus accrued interest at the rate of nine percent (9%) p.a.
- c) The Borrower is liable for 12% penalty on both principal and accrued interest if not paid on maturity.
- d) With option to convert both principal and accrued interest during an equity financing transaction to raise capital with the requisite corporate approvals.
- e) Closing and completion of the sale and purchase of the conversion shares shall take place in accordance with the terms of any transactional documents entered into in connection with such equity financing transaction.

ACEHI

Prepayment option

The onshore and offshore loan agreements of ACEHI have embedded prepayment options subject to a 3% prepayment penalty. The embedded derivative for Tranch A onshore dollar loan is assessed to be not closely related to the host contract, and thus, bifurcated and accounted for separately.

As of December 31, 2016 and 2015, the value of the derivative asset related to the embedded prepayment option amounted to ₱106.6 million and ₱30.3 million, respectively. The fair value changes of the derivative asset recognized in the consolidated statement of income for the year ended December 31, 2016 and 2015 amounted to ₱76.3 million and (₱4.1 million), respectively.

BHL

Convertible bonds

In June 2014, BHL invested VND113 billion (equivalent to USD5.3 million) in CII convertible bonds through its wholly owned subsidiary, VIP. These bonds have a maturity of 5 years, and a coupon rate of 5% p.a.

On June 23, 2016, the third bond conversion exercise, BHL Group converted 69,235 bonds into 6,293,461 shares at a closing price of VND 26,500 per share. Based on the initial bond offering submission made by CII, the conversion ratio would be 90.9:1 (1 convertible bond to 90.9 shares), where the number of converted shares will be rounded down to the next last whole number. This conversion increased the investment in CII shares by VND 167 billion (equivalent to USD 7.5 million).

BHL Group recognized a total gain of VND 37.9 million (US\$1.7 million) on the conversion exercise, out of which VND 28.3 million (US\$1.3 million) was the gain on the difference between the CII share price on the date of conversion and the carrying amount of convertible bond, and VND 9.6 million (US\$ 0.4 million) was the gain on the realization of the valuation reserve previously recorded on the convertible bonds.

Fair Value Changes on Derivatives

The net movements in fair values of the Group's derivative instruments as of December 31, 2016 and 2015 follow (amounts in thousands):

Derivative Assets

	2016	2015
Balance at beginning of year	₱241,263	₱8,835
Balance upon bifurcation	–	34,366
Fair value of currency forwards	5,777	11,458
Fair value of convertible bonds	–	217,294
Net changes in fair value of derivatives	76,527	(4,101)
	323,567	267,852
Fair value of settled instruments	(77,680)	(26,589)
Balance at end of year	₱245,887	₱241,263

Derivative Liabilities

	2016	2015
Balance at beginning of year	₱3,771	₱4,755
Fair value of currency forwards	12,580	862
Fair value of put options	563,541	–
Net changes in fair value of derivatives	112	(1,481)
	580,004	4,136
Fair value of settled instruments	(10,654)	(365)
Balance at end of year	₱569,350	₱3,771

No other financial assets or liabilities are carried at fair value as of December 31, 2016 and 2015.

Net changes in fair value of derivative assets and liabilities was recognized in the consolidated statement of income under "Other Income". However, the net changes in fair value of IMI Group's freestanding currency forward are recognized in the consolidated income under "Foreign exchange gains (losses)" (see Note 23).

34. Notes to Consolidated Statements of Cash Flows

The Group's noncash investing and financing activities are as follows:

2016

- Transfers from land and improvements to inventories amounted to ₱4,795.5 million.
- Transfer from land and improvements to investment properties amounted to ₱426.1 million.
- Transfer from land and improvements to other assets amounted to ₱174.3 million.
- Transfers from inventories to investment properties amounted to ₱1,065.3 million.
- Transfer from investment properties to property and equipment amounted to ₱16.7 million.
- Conversion of BHL's 69,235 investment in CII bonds to 6,293,461 shares.
- Sale of ACEHI's 70% ownership interest in Quadriver, Hydro Power and PhilnewRiver to Sta. Clara Power Corporation for a total selling price of ₱350.0 million collectible in four (4) years.
- Sale of Integreon of which US\$10.5 million will be due in four (4) years.

2015

- Transfers from land and improvements to inventories amounted to ₱9,253 million.
- Transfer from land and improvements to investment properties amounted to ₱1.7 million.
- Transfer from land and improvements to other assets amounted to ₱56.9 million.
- Transfers from inventories to investment properties amounted to ₱52.0 million
- Transfer from investment properties to property, plant and equipment amounted to ₱53.9 million.
- In July 2015, donated property to YMCA and PCPI was returned to the Parent Company. The total consideration was recognized as gain on reversion of land amounting to ₱575.1 million.

2014

- Transfers from land and improvements to inventories amounted to ₱11.0 billion.
- Transfer from inventories to property, plant and equipment amounted to ₱138.8 million.
- Transfers from investment properties to inventories amounted to ₱827.2 million.
- Transfer from investment properties to property, plant and equipment amounted to ₱2.3 million.
- Transfers from property, plant and equipment to other assets amounting ₱239.8 million.
- Transfer from investment properties to other assets amounted to ₱8.6 million.
- Transfer from property, plant and equipment to investment property amounting to ₱33.1 million in 2014.
- Transfer from other assets to property, plant and equipment amounting to ₱274.4 million.
- Transfer from land and improvements to other assets amounted to ₱100.3 million.
- Transfer from land and improvements to intercompany receivables amounted to ₱25.4 million.
- Capitalization of machinery and facilities equipment under finance lease amounted to \$3.8 million (₱168.6 million).

35. Commitments

Parent Company

The Parent Company acted as guarantor to AYCFL's term loans and credit facilities as follows:

Description of Facility	Date Contracted	Amount drawn as of December 31, 2016	2016	2015
			Outstanding balance as of December 31	Outstanding balance as of December 31
(Amounts in thousands)				
US\$229.2 million transferable term loan facility	December 16, 2010	US\$229,200	US\$–	US\$183,385
US\$150 million transferable term loan facility	March 28, 2011	150,000	–	50,000
US\$225 million transferable term loan facility	November 28, 2013	225,000	225,000	225,000
US\$100 million transferable loan facility	March 28, 2014	Undrawn	–	–
US\$200 million term loan facility	May 9, 2014	Undrawn	–	–
US\$200 million transferable term loan facility	March 18, 2016	Undrawn	–	–
US\$200 million revolving credit facility	March 18, 2016	Undrawn	–	–
		US\$604,200	US\$225,000	US\$458,385

The Parent Company unconditionally guaranteed the due and punctual payment of loans if, for any reason AYCFL does not make timely payment. The Parent Company waived all rights of subrogation, contribution and claims of prior exhaustion of remedies. The Parent Company's obligation as guarantor will remain in full force until no sum remains to be lent by the lenders, and the lenders recover the advances.

On May 2, 2014, AYCFL issued at face US\$300.0 million Exchangeable Bonds (the Bonds) due on May 2, 2019 with a fixed coupon rate of 0.5% per annum, payable semi-annually. The Bonds are guaranteed by the Parent Company and constitute direct, unsubordinated, unconditional and unsecured obligations of AYCFL, ranking pari passu and without any preference or priority among themselves. The Bonds were listed in the Singapore Stock Exchange and include features such as exchange option, put option and early redemption options.

On January 24, 2014, the Parent Company issued promissory note to BPI amounting to ₱8.0 billion. The loan under this note (including interest, charges, and those taxes for which the Parent Company is liable under the terms of Loan Agreement) was secured by an assignment of deposits belonging to AYCFL (the Assignor). For this purpose, the Assignor, cedes, transfers and conveys unto BPI, its successors and assigns, by way of assignment, all of the rights, titles and interests of the Assignor on and over these deposits. The Assignor, while the obligations secured remain outstanding, shall not withdraw and shall keep renewed for the term of the Note the Assigned Deposits. The note was pre-terminated by the Parent Company in October 2015.

ALI Group

On January 12, 2016, ALI entered into a partnership with MWVPI for the waterworks of ALI's projects nationwide. The MOA was signed by ALI and its subsidiaries and affiliates, CHI and CPVDC. Total expenses amounted to ₱0.2 million in 2016.

ALI and LT Group, Inc. (LTG) entered into an agreement on January 21, 2016 to jointly develop a project along the C5 corridor. The project is envisioned to be a township development that spans portions of Pasig City and Quezon City. A new company named, ALI-ETON Property Development Corporation (ALI-ETON), was incorporated on March 13, 2016. ALI-ETON is 49.99% owned by ALI and the remaining 50.01% is held by the LT Group, Inc.

Construction will begin by 4th quarter of 2017 and is expected to be completed and ready for operation by the 1st quarter of 2019.

On June 30, 2015, ALI, through SM-ALI Group consortium, participated and won in the bidding for Lot No. 8-B-1, containing an area of 263,384 square meters, which is portion of Cebu City-owned lot located at the South Road Properties, Cebu City covered by Transfer Certificate of Title No. 107-2011000963. SM-ALI Group consortium is a consortium among SM Prime Holdings, Inc. (SMPHI), ALI and CHI (collectively referred to as the ALI Group). The SM-ALI Group will co-develop the property pursuant to a joint master plan. Consistent with the agreed payment schedule in the Deed of Absolute Sale, the Consortium paid the Cebu City Treasurer a total of ₱1.97 billion last August 1, 2016.

On August 8, 1997, an Assignment Agreement was executed between Metro Rail Transit Corporation (Metro Rail) and MRTDC whereby MRTDC agreed to be bound by all obligations in respect of the Development Rights and make payments to DOTC.

On February 21, 2002, MRTDC and NTDC entered into an assignment agreement wherein the development rights of MRTDC over an 8.3 hectare portion of the MRT Depot (inclusive of project development costs incurred in relation thereto) was assigned to NTDC in exchange for 32,600,000 shares of stock to be issued out of the increase in the authorized capital stock of NTDC, each share with a par value of ₱10, or an aggregate par value of ₱326.0 million. The amount of development rights in excess of the aggregate par value of the shares subscribed was credited to additional paid-in capital.

On January 13, 2006, the deed of assignment between MRTDC and NTDC was acknowledged by the DOTC making MRTDC and NTDC jointly and severally liable for the DRP and all other obligations attached thereto. NTDC has been paying rent to DOTC in behalf of MRTDC since January 1, 2006. The DRP obligation is payable annually for 42 years from the date of assumption, renewable upon expiration. As of December 31, 2016 and 2015, the DRP obligation amounted to ₱875.6 million and ₱812.8 million, respectively (see Note 18). Total DRP obligation paid amounted to ₱216.9 million and ₱210.5 million in 2016 and 2015, respectively. Total rent expense recognized in the statements of comprehensive amounted to ₱338.3 million and ₱280.0 million in 2016 and 2015, respectively.

On March 21, 2007, DOTC, National Housing Authority (NHA), MRTDC, and NTDC entered into a MOA whereby DOTC assigns, transfers and conveys to NHA, its successors or assigns, the right to demand and collect the Depot DRP Payable and Depot DRP. In the MOA, DOTC authorizes MRTDC/NTDC to remit the Depot DRP Payable and the Depot DRP to NHA directly which shall be credited by DOTC in favour of MRTDC/ NTDC as payment for the DRP.

On October 16, 2009, ALI executed a lease agreement with the Subic Bay Metropolitan Authority (SBMA), for the development of a 7.5-hectare property along Rizal Highway within the Subic Bay Freeport Zone, located between the two main gates linking the Freeport Zone to Olongapo City. The lease commitment is expected to be completed in 2060 after the 50-year lease term. The lease may be renewed for another 25 years upon mutual agreement of the parties. ALI offered to develop a mall with an estimated gross leasable area of 38,000 square meters.

On March 25, 2010, ALI entered into an assignment of lease agreement whereby ALI assigned its rights and obligations granted to or imposed under the lease agreement to its subsidiary, Subic Bay Town Center, Inc. (SBTCI). The lease payments to SBMA started from the commencement of the commercial operation of the mall last April 26, 2012, which was completed during the same period.

ALI has an existing contract with Bases Conversion and Development Authority (BCDA) to develop, under a lease agreement signed in July 2000, a mall with an estimated gross leasable area of 152,000 square meters on a 9.8-hectare lot inside Fort Bonifacio. The lease agreement covers 15 years, renewable for another 25 years subject to reappraisal of the lot at market value.

The annual fixed lease rental amounts to ₱106.5 million while the variable rent ranges from 5.0% to 20.0% of gross revenues. Subsequently, ALI transferred its rights and obligations granted to or imposed under the lease agreement to Station Square East Commercial Corporation (SSECC), in exchange for equity. As part of the bid requirement, ALI procured a performance bond in 2003 from the Government Service Insurance System in favor of BCDA amounting to ₱3.9 billion to guarantee the committed capital to BCDA. Moreover, SSECC obtained stand-by letters of credit to guarantee the payment of the fixed and variable rent as prescribed in the lease agreement.

MDC, in the normal course of business, furnishes performance bonds in connection with its construction projects. These bonds shall guarantee MDC's execution and completion of the work indicated in the respective construction contracts.

On December 17, 2014, Arvo Commercial Corporation signed a Deed of Absolute Sale with the Philippine National Bank for a parcel of land with an area of 6,003 sqm located at No. 460 Quirino Highway, Brgy. Talipapa, Novaliches, Quezon City.

On November 7, 2014, ALI, SMPHI, the Francisco Ortigas Group (FOG) and the Rafael Ortigas Group (ROG) have signed an agreement to cause the termination of all cases relating to the ownership and management of OCLP Holdings, Inc. (OHI), which owns Ortigas and Company Limited Partnership (OCLP). The agreement establishes a partnership that will further enhance the properties in the Ortigas area and create maximum value for their various stakeholders.

On June 4, 2014, AHRC has signed a long-term management agreement with the Mandarin Oriental Hotel Group to develop and operate luxury hotel in Makati City. Set to open its doors by 2020, the new Mandarin Oriental Manila will be featuring 275 spacious rooms complemented by an extensive range of modern amenities including premium selection of restaurants and a signature spa. ALI Group is committed to pay \$5 million (₱223.6 million) to Manila Mandarin Hotel, Inc. upon the opening of the New Hotel or June 30, 2017, whichever is earlier.

On May 12, 2014, ALI has signed the terms of reference with Sureste Properties, Inc. (SPI), a wholly owned subsidiary of Bloomberry Resorts Corp. (BLOOM) for the retail area to be opened in the new Phase 1-A of Solaire Resort & Casino. ALI will be the leasing and marketing agent of the said area with gross leasable area of more than 5,000 sqm.

On January 26, 2016, ALI Group through ASITI entered into a Concession Agreement (CA) with the Department of Transportation (DOTr). The CA sets forth the rights and obligations of ASITI as concessionaire, including the construction and operation of the South Integrated Transport System Project (the Project) of DOTr. During the concession period, DOTr will monitor and review the performance of the concessionaire.

The concession will run for a period of 35 years from the start of the construction of the Project. Under the terms of the concession agreement, ASITI will design, engineer, construct, operate and maintain a mass transportation intermodal terminal at the outskirts of Metro Manila. The operation of the Project includes the collection and remittance of terminal fees to DOTr of the concessionaire during the concession period. In addition, ASITI will be permitted to develop and operate commercial leasing facilities.

Upon the start of the construction the Project, DOTr will give to ASITI the full, exclusive and uninterrupted use and possession of a 5.57 hectare property known as the Project Land. Ownership of the Project Land shall remain with DOTr at all times while the possession, custody and risk of loss or deterioration of the Project and commercial assets shall vest in the concessionaire during the concession period. ASITI shall transfer the Project and the related assets, free from any liens or encumbrances, to DOTr at the end of the concession period. ASITI will be entitled to annual payments from DOTr amounting to ₱277.9 million during the 35-year concession period, subject to meeting benchmarks set for certain key performance indicators enumerated in the CA.

As of December 31, 2016, construction of the Project has not yet commenced.

Parent Company's Concession Agreement

In 2012, the Parent Company entered into a concession agreement with the DPWH to finance, design, construct, operate and maintain the Daang Hari – SLEX Link Road, now known as the Muntinlupa-Cavite Expressway(MCX) [the Project]. Under the concession agreement, the Parent Company will:

- a. Purchase the advance works on Segment I of the Project and finance and construct the remaining works thereof;
- b. Finance, design, and construct Segment II of the Project;
- c. Undertake the operations and maintenance of the Project;
- d. Impose and collect tolls from the users of the Project; and
- e. Grant business concessions and charge and collect fees for non-toll user related facilities and toll user related facilities situated in the Project.

The Parent Company is authorized to adjust the toll rates once every two years in accordance with a prescribed computation as set out in the concession agreement and upon compliance with the rules and regulations on toll rate implementation as issued or may be issued by the Toll Regulatory Board.

In the event that the Parent Company is disallowed from charging and collecting the authorized amounts of the toll rates as prescribed in the concession agreement from the users of the Project, the Parent Company shall be entitled to either of the following:

- a. Compensation from the DPWH of the toll income forgone by the Parent Company which shall be calculated based on a prescribed computation under the concession agreement.
- b. Extension of the concession period to compensate the Parent Company for the forgone toll income which shall be mutually agreed by the Parent Company and the DPWH.

The Parent Company shall pay the DPWH an amount equal to 5% of all gross revenues arising from non-toll user and toll user related facilities situated within the Project.

The concession period shall commence on the date of the issuance of the Notice to Proceed with Segment II and shall end on the date that is 30 years thereafter, unless otherwise extended or terminated in accordance with the concession agreement. Any extension of the concession period shall in no event be beyond 50 years after the date of the issuance of the Notice to Proceed with Segment II.

At the end of the Concession Period, the Project shall be turned over by the Parent Company to the DPWH in the condition required for turnover under the Concession Agreement.

On July 24, 2015, MCX was opened to the public.

In accordance with the Concession Agreement, the Parent Company shall have the right to impose and collect toll fees (inclusive of value-added tax) from the users of the MCX at the following rates:

Vehicle Class	Initial Toll Rate (flat rate)
Class 1: Light vehicles	₱17.00
Class 2: Medium-weight vehicles	34.00
Class 3: Heavy vehicles	51.00

Interoperability Agreement

On July 21, 2015, the Parent Company, MCX Tollway, Inc. (MCXI) (an 80% owned subsidiary of AC Infra), South Luzon Tollway Corporation (SLTC), and Manila Toll Expressway Systems, Inc. (MATES) signed a Memorandum of Agreement on the Interoperability together with an Addendum

thereto (“MOA on Interoperability”) of the Project and the SLEX. The MOA on Interoperability provides the framework that will govern the interface and integration of the technical operations and toll collection systems between the Project and SLEX, and to ensure seamless travel for road users.

On the same date, MATES and MCXI also executed a Toll Collection Services Agreement, under which, MATES was appointed as sub-contractor of MCXI for the provision of toll collection services for the MCX toll plaza.

The Parent Company shall have the exclusive right and corresponding obligation to undertake the O&M of the Project. As such, on December 19, 2014, the Parent Company entered into an Operations and Maintenance Agreement (OMA) with MCXI for the operations and maintenance of the Project. The OMA has a term of seven (7) years, renewable for another seven (7) years, with the right of first offer in favor of MCXI. As compensation, the Parent Company shall pay an annual recurring fee of ₱77.6 million, exclusive of VAT, subject to yearly escalation using the Consumer Price Indexation formula.

On the same date, MCXI signed two contracts with EGIS Projects Philippines, Inc. (Egis):

- a. Operations Advisory Contract - to provide advice, among others, on the establishment and implementation of procedures to enforce traffic regulations and safety measures in MCX; and
- b. Maintenance Contract - to provide cleaning, inspection, repairs and maintenance on all parts of MCX, its landscaping, traffic signs and others.

Both contracts have a term of seven (7) years and renewable for another seven (7) years. The annual recurring fee for both contracts is ₱18.2 million, exclusive of VAT, and ₱40.9 million, exclusive for VAT, respectively and subject to yearly escalation to the effect of changes in labor index rates and consumer price index as provided by the Department of Labor and Employment.

In 2016, the Parent Company amended its existing O&M agreement with MCXI reducing the annual fee to ₱29.52 million and novated the existing agreement among MCXI and Egis to include the Parent Company as another party to the Operation Advisory Contract and Maintenance contract.

Non-Toll User Related Facilities

On October 24, 2016, the Parent Company entered into an agreement with Isuzu Automotive Dealership, Inc. (the Lessee) for the lease of 15,000 square meters of the concession area. The lease term is 20 years from October 1, 2016 to September 30, 2036, renewable for another period not exceeding June 28, 2045 upon mutual agreement. The fixed initial basic rent of the leased concession area shall be ₱1,275,000, exclusive of VAT, per month. Basic rent shall escalate by 5% at the start of the third year and every two years thereafter. The Lessee shall be given a rent free construction period of 3 months commencing on the delivery date of the leased premises. The Parent Company will remit to the DPWH 5% share on the gross revenues from the non-toll user related facilities in accordance with Section 12.6.b of the Concession Agreement.

The leased concession area shall be used by the Lessee for the purpose of developing and operating a dealership showroom and service center and to carry out other related retail, services and support activities incidental and complementary to its business and may be customary to the trade. As of December 31, 2016, construction of the facilities is in progress.

MWC Group

MWC's Concession Agreement (the “Agreement”)

On February 21, 1997, MWC entered into a Concession Agreement (the Concession Agreement) with MWSS, a government corporation organized and existing pursuant to Republic Act (RA) No. 6234, as amended, with respect to the MWSS East Zone (East Zone). The Concession Agreement sets forth the rights and obligations of MWC throughout a 25-year concession period.

The MWSS Regulatory Office (MWSS-RO) monitors and reviews the performance of each of the Concessionaires – MWC and Maynilad Water Services, Inc. (Maynilad), the West Zone Concessionaire.

Under the Concession Agreement, MWSS grants MWC (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under RA No. 6234) the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services in the East Zone for a period of 25 years commencing on August 1, 1997 (the Commencement Date) up to May 6, 2022 (the Expiration Date) or the early termination date as the case may be. While MWC has the right to manage, operate, repair and refurbish specified MWSS facilities in the East Zone, legal title to these assets remains with MWSS. The legal title to all fixed assets contributed to the existing MWSS system by MWC during the Concession remains with MWC until the Expiration Date (or until the early termination date) at which time all rights, titles and interest in such assets will automatically vest in MWSS.

On Commencement Date, MWC officially took over the operations of the East Zone and rehabilitation works for the service area commenced immediately thereafter. As provided in MWC's project plans, operational commercial capacity will be attained upon substantial completion of the rehabilitation work.

Under the Agreement, MWC is entitled to the following rate adjustments:

- a. Annual standard rate adjustment to compensate for increases in the consumer price index (CPI);
- b. Extraordinary price adjustment (EPA) to account for the financial consequences of the occurrence of certain unforeseen events stipulated in the Concession Agreement;
- c. Foreign Currency Differential Adjustment (FCDA) to recover foreign exchange losses including accruals and carrying costs thereof arising from MWSS loans and any Concessionaire loans used for capital expenditures and concession fee payments, in accordance with the provisions set forth in Amendment No. 1 of the Concession Agreement dated October 12, 2001 (see Notes 2, 9 and 14); and
- d. Rebasing Convergence Adjustment for the purposes of calculating the Rates Adjustment Limit for each of the five Charging Years of the Rebasing Period determined based on the following:
 - i. where the Rebasing Adjustment is found to be positive, the Rebasing Convergence Adjustment for the first Charging Year of the Rate Rebasing Period shall be equal to the Rebasing Adjustment, and the Rebasing Convergence Adjustment for each of the following four Charging Years shall be zero; and
 - ii. where the Rebasing Adjustment is found to be negative, the Rebasing Adjustment for each of the five Charging Years of the Rebasing Period shall be equal to the Rebasing Adjustment divided by five.

These rate adjustments are subject to a rate adjustment limit which is equivalent to the sum of CPI published in the Philippines, EPA and Rebasing Convergence Adjustment as defined in the Concession Agreement. The Concession Agreement also provides a general rate setting policy for rates chargeable by MWC for water and sewerage services as follows:

1. For the period through the second Rate Rebasing date (January 1, 2008), the maximum rates chargeable by MWC (subject to interim adjustments) are set out in the Concession Agreement.
2. From and after the second Rate Rebasing date, the rates for water and sewerage services shall be set at a level that will permit MWC to recover, over the 25-year term of the concession, its investment including operating, capital maintenance and investment incurred, Philippine business taxes and payments corresponding to debt service on MWSS loans and MWC's loans incurred to finance such expenditures, and to earn a rate of return equal to the appropriate discount rate (ADR) on these expenditures for the remaining term of the concession.

The maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five-year intervals commencing on the second Rate Rebasing date, provided that the MWSS-RO may exercise its discretion to make a general adjustment of such rates.

On April 16, 2009, the MWSS Board of Trustees passed Resolution No. 2009-072 approving the 15-year extension of the Concession Agreement (the Extension) from May 7, 2022 to May 6, 2037. This resolution was confirmed by the Department of Finance (DOF), by authority from the office of the President of the Republic of the Philippines, on October 19, 2009. The significant commitments under the Extension follow:

- a. To mitigate tariff increases such that there will be reduction of the balance of the approved 2008 rebased tariff by 66%, zero increase of the rebased tariff in 2009 and a ₱1.00 increase for years 2010 to 2016, subject to CPI and FCDA adjustments.
- b. To increase the share in the current operating budget support to MWSS by 100% as part of the concession fees starting 2009.
- c. To increase the total investments from the approved ₱187.00 billion for the periods 2008 to 2022 to ₱450.00 billion for 2008 to 2037.

With the approval of the Extension, the recovery period for MWC's investment is now extended by another 15 years from 2022 to 2037.

In March 2012, MWC submitted to MWSS a business plan embodying its rate rebasing proposals for charging year 2013. The rate rebasing activity is done every five (5) years. The MWSS conducted a review of the proposal including MWC's last five (5) years' financial performance. The financial review process extended up to the third quarter of 2013. On September 10, 2013, the MWSS-RO issued Resolution No. 13-09-CA providing for a negative rate rebasing adjustment of 29.47% on MWC's 2012 average basic water rate of ₱24.57 per cubic meter shall be implemented in 5 equal tranches of negative 5.894% per charging year. MWC objected to the MWSS' Rate Rebasing determination and formally filed its Dispute Notice on September 24, 2013, before a duly-constituted Appeals Panel, commencing the arbitration process, as provided under Section 12 (in relation to Section 9.4 of the Concession Agreement).

On December 10, 2013, the MWSS Board of Trustees, through MWSS-RO Resolution No. 13-012 CA, approved the implementation of a status quo for MWC's Standard Rates including FCDA until such time that the Appeals Panel has rendered a final award on the 2013 Rate Rebasing determination.

On April 21, 2015, MWC received the final award of the Appeals Panel in the arbitration which final award included the following tariff component determination:

- a. ₱28.1 billion Opening Cash Position (OCP) which restored ₱11.0 billion from the September 2013 OCP determination of MWSS of ₱17.1 billion;
- b. ₱199.6 billion capital expenditures and concession fees which restores ₱29.5 billion from the September 2013 future capital and concession fee expenditure of ₱170.1 billion;
- c. 7.61% Appropriate Discount Rate (ADR) which was an improvement of 79 bps from the post-tax ADR of 6.82% in September 2013; and
- d. Exclusion of corporate income tax from cash flows beginning January 1, 2013.

Consequently, the final award resulted in a rate rebasing adjustment for the period 2013 to 2017 of negative 11.05% on the 2012 basic average water charge of ₱25.07 per cubic meter. This adjustment translates to a decrease of ₱2.77 per cubic meter from the tariff during the intervening years before the 2018 rate rebasing. Annual CPI adjustments and the quarterly FCDA will continue to be made consistent with MWC's Concession Agreement with MWSS.

On December 10, 2015, MWC filed a Notice of Arbitration with the Permanent Court of Arbitration against the National Government. The Notice of Arbitration was filed with respect to a Notice of Claim made on the National Government on April 23, 2015 and reiterated on August 13, 2015 and

October 20, 2015. The Notice of Claim was made under the Letter of Undertaking of the National Government, which was dated July 31, 1997 and issued through the DOF, and was subsequently reiterated in the DOF Letter dated October 19, 2009 (the “Sovereign Undertaking”). These were issued to guarantee the obligations of the MWSS under its Concession Agreement with MWC executed on February 21, 1997.

In the Sovereign Undertaking, the National Government, through the DOF, undertook to indemnify MWC against any loss caused by any action on the part of the National Government and/or the MWSS resulting in the reduction of the standard rates “below the level that would otherwise be applicable in accordance with the Concession Agreement”, thereby denying MWC the rate of return “allowed from time to time to operators of long term infrastructure concession agreement in other countries having a credit standing similar to the Philippines” pursuant to Section 9.4 of the Concession Agreement. As a result of certain actions by the MWSS and the National Government, which are covered by the provisions of the Sovereign Undertaking, MWC demanded indemnification from the National Government by reimbursing its losses in operating revenues to be realized for each remaining year of the Concession as such losses are realized, which losses are estimated to amount to ₱79.0 billion for the period 2015 up to 2037.

The MWSS Board of Trustees approves the FCDA adjustment quarterly. The FCDA has no impact on the net income of MWC, as the same is a recovery or refund mechanism of foreign exchange losses or gains. During 2016 and 2015, the following FCDA adjustments and their related foreign exchange basis took effect.

Approval Date	FCDA Adjustment	Foreign Exchange Rate Basis
March 12, 2015	₱0.05 per cubic meter	USD1: ₱44.60 / JPY1: ₱0.38
June 4, 2015	₱0.02 per cubic meter	USD1: ₱44.41 / JPY1: ₱0.37
September 9, 2015	₱0.05 per cubic meter	USD1: ₱45.26 / JPY1: ₱0.37
December 10, 2015	₱0.15 per cubic meter	USD1: ₱46.36 / JPY1: ₱0.39
March 10, 2016	₱0.26 per cubic meter	USD1: ₱47.51 / JPY1: ₱0.40
June 14, 2016	₱0.25 per cubic meter	USD1: ₱46.29 / JPY1: ₱0.40

There were no updated FCDA for the third and fourth quarters of 2016 because the MWSS BOT who should approve the MWSS RO resolution was vacant.

The significant commitments of MWC under the Concession Agreement and Extension are as follows:

- a. To pay MWSS concession fees;
- b. To post a performance bond, bank guarantee or other security acceptable to MWSS amounting to US\$70.00 million in favor of MWSS as a bond for the full and prompt performance of MWC’s obligations under the Agreement. The aggregate amounts drawable in one or more installments under such performance bond during the Rate Rebasing Period to which it relates are set out below.

Rate Rebasing Period	Aggregate amount drawable under performance bond (in US\$ millions)
First (August 1, 1997 - December 31, 2002)	US\$70.00
Second (January 1, 2003 - December 31, 2007)	70.00
Third (January 1, 2008 - December 31, 2012)	60.00
Fourth (January 1, 2013 - December 31, 2017)	60.00
Fifth (January 1, 2018 - December 31, 2022)	50.00
Sixth (January 1, 2023 - December 31, 2027)	50.00
Seventh (January 1, 2028 - December 31, 2032)	50.00
Eighth (January 1, 2033 - May 6, 2037)	50.00

Within 30 days from the commencement of each renewal date, MWC Company shall cause the performance bond to be reinstated in the full amount set forth above as applicable for that year.

With a minimum of 10-day written notice to MWC, MWSS may make one or more drawings under the performance bond relating to a Rate Rebasing Period to cover amounts due to MWSS during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Appeals Panel for adjudication until the Appeals Panel has handed down its decision on the matter.

In the event that any amount payable to MWSS by MWC is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid;

- c. With the Extension, MWC agreed to increase its annual share in MWSS operating budget by 100% from ₱100.0 million to ₱395.0 million, subject to annual CPI;
- d. To meet certain specific commitments in respect of the provision of water and sewerage services in the East Zone, unless deferred by MWSS-RO due to unforeseen circumstances or modified as a result of rate rebasing exercise;
- e. To operate, maintain, renew and, as appropriate, decommission facilities in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the East Zone is capable of meeting the service obligations (as such obligations may be revised from time to time by the MWSS-RO following consultation with MWC);
- f. To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third party property;
- g. To ensure that at all times, MWC has sufficient financial, material and personnel resources available to meet its obligations under the Agreement; and
- h. To ensure that no debt or liability that would mature after the life of the Agreement will be incurred unless with the approval of MWSS.

MWC is committed to perform its obligations under the Concession Agreement and Extension to safeguard its continued right to operate the Concession.

LAWC's Concession Agreement

On April 9, 2002, LAWC entered into a concession agreement (as amended on March 31, 2004 and July 22, 2009) with PGL, a local government unit organized and existing under Philippine Laws.

Under the terms of the concession agreement, the PGL grants LAWC (as contractor and as agent for the exercise of certain rights in Laguna) the sole and exclusive right and discretion during the concession period to manage, occupy, operate, repair, maintain, decommission and refurbish the identified facilities required to provide water services to specific areas for an operational period of 25 years which commenced on October 20, 2004.

While LAWC has the right to manage, occupy, operate, repair, maintain, decommission and refurbish specified PGL facilities, legal title to these assets remains with PGL. Legal title to all assets procured by LAWC in the performance of its obligations under the agreement remains with LAWC and shall not pass to PGL until the end of the concession period at which time, LAWC will transfer, or if the ownership is vested in another person, cause the transfer to PGL. LAWC has the exclusive rights to provide water services in the service areas specified in the concession

agreement. Concession fees set forth in the concession agreement are computed as a percentage of revenue from water services.

Seventy percent (70%) of the concession fees are applied against any advances made by LAWC to PGL. The remaining thirty percent (30%) of the concession fees are payable annually 30 days after the submission of the audited financial statements by LAWC, from the start of the operational period.

On June 30, 2015, LAWC and the PGL signed an amendment to the concession agreement which expands the concession area to cover all cities and municipalities in the province of Laguna, as well as the service obligation to include the provision of wastewater services and the establishment of an integrated sewage and septage system in the province.

The significant commitments of LAWC under its concession agreement with PGL are as follows:

- a. To pay PGL concession fees;
- b. To manage, occupy, operate, repair, maintain, decommission, and refurbish the transferred facilities;
- c. To design, construct and commission the new facilities during the cooperation period;
- d. To provide and manage the services;
- e. To bill and collect payment from the customer for all services;
- f. To extract raw water exclusively from all sources of raw water; and
- g. To negotiate in good faith with PGL any amendment or supplement to the concession agreement to establish, operate and maintain wastewater facilities if doing such is financially and economically feasible.

Simultaneous to the signing of the amendment to the joint venture agreement between PGL and MWPVI on June 30, 2015, and consequent to the amendment of the joint venture agreement of LAWC, LAWC signed an amendment to its concession agreement with the PGL which includes the following:

- a) Expansion of its concession area to cover all cities and municipalities in the PGL; and
- b) Inclusion in the service obligations of Laguna Water the provision of wastewater services and the establishment of an integrated sewage and septage system in the province.

BIWC's Concession Agreement

On December 17, 2009, BIWC entered into a concession agreement with TIEZA, formerly Philippine Tourism Authority (PTA). The concession agreement sets forth the rights and obligations of BIWC as concessionaire throughout the 25-year concession period. The TIEZA Regulatory Office will monitor and review the performance of the concessionaire throughout the concession period.

Under the concession agreement, TIEZA grants BIWC the sole right to manage, operate, repair, decommission, and refurbish all fixed and movable assets (except certain retained assets) required to provide water delivery and sewerage services in the entire Boracay Island. The legal title to all fixed assets contributed to the existing TIEZA system by BIWC during the concession remains with BIWC until the expiration date (or the early termination date) at which time all rights, titles and interest in such assets will automatically vest in TIEZA.

As part of the agreement, BIWC advanced concession fees to TIEZA amounting to ₱60.0 million, which will be applied as payment of, and shall be offset against the annual concession fees payable to TIEZA equivalent to 5% of the annual gross revenue of BIWC.

Under its concession agreement, BIWC is entitled to the following rate adjustments:

- a. Annual standard rate adjustment to compensate for increases in the consumer CPI;
- b. EPA to account for the financial consequences of the occurrence of certain unforeseen events stipulated in the concession agreement; and
- c. FCDA to recover foreign exchange losses including accruals and carrying costs thereof arising from TIEZA loans and any loans used for capital expenditures and concession fee payments.

These rate adjustments are subject to a rate adjustment limit which is equivalent to the sum of CPI published in the Philippines, EPA and Rebasing Convergence adjustment as defined in BIWC's concession agreement.

The rate rebasing date is set every 5 years starting January 1, 2011. Hence, the first rate rebasing period commenced on January 1, 2010 and ended on December 31, 2010 and, in the case of subsequent rate rebasing periods, the period commencing on the last rate rebasing date and ending on December 31 of the fifth year thereafter.

BIWC requested for the deferment of the rate rebasing since it was not able to commence operations in June 2009, as originally planned, because the SEC required BIWC to seek conformity from the DOF before it could be incorporated.

On January 14, 2013, TIEZA approved the Rebasing Convergence adjustment for BIWC which is equivalent to an increase from its existing rates of 35% to be implemented on a staggered basis for a period of four years with a 10.10% increase in 2013; 9.18% in 2014; 8.40% in 2015; and 7.75% in 2016, effective starting February 1, 2013.

For 2013 and 2014, only the approved rate rebasing adjustment was implemented while the CPI adjustment was deferred due to economic considerations relative to the first time adjustment and natural calamities in 2013.

For 2015, the rate rebasing adjustment was implemented plus the catch-up CPI adjustment of 3.70% pertaining to 2013. In September 2015, BIWC also implemented the FCDA downward adjustment of 14.34% together with two CPIs of 2.70% and 4.40% pertaining to years 2014 and 2015, respectively.

The Agreement also provides a general rate setting policy for rates chargeable by BIWC for water and sewerage services as follows:

- a. For the period through the second rate rebasing date (January 1, 2016), the maximum rates chargeable by BIWC (subject to interim adjustments) are set out in the Agreement; and
- b. From and after the second rate rebasing date, the rates for water and sewerage services shall be set at a level that will permit BIWC to recover, over the 25-year term of its concession, its investment including operating expenses, capital maintenance and investment incurred, Philippine business taxes and payments corresponding to debt service on the TIEZA loans incurred to finance such expenditures, and to earn a rate of return on these expenditures for the remaining term of the concession in line with the rates of return being allowed from time to time to operators of long-term infrastructure concession arrangements in other countries having a credit standing similar to that of the Philippines.

The maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five-year intervals commencing on the second rate rebasing date, provided that the TIEZA may exercise its discretion to make a general adjustment of such rates.

Also part of the concession agreement, BIWC assumed certain property and equipment of BIWC Sewerage System (BWSS), as well as its outstanding loan from Japan International Cooperation Agency (JICA), considered as part of its TIEZA loans under the concession agreement, and regulatory costs.

As a result of the above terms of the concession agreement, BIWC recognized a total of ₱986.9 million service concession assets on commencement date. It includes the JICA loan assumed by BIWC, regulatory costs, construction costs for the improvement and expansion of the water and wastewater facilities and the advanced concession fees.

In January 2016, BIWC implemented an increase of 8.18% comprising of rate rebasing adjustment of 6.97% and CPI of 1.21%. The downward FCDA adjustment of 14.34% was continuously implemented throughout the year.

The significant commitments of BIWC under its concession agreement with TIEZA are as follows:

- a. To meet certain specific commitments in respect of the provision of water and sewerage services in the service area, unless deferred by the TIEZA Regulatory Office (TIEZA-RO) due to unforeseen circumstances or modified as a result of rate rebasing exercise;
- b. To pay concession fees, subject to the following provisions:
 - i. Assumption of all liabilities of the BWSS as of commencement date and service such liabilities as they fall due. BWSS has jurisdiction, supervision and control over all waterworks and sewerage systems within Boracay Island prior to commencement date. The servicing of such liabilities shall be applied to the concession fees;
 - ii. Payment of an amount equivalent to 5% of the monthly gross revenue of BIWC, inclusive of all applicable taxes. Such payments shall be subject to adjustment based on the gross revenue of BIWC as reflected in its separate financial statements;
 - iii. Provision of the amount of the TIEZA BOD's approved budget in 2012, payable semi-annually and not exceeding:

<u>Month</u>	<u>Maximum Amount</u>
January	₱10,000,000
July	10,000,000

- iv. Provision of the annual operating budget of the TIEZA-RO, payable in 2 equal tranches in January and July and not exceeding:

<u>Year</u>	<u>Maximum Amount</u>
2011	₱15,000,000
2012	20,000,000
2013 and beyond	20,000,000, subject to annual CPI adjustment

- c. To establish, at Boracay Island, a TIEZA-RO building with staff house, the cost of which should be reasonable and prudent;
- d. To pay an incentive fee pegged at ₱1.00 per tourist, local and foreign, entering the service area;
- e. To raise financing for the improvement and expansion of the BWSS water and wastewater facilities;

- f. To operate, maintain, repair, improve, renew and, as appropriate, decommission facilities, as well as to operate and maintain the drainage system upon its completion, in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the service area is capable of meeting the service obligations (as such obligations may be revised from time to time by the TIEZA-RO following consultation with BIWC);
- g. To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third party property; and
- h. To ensure that at all times, BIWC has sufficient financial, material and personnel resources available to meet its obligations under the concession agreement.

In addition, MWC, as the main proponent of BIWC shall post a bank security in the amount of US\$2.50 million to secure MWC's and BIWC's performance of their respective obligations under the agreement. The amount of the performance security shall be reduced by MWC following the schedule below:

Rate Rebasing Period	Amount of Performance Security (in US\$ millions)
First	US\$2.50
Second	2.50
Third	1.10
Fourth	1.10
Fifth	1.10

On or before the start of each year, BIWC shall cause the performance security to be reinstated in the full amount set forth as applicable for that year.

Upon not less than 10 days written notice to BIWC, TIEZA may take one or more drawings under the performance security relating to a Rate Rebasing Period to cover amounts due to TIEZA during that period; provided, however, that no such drawing shall be made in respect of any claim that has been submitted to the Arbitration Panel for adjudication until the Arbitration Panel has handed its decision on the matter.

In the event that any amount payable to TIEZA by BIWC is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Treasury Bill for each day it remains unpaid.

Failure of BIWC to perform any of its obligations that is deemed material by TIEZA-RO may cause the concession agreement to be terminated.

CWC's Concession Agreement

On March 16, 2000, Vivendi Water Philippines, Inc., which subsequently changed its name to Veolia Water Philippines, Inc (VWPI), entered into a concession agreement with CDC, a government corporation organized and existing under Executive Order No. 80, series of 1993. The concession agreement sets out the terms and conditions under which VWPI will finance, design, construct, operate and maintain the water and sewerage system inside the Clark Freeport Zone (CFZ) commencing on October 1, 2000 and ending on the date falling 25 years thereafter or as may be extended by the terms of the concession agreement. As the implementing arm of the Bases Conversion Development Authority and the regulatory and development body for the CFZ, CDC has the power and authority to regulate and monitor the performance and compliance of VWPI, or its assignee, with its obligations under the concession agreement.

On September 1, 2000, in accordance with the terms of the concession agreement, VWPI assigned its rights and obligations under the concession agreement to CWC by virtue of an assignment and assumption agreement between VWPI and CWC. As consideration for the grant of the concession and franchise to develop, operate and maintain the water and sewerage system within the CFZ, CWC pays CDC an annual franchise fee of ₱1.50 million. Any new construction, change, alteration, addition or improvement on the facilities is permitted to the extent allowed under the agreement with CDC or with the prior written consent of CDC. Legal title, free of all liens and encumbrances, to improvements made or introduced by CWC on the facilities as well as title to new facilities procured by CWC in the performance of its obligations under the concession agreement shall automatically pass to CDC on the date when the concession period expires or the date of receipt of a validly served termination notice, in the latter case, subject to payment of the amount due as termination payments as defined in the concession agreement.

On September 29, 2000, CDC leased in favor of CWC the existing facilities in compliance with the condition precedent to the effectivity of and the respective obligations of CWC and CDC under the concession agreement. Under the lease agreement, CWC was required to make a rental deposit amounting to ₱2.8 million equivalent to six months lease rental and a performance security amounting to ₱6.7 million to ensure the faithful compliance of CWC with the terms and conditions of the lease agreement. CWC pays semi-annual rental fees of ₱2.8 million amounting to a total of ₱138.3 million for the entire concession period. The lease term shall be co-terminus with the concession period unless sooner terminated for any of the reasons specified in the concession agreement.

On August 15, 2014, CWC and CDC signed an amendment agreement to the concession agreement dated March 16, 2000.

As a result of the extension of the concession period, service concession assets and service concession obligation as of August 15, 2014 increased by ₱56.58 million. Further, the recovery period of the CWC's investment is now extended by another 15 years from 2025 to 2040.

The significant commitments of CWC under its concession agreement with CDC are follows:

- a. To pay franchise and rental fees of CDC;
- b. Finance, design, and construct new facilities - defined as any improvement and extension works to (i) all existing facilities - defined as all fixed and movable assets specifically listed in the concession agreement; (ii) construction work - defined as the scope of construction work set out in the concession agreement; and (iii) other new works that do not constitute refurbishment or repair of existing facilities undertaken after commencement date;
- c. Manage, exclusively possess, occupy, operate, repair, maintain, decommission and refurbish the existing facilities, except for the private deep wells set out in the concession agreement, the negotiations for the acquisition and control of which shall be the sole responsibility and for the account of the CWC; and manage, own, operate, repair, maintain, decommission and refurbish the new facilities;
- d. Treat raw water and wastewater in CSEZ;
- e. Provide and manage all water and wastewater related services like assisting locator of relocating of pipes and assess internal leaks;
- f. Bill and collect payment from the customers for the services (with the exception of SM City Clark). SM City Clark has been carved out by virtue of Republic Act 9400 effective 2007 even if it is located within the franchise area; and
- g. Extract raw water exclusively from all sources of raw water including all catchment areas, watersheds, springs, wells and reservoirs in CFZ free of charge by CDC.

On August 15, 2014, the CWC and CDC signed an amendment agreement to the concession agreement dated March 16, 2000. The Amendment provides for the following:

- a. Extension of the original concession period for another 15 years up to October 1, 2040;
- b. Additional investment of ₱4.0 billion provided under the amended concession agreement to be spent for further improvement and expansion water and waste water services in the area. Investment requirement under the original concession agreement amounted to ₱3.0 billion and the amended concession agreement required an additional investment of ₱2.0 billion. Total investment prior to the amendment of the concession agreement amounted to ₱1.0 billion;
- c. Introduction of rate rebasing mechanism for every four years starting 2014;
- d. Reduction in tariff rates by 3.9% (from ₱25.63/m³ to ₱24.63/m³) effective September 1, 2014, subject to the Extraordinary Price Adjustment; and
- e. Increase in tariff rates by:
 - ₱0.41/m³ (from ₱24.63/m³ to ₱25.04/m³) in 2018
 - ₱0.42/m³ (from ₱25.04/m³ to ₱25.45/m³) in 2019
 - ₱0.42/m³ (from ₱25.45/m³ to ₱25.87/m³) in 2020
 - ₱0.43/m³ (from ₱25.87/m³ to ₱26.30/ m³) in 2021

As a result of the extension of the concession period, service concession assets and service concession obligation as of August 15, 2014 increased by ₱56.6 million. Further, the recovery period of the CWC's investment is now extended by another 15 years from 2025 to 2040.

On July 28, 2014, CWC's BOD approved and authorized the equity restructuring of CWC. CWC converted 700 issued and outstanding common stock to redeemable preferred stock with par value of ₱100.00 per share. Subsequently, on September 29, 2014, CWC redeemed all issued and outstanding preferred stock.

On August 15, 2014, CWC and CDC signed an amendment agreement to their Concession Agreement dated March 16, 2000 (the Amendment). The Amendment provides for, among others, the (a) extension of the original concession period for another fifteen years; (b) additional investment by CWC of ₱5.0 billion for the entire concession period, as extended, to be spent for the further improvement and expansion of water and wastewater services in the service area; and (c) the introduction of rebasing mechanism that will enable CWC to recover its investment at a reasonable tariff to the locators and residents of CDC in the service area.

CWC has entered into a general management services agreement with MWC in 2016 and 2015. Under the agreement, MWC agrees to render including, but not limited to, the following services to CWC

- a) Financial Management System services, including accounting methods and financial control devices;
- b) Customer Service System devices, including billing and collection services;
- c) Operations and Project Management System services, including facility operations and maintenance and infrastructure project management

On November 16, 2015, CWC's BOD approved the transfer and assignment of the management services agreement from the MWC to MWPVI.

Bulk Water Supply Agreement with MCWD

On December 18, 2013, CMWD entered into a bulk water supply agreement with MCWD. The significant commitments of CMWD under its agreement with MCWD are as follows:

- a. Provide potable and treated water at an aggregate volume of 18,000 cubic meters per day for the first year and 35,000 cubic meters per day for the succeeding years up to 20 years at ₱24.59 per cubic meter;
- b. Ensure that the source shall be sustainable and 100% reliable at any day the duration of the agreement; and
- c. Construct a facility capable of delivering a production capacity of 35,000 cubic meters per day and maintain the same on its account.

MW Consortium Agreement with PGC

On March 21, 2012, MW Consortium signed a joint investment agreement with the PGC for the formation of a joint venture company with 51% and 49% equity participation for MW Consortium and the PGC, respectively. Under the joint investment agreement, the parties agreed to develop and operate a bulk water supply system that will supply 35.0 million liters of water per day to target areas in the province of Cebu with the joint venture company serving as a bulk water supplier. The term of the agreement is 30 years starting March 2012 and renewable for another 25 years. MW Consortium and the PGC incorporated Cebu Manila Water Development, Inc. (CMWDI), with an ownership of 51% and 49%, respectively, pursuant to the joint investment agreement.

On December 13, 2013, CMWDI received a Notice of Award for the bulk supply of water to the Metropolitan Cebu Water District (MCWD). On December 18, 2013, CMWDI and MCWD signed a 20-year Bulk Water Supply Contract for the supply of 18.0 million liters per day of water for the first year and 35.00 million liters per day of water for years 2 up to 20. CMWDI delivered its initial 18.0 million liters per day bulk water supply to MCWD on January 5, 2015. CMWDI will increase its bulk water delivery to 35.0 million liters per day in 2016.

In 2016, due to the declaration of the state of calamity arising from the El Niño, CMWDI and MCWD invoked the force majeure clause in their Bulk Water Supply Contract which effectively lifted the requirement for MCWD to purchase and for CMWDI to deliver the agreed thirty five (35) million liters of water starting January 5, 2016 (see Note 15).

Memorandum of Understanding (MOU) with Yangon City Development Committee (YCDC)

On March 17, 2014, MWC and Mitsubishi Corporation, signed a MOU with the YCDC in Yangon City, Myanmar for the development of a proposed NRW project for Yangon City. YCDC is an administrative body of the city government in Yangon in charge of the water, infrastructure, business licenses and city property management, among others.

As of December 31, 2016, the implementation of the pilot NRW reduction project in Yangon is still ongoing.

ZWC's Concession Arrangement

On December 19, 2014, MWC received a notice from the Zamboanga City Water District (ZCWD) awarding the project for non-revenue water reduction (NRW) reduction activities in Zamboanga City, Zamboanga. On January 30, 2015, MWC and ZCWD signed and executed a joint venture agreement in relation to the NRW reduction project in Zamboanga City.

On June 2, 2015, ZWC, the joint venture company which is 70% owned by MWC, entered into a Non-revenue Water Reduction Service Agreement (NRWSA) with ZCWD. Under the NRWSA, ZCWD grants the ZWC the right to implement Network Restructuring and Non-Revenue Water Reduction Programs for ZCWD's water distribution system.

The project will run for 10 year period, beginning June 2, 2015, with 3 phases namely:

- a. Network Improvement Program (DMA Formation) and NRW Reduction Program (Service Line and Meter Replacement, Active Leak Detection and Repair) – from Year 1 to 5
- b. Maintenance Period – in Year 6
- c. Technical Assistance and Consultancy – from Year 7 to 10

In consideration of the above, ZCWD shall pay ZWC the following:

- a. Fixed Fees of ₱16.0 million (VAT inclusive, subject to annual inflation adjustment), payable quarterly in equal amounts of ₱4.0 million.
- b. Performance Fees of ₱11.00 per cubic meter volume recovered (VAT inclusive, subject to annual inflation adjustment), payable quarterly

The annual fixed fees shall cover for the total cost of the Network Restructuring Program (from Year 1 to 5) and overhead and miscellaneous costs (from Year 1 to 10).

Joint Venture for NRW Reduction Activities by Asia Water Network Solutions Joint Stock Company (Asia Water) and Saigon Water Infrastructure Corporation (Saigon Water)

On April 22, 2015, Asia Water was granted the Investment Certificate from the Department of Planning and Investment of Ho Chi Minh City, Vietnam. Asia Water is a joint venture between MWSAH and Saigon Water which aims to carry out activities such as NRW reduction management, waste system design and construction, and operation and management of distribution system and network.

Joint Venture for the Tagum City Bulk Water Supply Project with Tagum Water District (TWD)

On July 28, 2015, the TWD awarded the Tagum City Bulk Water Supply Project to the consortium of MWC and iWater, Inc.

On October 15, 2015, Davao del Norte Water Infrastructure Company, Inc. (Davao Water), the joint venture company of MWC and iWater, Inc., signed and executed a joint venture agreement with the TWD. Under the said agreement, Davao Water and the TWD shall cause the incorporation of a joint venture company which shall implement the Bulk Water Supply Project for 15 years from the operations start date as defined in the joint venture agreement. TWC, the joint venture company, which is 90% and 10% owned by Davao Water and TWD, was registered with the SEC on December 15, 2015. TWC will develop supplemental surface water resources that will deliver potable bulk water to TWD.

On February 26, 2016, TWC and TWD signed and executed a Bulk Water Sales and Purchase Agreement for the supply of bulk water to TWD for a period of fifteen (15) years from the operations start date. TWC will have the sole and exclusive right and responsibility during the term of the agreement to:

- i. Develop raw surface water sources in Hijo River;
- ii. Plan, develop, design, build and test the facilities;
- iii. Implement the project;
- iv. Manage, use, occupy, operate, repair, maintain, upgrade and develop the facilities; and;
- v. Supply treated water to TWD for distribution to its network.

MWSAH Capital Transfer Agreement with Saigon Water

On November 3, 2015, MWSAH completed the execution of a Capital Transfer Agreement with Saigon Water for the acquisition of 24.5% of the charter capital of Cu Chi Water in the total amount of VND154.35 billion. Pursuant to the capital transfer agreement, Saigon Water entered into a put option agreement with MWSAH and VIAC (No 1) Limited Partnership. As of December 31, 2016, no trigger event has occurred and the value of the put option was determined to be nil.

MWAP MOU with the PDAM Tirtawening Kota Bandung (PDAM Bandung)

On November 6, 2015, MWAP signed a MOU with the PDAM Bandung in Bandung City, West Java, Indonesia. PDAM Bandung is a water utility company owned and controlled by the Regional Government of Bandung City.

Pursuant to the MOU, MWAP shall conduct a Demonstration Project for NRW reduction in Bandung City, Indonesia as the first step in the implementation of other cooperation schemes for the development of PDAM Bandung services in accordance with the prevailing Indonesian laws and regulations. MWAP and PDAM Bandung intend to cooperate to undertake the Demonstration Project towards the successful realization of the cooperation scheme. The execution of the MOU is in line with the MWC Group's strategic objective to pursue expansion projects and investments outside of the East Zone business area.

As of December 31, 2016, MWAP has completed its pilot District Metering Area (DMA) project.

MWPVI Memorandum of Agreement (MOA) with ALI and the SM Group

On January 15, 2016, MWPVI entered into a MOA with ALI and its subsidiaries (the ALI Group), whereby MWPVI shall exclusively provide water and used water services and facilities to all property development projects of the ALI Group.

On December 8, 2016, MWPVI entered into a similar MOA with each of SM Prime Holdings Inc.'s and the latter's affiliates and subsidiaries, SM Development Corporation and SM Residences Corp. (collectively, the SM Group). Pursuant to the MOA, MWPVI will provide the water and/or used water services and facilities to the property development projects of the SM Group identified in each of the MOA. As of December 31, 2016, MWPVI has five signed MOA with the SM Group.

Notice of Award from the Calasiao Water District (CWD)

On December 9, 2016, MWC received a Notice of Award from the CWD for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion and management of the water supply system of the CWD in Calasiao, Pangasinan.

*MWC Management Contracts
Vietnam Project*

On July 22, 2008, MWC entered into a Performance-Based Leakage Reduction and Management Services Contract with Saigon Water Corporation. The contract involves the following components:

- a. General requirements;
- b. DMA establishment;
- c. Leakage reduction and management services;
- d. System expansion work;
- d. Emergency and unforeseen works; and
- e. Daywork schedule.

On August 19, 2014, the management contract with SAWACO expired. In 2014, total revenue from the Vietnam Project amounted to ₱25.5 million. No revenues were recognized in 2016 and 2015. Total costs related to the Vietnam Project amounted to ₱5.2 million, ₱51.9 million and ₱54.3 million in 2016, 2015 and 2014, respectively. Costs arising from the management contract in 2016 and 2015 pertain to maintenance, manpower and other administrative expenses arising from the winding down of the project which is estimated to be completed by the first quarter of 2017.

ACEHI

On February 29, 2016, GNPK and Meralco Industrial Engineering Services Corp. (MEISCOR) executed the Supply, Delivery and Construction contract for the Kauswagan-Balo-I 230kV Double Circuit Line Transmission Line Project. The Notice to Proceed was also issued during the Contract signing. Construction cost amounted to ₱153.1 million where ₱87.3 million was paid in 2016. Supply cost is priced at US\$3.9 million of which US\$2.1 million was paid as of December 31, 2016.

On August 11, 2016, ACEHI and AC Energy International Holdings PTE Ltd. (AC Energy SG), a Singapore private limited company and a wholly-owned subsidiary of ACEHI, executed a Fee Agreement with Blackstone Capital Partners (Cayman) VI L.P. (Blackstone) whereby ACEHI and AC Energy SG agreed to perform certain services and undertake certain obligations in favor of Blackstone in relation to Blackstone's investments in the Philippines.

On December 22, 2016, AC Energy SG and AC Energy Cayman, a wholly-owned subsidiary of ACEHI through AC Energy HK Limited, executed an Assignment Agreement whereby the former assigned all its rights, titles and interest under the Fee Agreement to the latter. Since the assignment was made in relation to the GNP Dinginin project, where Blackstone was an investor, AC Energy SG and AC Energy Cayman agreed that the release of the fee (under the Fee Agreement) to AC Energy Cayman shall be made as follows:

- When at least 40% of the loan amount under the financing documents of GNP Dinginin has been successfully drawn down, AC Energy Cayman shall be entitled to the release of 75% of the fee; and
- When at least 70% of the loan amount under the financing documents of GNP Dinginin has been successfully drawn down, AC Energy Cayman shall be entitled to the release of the balance of the fee.

AC Energy SG and AC Energy Cayman also agreed to cause Blackstone to deposit the fee to a trust account with a trust bank that would administer the release of the fee.

On December 23, 2016, AC Energy SG entered into a Trust Agreement with BPI Trust. As the trustee, BPI Trust has the sole power and authority to manage the fund and operate the trust account (i.e. invest, reinvest or lend the fund). The amount deposited in the trust account amounted to US\$41.7 million as of December 31, 2016.

On December 22, 2016, ACEHI, as part of an Indonesian and a Philippine consortium, signed the share Sale and Purchase Agreements with Chevron Group for the purchase of its geothermal operations in Indonesia and Philippines. The Indonesian consortium consists of ACEHI, Star Energy Group Holdings Pte. Ltd. Star, Star Energy Geothermal Pte. Ltd. and Electricity Generating Public Co. Ltd. The acquisition of the geothermal assets in Indonesia will be made through the joint venture company, Star Energy Geothermal (Salak-Darajat) B.V., which is 19.8%-owned by ACEHI. The geothermal assets in the Philippines will be acquired through the joint venture company, ACEHI-STAR Holdings, Inc., formed by the Philippine consortium of ACEHI and Star Energy Group Holdings Pte. Ltd. The closing of the transaction is subject to the satisfaction of certain agreed conditions particularly to the consents and approvals of Philippine Competition Commission (PCC). As of December 31, 2016, total bid deposits amounted to US\$52.03 million (₱2.6 billion).

On December 23, 2016, ACEHI deposited ₱100.0 million earnest money to Bronzeoak for the intended acquisition of the latter's subsidiaries in 2017.

On September 9, 2015, Conergy Asia & Me Pte. Ltd. and Monte Solar Energy entered into an offshore supply contract for the development of 18 MW solar power plant in Bais, Negros Oriental. In February 2016, Monte Solar completed and energized the initial 18MW solar power farm located near the Cebu-Negros undersea cable. Monte Solar has met all the requirements set forth

by the Department of Energy and the National Grid Corporation of the Philippines and has since been dispatching the full 18MW to the grid.

On May 15, 2014, GNPk entered into an Engineering, Design and Procurement Agreement, Construction and Supply Agreement and Coordination Agreement with Shanghai Electric Power Construction Co. Ltd., the effectivity of which was conditioned on the happening of certain conditions precedent, such as the closing of project financing for GNPk. GNPk is the project company for the 4 x 135MW Coal Fired Power Generation Facility in Kauswagan, Lanao Del Norte

On December 23, 2014, ACEHI entered into an Equity Contribution Agreement with GNPk, Citicorp International Limited in its capacity as offshore collateral agent and certain other parties, whereby ACEHI agreed to provide its proportionate share in the equity required for the construction of the Kauswagan Power Plant Project. On even date, GNPk, ACEHI and Citicorp International Limited, in its capacity as Offshore Collateral Agent for the secured parties, signed an equity subscription undertaking whereby GNPk agreed to make timely capital subscriptions of up to US\$281 million into ACEHI under the subscription agreement as and when required thereunder to support ACEHI's commitments under the Equity Contribution Agreement.

On December 22, 2014, ACEHI and GNPk executed a Contract of Lease and Access Agreement for certain parcels of land in Kauswagan, Lanao del Norte with an area of approximately 608,642 square meters. The lease is for 50 years and payments will start in 2015.

On December 23, 2014, the Kauswagan Power Holding Limited Partnership Agreement (KPHLC LPA) and GNPk Power Kauswagan Limited Partnership Agreement (GNPk LPA) were amended to facilitate the subscription by PINAI investors for the Class C limited partnership interest in KPHLC and Class B interests in GNPk. Total aggregate committed capital of PINAI and ACEHI per LPA will be up to US\$110.0 million and US\$281.0 million, respectively.

On June 20, 2016, the EPC contract of GNPk was amended to reflect the exercise of the option to add a fourth generation unit to the Project. As of December 31, 2016, onshore EPC for the construction and supply and offshore EPC for the engineering, design and procurement amounted to US\$98.4 million and US\$267.8 million, respectively. In 2016, GNPk paid the onshore and offshore EPC amounting to US\$94.8 million and US\$265.2 million, respectively.

AC Infra

On September 12, 2015, LRMC took over the operations of LRT Line 1. In December 2015, LRMC started its rehabilitation of certain LRT 1 stations. Construction of the Cavite extension is expected to commence once right of way is delivered by the Grantors and is targeted to complete four years thereafter.

The Engineering, Procurement and Construction (EPC) Agreement with Bouygues Travaux Publics Philippines Inc., Alstom Transport S.A and Alstom Transport Construction Philippines Inc., for the Cavite extension, was signed on February 11, 2016.

AEI

Cooperation Agreements with Universities

As of December 31, 2015, AEI has cooperation agreements with Arellano University, Emilio Aguinaldo College and Jose Rizal University for various junior college and college programs.

36. Contingencies

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested, the outcome of which are not presently determinable.

In the opinion of the Group's management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations.

MWC

On October 13, 2005, the Municipality of Norzagaray, Bulacan assessed MWC and Maynilad Water Services, Inc. (jointly, the Concessionaires) real property taxes on certain common purpose facilities registered in the name of and owned by MWSS purportedly due from 1998 to 2005 amounting to ₱357.1 million. On November 15, 2010, the local government of Quezon City demanded the payment of ₱302.7 million for deficiency real property taxes from MWSS on MWSS properties within its territorial jurisdiction. The assessments from the municipality of Norzagaray and Quezon City have been questioned by the Concessionaires and MWSS, and are pending resolution before the Central Board of Assessment Appeals and Supreme Court, respectively.

Total provisions amounted to ₱414.4 million and ₱712.9 million as of December 31, 2016 and 2015, respectively.

37. Assets Held in Trust

MWSS

MWC is granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Agreement. The legal title to all movable property in existence at the Commencement Date, however, shall be retained by MWSS and upon expiration of the useful life of any such movable property as may be determined by MWC, such movable property shall be returned to MWSS in its then-current condition at no charge to MWSS or MWC.

The Agreement also provides for the Concessionaires to have equal access to MWSS facilities involved in the provision of water supply and sewerage services in both East and West Zones including, but not limited to, the MWSS management information system, billing system, telemetry system, central control room and central records.

The net book value of the facilities transferred to MWC on Commencement Date based on MWSS' closing audit report amounted to ₱4.6 billion with a sound value of ₱10.4 billion.

In 2016, MWC engaged the services of Royal Asia Appraisal Corporation to conduct a re-appraisal of the assets managed by MWC as of 2015, based on the asset registry as of December 31, 2014. Total reproduction cost as of December 31, 2015 amounted to ₱123.5 billion, respectively with a sound value of ₱69.1 billion in 2015.

MWSS' corporate headquarters is made available to the Concessionaires starting August 1, 1997, subject to periodic renewal by mutual agreement of the parties. On October 27, 2006, MWC has renewed the lease for 5 years, with expiry of October 27, 2011. Rent expense amounted to ₱18.5 million, ₱18.5 million and ₱16.9 million in 2016, 2015 and 2014, respectively. These are included under "Rental and utilities" in the consolidated statement of income.

In March 2015, MWC and MWSS entered into an agreement for the lease of a portion of the San Juan Reservoir and Aqueduct Complex being utilized by MWC as stockyard for its pipes and other materials. The lease agreement shall continue to be in effect until the termination of the Concession Agreement. Rent expense recognized in 2016 and 2015 amounted to ₱16.2 million and ₱170.5 million, respectively.

PGL

LAWC is granted the right to manage, occupy, operate, repair, maintain, decommission and refurbish the property required to provide water services under its concession agreement with PGL. The legal title of all property in existence at the commencement date shall be retained by

PGL. Upon expiration of the useful life of any such property as may be determined by LAWC, such property shall be returned to PGL in its then condition at no charge to PGL or LAWC.

In 2014, LAWC engaged the services of Cuervo Appraisers to conduct a re-appraisal of PGL assets on record as of December 31, 2013. Total replacement cost as of December 31, 2013 amounted to ₱2.1 billion with a sound value of ₱1.6 billion.

TIEZA

BIWC is granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Agreement. The legal title to all movable property in existence at the commencement date, however, shall be retained by TIEZA and upon expiration of the useful life of any such movable property as may be determined by MWC, such movable property shall be returned to TIEZA in its then-current condition at no charge to TIEZA or MWC.

The net book value of the facilities transferred to MWC on commencement date based on TIEZA's closing audit report amounted to ₱618.2 million.

In 2015, BIWC engaged the services of Cuervo Appraisers, Inc. to conduct an appraisal of its assets as of August 18 to 20, 2015. Total replacement cost as of December 31, 2015 amounted to ₱1.1 billion with a sound value of ₱793.4 million.

38. Renewable Energy Act of 2008

Republic Act No. 9513, *An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes*, which shall be known as the "Renewable Energy Act of 2008" (the Act), became effective on January 30, 2009. The Act aims to:

(a) accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy; (b) increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems, and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives; (c) encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; (d) establish the necessary infrastructure and mechanism to carry out mandates specified in the Act and other laws.

As provided for in the Act, Renewable Energy (RE) developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the Department of Energy (DOE), in consultation with the Board of Investments, shall be entitled to the following incentives, among others:

- i. Income Tax Holiday (ITH) - For the first seven (7) years of its commercial operations, the duly registered RE developer shall be exempt from income taxes levied by the National Government;
- ii. Duty-free Importation of RE Machinery, Equipment and Materials - Within the first ten (10) years upon issuance of a certification of an RE developer, the importation of machinery and equipment, and materials and parts thereof, including control and communication equipment, shall not be subject to tariff duties;

- iii. Special Realty Tax Rates on Equipment and Machinery - Any law to the contrary notwithstanding, realty and other taxes on civil works, equipment, machinery, and other improvements of a registered RE developer actually and exclusively used for RE facilities shall not exceed 1.5% of their original cost less accumulated normal depreciation or net book value;
- iv. NOLCO - the NOLCO of the RE developer during the first three (3) years from the start of commercial operation which had not been previously offset as deduction from gross income shall be carried over as deduction from gross income for the next seven (7) consecutive taxable years immediately following the year of such loss;
- v. Corporate Tax Rate - After seven (7) years of ITH, all RE developers shall pay a corporate tax of 10% on its net taxable income as defined in the National Internal Revenue Code of 1997, as amended by Republic Act No. 9337;
- vi. Accelerated Depreciation - If, and only if, an RE project fails to receive an ITH before full operation, it may apply for accelerated depreciation in its tax books and be taxed based on such;
- vii. Zero Percent VAT Rate - The sale of fuel or power generated from renewable sources of energy shall be subject to 0% VAT;
- viii. Cash Incentive of RE Developers for Missionary Electrification - An RE developer, established after the effectivity of the Act, shall be entitled to a cash generation-based incentive per kilowatt-hour rate generated, equivalent to 50% of the universal charge for power needed to service missionary areas where it operates the same;
- ix. Tax Exemption of Carbon Credits - All proceeds from the sale of carbon emission credits shall be exempt from any and all taxes; and

Tax Credit on Domestic Capital Equipment and Services - A tax credit equivalent to 100% of the value of the value-added tax and customs duties that would have been paid on the RE machinery, equipment, materials and parts had these items been imported shall be given to an RE operating contract holder who purchases machinery, equipment, materials, and parts from a domestic manufacturer for purposes set forth in the Act.

In addition, to accelerate the development of emerging renewable energy resources, a feed-in tariff system for electricity produced from wind, solar, ocean, run-of-river hydropower and biomass will be promulgated which shall include, but not limited to, the following:

- a. Priority connections to the grid for electricity generated from emerging renewable energy resources;
- b. The priority purchase and transmission of, and payment for, such electricity by the grid system operators; and
- c. Determine the fixed tariff to be paid to electricity produced from each type of emerging renewable energy and the mandated number of years for the application of these rates, which shall not be less than twelve (12) years.

The feed-in tariff to be set shall be applied to the emerging renewable energy to be used in compliance with the renewable portfolio standard as provided for in the Act and in accordance with the feed-in-tariff rules to be promulgated by the Energy Regulatory Commission (ERC) in consultations with the National Renewable Energy Board. On July 27, 2012, ERC approved the feed-in tariff of 8.53 kilowatt per hour (kWh) for wind renewable energy resource. The approved subsidy will be reviewed and readjusted, if necessary, after its three-year initial implementation or when the target installed capacity for each renewable resource set by the DOE has been met.

RE developers and local manufacturers, fabricators and suppliers of locally-produced RE equipment shall register with the DOE, through the Renewable Energy Management Bureau (REMB). Upon registration, a certification shall be issued to each RE developer and local manufacturer, fabricator and supplier of locally-produced renewable energy equipment to serve as the basis of their entitlement to the incentives provided for in the Act. All certifications required to qualify RE developers to avail of the incentives provided for under the Act shall be issued by the DOE through the REMB.

Within six (6) months from the effectivity of the Act, the DOE shall, in consultation with the Senate and House of Representatives Committee on Energy, relevant government agencies and RE stakeholders, promulgate the Implementing Rules and Regulations of the Act. On May 25, 2009, the DOE issued the Implementing Rules and Regulations of the Act which became effective on June 12, 2009.

ACEHI and its subsidiaries expect that the Act will impact their future operations and financial results. The impact of the Act will be disclosed as the need arises.

Northwind

On January 18, 2010, Northwind filed its intent with the REMB for the conversion of its Negotiated Commercial Contract into Wind Energy Service Contract and Registration as RE Developer as provided for under the Act. On November 9, 2010, the DOE issued a Provisional Certificate of Registration as an RE Developer in favor of Northwind, subject to negotiation and execution of a Wind Energy Service Contract to replace the Negotiated Commercial Contract.

On April 6, 2011, Northwind filed with the ERC an application for a Feed-In Tariff (FiT). The FiT will provide for a fixed rate per kilowatt of electricity produced over a period of fifteen years. On June 6, 2011, the ERC granted Northwind a provisional FiT rate of ₱9.30 per kilowatt hour which shall be effective and collected only upon the final approval of the FiT for emerging renewable energy technologies, specifically for wind energy.

On October 10, 2014, the DOE granted Northwind a Certificate of Endorsement for Feed-In Tariff (FiT) Eligibility (COE-FiT No. 2014-10-001) for its Phase III expansion project. The endorsement qualifies the Phase III expansion under the FiT System and accordingly, will be granted the national FiT for wind projects amounting to 8.53/kWh. The endorsement shall be the basis for the Energy Regulatory Commission (ERC) to issue a FiT Certificate of Compliance.

On November 11, 2014, commercial operations of the wind farm projects started in accordance with the COE. On April 13, 2015, the FiT COC was subsequently issued for both the 19-MW wind farm expansion in Bangui under Northwind and the 81-MW wind farm in Caparispisan, Pagudpud under NLREC for a period of 20 years. The FiT rate covers the period October 10, 2014 to October 9, 2034 for Northwind's 19MW Phase III wind farm and November 11, 2014 to November 10, 2034 for NLREC's 81MW project.

For the period from November 11, 2014 to December 31, 2014, the Northwind generated 30.07 million kilowatt-hours of electricity from the Wind Farm Project which was entirely sold to WESM. Such generation resulted to revenue (earned from WESM) amounting to ₱75.21 million (Ph2.50/kWh) from November 11 to December 31, 2014. The Actual FiT Differential amounted to ₱183.02 million.

On June 5, 2015, Northwind and NLREC collected the first FiT differential payment from Transco.

39. Events after the Reporting Period

Parent Company

- a) On February 10, 2017, the Parent Company issued ₱10.0 billion, 4.82% bonds due in 2025. This pertains to the second and final tranche of the ₱20.0 billion fixed rate bonds program approved by the BOD of the Parent Company on March 10, 2016.
- b) On February 17, 2017, the Parent Company and Ant Financial Services Group signed the definitive documents, with closing conditions, to subscribe to new shares of Globe Fintech Innovations, Inc. (Mynt). Through this transaction, Ayala will own 10% of Mynt. Mynt is a holding company for financial technology businesses operating under Globe Capital Venture Holdings, Inc. (GCVHI), a wholly owned subsidiary of Globe.
- c) On February 23, 2017, the Parent Company, ALI, BPI Capital Corporation (BPI Capital) and Kickstart Ventures Inc. signed an investment agreement to acquire ownership stakes in BF Jade E-Service Philippines, Inc. (BF Jade), subject to the fulfillment of certain closing conditions, including the approval of the acquisition by the PCC. BF Jade is the owner and operator of online fashion platform Zalora Philippines.

ALI Group

- a) On February 20, 2017, the BOD of ALI approved the declaration of cash dividends amounting to ₱0.24 per outstanding common share. These will be paid out on March 22, 2017 to shareholders on record as of March 6, 2017.

Further, on the same date, the BOD of also declared annual cash dividends of 4.74786% per year or ₱0.00474786 per share share to all shareholders of ALI's unlisted voting preferred shares. These will be paid out on June 29, 2017 to sharehodlers on record as of June 15, 2017.

MWC Group

- a) On January 4, 2017, MWPVI entered into an Asset Purchase Agreement (APA) with Asian Land in order to acquire and operate its water operations division in their developments in Bulacan.
- b) On January 5, 2017, the two (2) Arbitrators nominated by MWC and by the Republic, agreed to the appointment of the Presiding Arbitrator of the Arbitral Tribunal. On January 14, 2017, the Arbitral Tribunal was formally constituted.
- c) On January 24, 2017, the consortium of MWC and MWPVI received the Notice of Award from the Obando Water District (OWD) for the implementation of the joint venture project for the design, construction, rehabilitation, maintenance, operation, financing, expansion, and management of the water supply system and sanitation facilities of the OWD in Obando, Bulacan.
- d) On February 2, 2017, the SEC issued the Certificate of Registration of Obando Water Consortium Holdings Corp. (Obando Water Holdings). Obando Water Holdings is the Consortium between the MWC and MWPVI with an equity share of 49% and 51%, respectively. The primary purpose of Obando Water Holdings is to engage in the business of a holding company without acting as stockbroker or dealer in securities.

IMI Group

- a) On February 15, 2017, the BOD of IMI approved the proposed decrease of authorized capital stock of IMI Philippines to reflect the retirement of the redeemed ₱1.3 billion redeemable preferred shares and the corresponding amendment to the Articles of Incorporation.

ACEHI Group

- a) On January 21, 2017, ACEHI signed investment agreements with UPC Renewables Indonesia Ltd. for the development, construction, and operation of a wind farm project in Sidrap, South Sulawesi, Indonesia (the Sidrap Project). The project will be developed through PT UPC Sidrap Bayu Energi (UPC Sidrap), a special purpose company based in Indonesia. The Sidrap Project, with generating capacity of 75 MW, is targeted for completion by the end of 2017, and will be the first utility-scale wind farm project in Indonesia once completed. ACEHI, through its wholly-owned subsidiary AC Energy International Holdings PTE Ltd. (ACEHI SG), deposited US\$30.0 million to UPC Renewables Asia Ltd, UPC Renewables Asia III Ltd. and Sidrap HK for the UPC Sidrap amounting to US\$1.82 million, USD\$21.86 million and USD\$6.31 million, respectively.
- b) On February 20, 2017, ACEHI entered into a 10-year Term Loan Agreement with The Philippine American Life and General Insurance Company (PHILAM) amounting to ₱1.0 billion at a fixed rate equivalent to 6.0% p.a. to finance investments in power, power-related projects and general corporate needs. On February 23, 2017, the full amount of the loan was drawn.

40. Approval of the Consolidated Financial Statements

The consolidated financial statements of Ayala Corporation and Subsidiaries (the Group) as of December 31, 2016, 2015 and 2014 and for each of the three years in the period ended December 31, 2016 were endorsed for approval by the Audit Committee on March 8, 2017 and authorized for issue by the Board of Directors (BOD) on March 10, 2017.

ANNEXES



ANNEX

MATERIALITY

LIST OF MATERIAL ASPECTS AND BOUNDARIES¹ (G4-19, G4-20, G4-21, G4-23)

CATEGORY/ SUB-CATEGORY	MATERIAL ASPECTS	ASPECT BOUNDARY	LOCAL ENTITIES IMPACTED	SCOPE OF DATA AND REPORTING COMPANIES ²
Economic	Economic Performance	Internal and External	Suppliers, governments, and local communities	Global: Manila Water, IMI, and Livelt Local: All other companies
	Indirect Economic Impacts	Internal and External	Customers, governments, and local communities	Local: All companies
	Procurement Practices	Internal and External	Suppliers	Local: Only Ayala Land, BPI, Globe, Manila Water, AC Industrials, AC Energy, AC Infrastructure, and AC Health
Environment	Materials	Internal	Business operations	Local: Only Ayala Land and AC Industrials (IMI)
	Energy, Water, Emissions, and Compliance	Internal	Business operations	Local: All companies except Ayala Corp and Ayala Foundation
	Effluents and Wastes	Internal	Business operations	Local: Only Ayala Land, Globe, and AC Industrials
	Biodiversity	Internal and External	Local communities and partners	Local: Only Ayala Corp, Ayala Land, Globe, Manila Water, and AC Energy
	Products and Services	Internal and External	Customers	Global: Only IMI Local: Only Globe
	Supplier Environmental Assessment	Internal and External	Suppliers	Local: All companies except Ayala Corp, AC Education, AC Health, Livelt, and Ayala Foundation
Social: Labor Practices and Decent Work	Occupational Health and Safety	Internal	Business operations	Local: Ayala Land, IMI, Manila Water, AC Energy
	Employment and Training and Development	Internal	Business operations	Global: AC Industrials (IMI only) and Livelt (except training hours data which covers only local operations) Local: All other companies
	Supplier Assessment for Labor Practices	Internal and External	Suppliers	Local: All companies except Ayala Corp, AC Education, AC Health, Livelt, and Ayala Foundation
Social: Human Rights	Non-discrimination, Freedom of Association and Collective Bargaining, and Forced or Compulsory Labor	Internal and External	Suppliers	Local: All companies
	Child Labor and Supplier Human Rights Assessment	Internal and External	Suppliers	Local: All companies except Ayala Corp, AC Education, AC Health, Livelt, and Ayala Foundation
	Indigenous Rights	Internal and External	Local communities	Local: Only Ayala Land, Manila Water, and Ayala Foundation

¹ Material issues not covered in this Integrated Report will be covered in the individual reports of each company (see page 404 for a list of our companies' reports)

² AC Health reported their data in each material aspect for the first time in this year's report.

(G4-19, G4-20, G4-21, G4-23)

CATEGORY/ SUB-CATEGORY	MATERIAL ASPECTS	ASPECT BOUNDARY	LOCAL ENTITIES IMPACTED	SCOPE OF DATA AND REPORTING COMPANIES ²
Social: Society	Local Communities	Internal and External	Local communities and partners	Local: All companies except Ayala Corp, AC Infrastructure, AC Education, and AC Health
	Anti-corruption, Public Policy, Anti-competitive Behavior, and Compliance	Internal	Business operations	Local: All companies except Manila Water and Ayala Foundation
	Supplier Assessment for Impacts on Society	Internal and External	Customers	Local: All companies except Ayala Corp, AC Education, AC Health, Livelt, and Ayala Foundation
Social: Product Responsibility	Customer Health and Safety, Product and Service Labeling, and Marketing Communication	Internal and External	Customers	Local: Only Ayala Land, BPI, Globe, Manila Water, and AC Industrials
	Customer Privacy	Internal and External	Customers	Local: Only BPI, Globe, and AC Health
	Compliance	Internal		Local: All companies except Ayala Corp and Ayala Foundation

The results of this analysis form the basis of our 360 Sustainability Framework, which gives a comprehensive view and summary of our materiality focus. Regular assessments on our performance based on these parameters are part of our periodic internal reporting process.

SUSTAINABILITY REPORT OUTLOOK

We follow this reporting cycle to define what goes into our report and to evaluate what aspects are material to us. This also ensures that our sustainability numbers do not end up only in the report, but are embedded in our operations.



² AC Health reported their data in each material aspect for the first time in this year's report.

TABLE OF RESTATEMENTS (G4-22)

INDICATOR (IF APPLICABLE)	ITEM	UNIT
G4-EC1	Economic Value Generated	million pesos
G4-EC1	Payments to Employees – Wages and Benefits	million pesos
G4-EC1	Payments to Suppliers – Other Operating Costs	million pesos
G4-EC1	Payments to Government	million pesos
G4-EN1	Rebar/Steel Intensity	tonnes per million peso revenue
G4-EN1	Consumed Cement Intensity	tonnes per million peso revenue
G4-EN3	Total Gasoline Consumptin	liters
G4-EN3	Direct Energy Consumption	GJ
G4-EN3	Electricity Consumption	kWh
G4-EN3	Indirect Energy Consumption	GJ
	Total Energy Productivity	million pesos per GJ
G4-EN5	Direct Energy Intensity	GJ per million peso revenue
G4-EN5	Indirect Energy Intensity	from kWh per million peso revenue to GWh per million peso revenue
G4-EN8	Water Consumption Intensity	cubic meters per million pesos revenue
	Water Productivity	million peso revenue per cubic meter
	Waste Productivity	million peso revenue per tonne of waste
G4-EN23	Recyclables	tonnes
G4-EN23	Residual	tonnes
G4-EN23	Used Oil	liters
G4-9, G4-10	Total number	head count
G4-LA9	Average Training Hours for Senior Managers	training hours per employee
G4-LA9	Average Training Hours for Middle Managers	training hours per employee
G4-LA9	Average Training Hours for Rank-and-File	training hours per employee

(G4-22)

FIGURE IN 2014 SR	RESTATED FIGURE IN 2016 <IR>	PAGE NO.	REASON FOR RESTATEMENT
328,452.00	342,652.93	102, 381	Updated figures from BPI and Manila Water
34,782.00	34,838.00	102, 381	Additional data from AC Education and updated figures from Manila Water
153,740.00	153,737.50	102, 381	Additional data from AC Education and updated figures from Manila Water
31,006.00	31,764.82	102, 381	Additional data from AC Education and updated figures from Globe
3.45	1.02	133, 374	Intensity recalculated and disaggregated for both rebars and cement, respectively
3.45	2.43	133, 374	Intensity recalculated and disaggregated for both rebars and cement, respectively
263,181.30	2,801,396.81	137, 376	Updated Globe data
9,121.65	97,094.11	137, 376	Updated Globe data
1,117,731,531.55	1,122,268,735.31	138, 376	Inclusion of data from AC Education and updated data from Ayala Land
4,028,333.51	4,040,167.45	376	Inclusion of data from AC Education and updated data from Ayala Land
0.14	0.07	376	Inclusion of data from AC Education and updated data from Ayala Land
15.00	14.57	137, 376	Inclusion of data from AC Education and updated data from Ayala Land
3,478.49	0.0033	138, 376	Recalculation on unit change and updates from Ayala Land and new reporting company (AC Education)
34.57	32.27	136, 375	Update of revenue from BPI
0.15	0.03	375	Update of revenue from BPI
123.81	7.88	134, 374	Productivity recalculated due to updates from Ayala Land and IMI waste generation
5,586.00	5,532.22	134, 374	Updated data from IMI
16,294.58	16,293.38	134, 374	Updated data from IMI
138,883.50	137,485.50	135, 374	Updated data from Globe
42,827	42,962	106, 378	Inclusion of data from AC Education and restatement of data from AC Energy
15.83	17.40	126, 380	Updated from Ayala Corp, Ayala Land, BPI
23.76	22.77	126, 380	Updated from Ayala Corp, Ayala Land, BPI
31.93	33.10	126, 380	Updated from Ayala Corp, Ayala Land, BPI

PERFORMANCE INDICES

ENVIRONMENT PERFORMANCE

A. MATERIALS AND WASTE

MATERIALS USED AND WEIGHT BY TYPE (IN TONNES) (G4-EN1)	2014	2015	2016
Rebar/steel	96,857.34	97,774.00	253,927.56
Consumed cement	231,232.37	230,262.00	295,709.51
Total	328,089.71	328,036.00	549,637.07
Intensity Rebars (Tonnes/ million pesos revenue)	1.02	0.91	2.04
Intensity Consumed Cement (Tonnes/million pesos revenue)	2.43	2.15	2.37

NON-HAZARDOUS WASTE GENERATED (IN TONNES) (G4-EN23)	2014	2015	2016
Recyclables		2,428.50	6,638.57
Residual		10,361.93	16,560.67
Compostable and Food Waste		2,604.86	16,353.54
Total		15,395.29	39,552.77
Waste Productivity (Million pesos revenue / tonne of material use)		17.19	5.26

RECYCLABLES (IN TONNES)	2014	2015	2016
Ayala Land		1,463.70	5,542.31
Globe		24.20	24.35
IMI		940.60	1,071.90
Total		2,428.50	6,638.57
Construction waste from Ayala Land in 000 cubic meters		3,439.55	165.92

RESIDUAL (IN TONNES)	2014	2015	2016
Ayala Land		10,167.21	16,359.86
Globe		172.00	178.90
IMI		22.72	21.91
Total		10,361.93	16,560.67
Construction waste from Ayala Land in 000 cubic meters		9,248.09	384.43

COMPOSTABLE AND FOOD (IN TONNES)	2014	2015	2016
Ayala Land		2,604.86	16,353.54

HAZARDOUS WASTE (IN KG) (G4-EN23)	2014	2015	2016
Batteries	226,895.30	62,318.00	246,717.00
E-waste	91,314.20	139,684.34	148,192.63
Organic solvent	35,450.60	28,548.00	18,755.75
Total	353,660.10	230,550.34	413,665.38

BATTERIES (IN KG)	2014	2015	2016
Globe	222,857.00	58,926.00	231,336.00
IMI	1,790.30	994.00	858.00
AC Automotive	2,248.00	2,398.00	10,617.00
AC Infrastructure	-	-	3,906.00
Total	226,895.30	62,318.00	246,717.00

E-WASTE (IN KG)	2014	2015	2016
Globe	79,968.20	124,572.19	143,460.83
IMI	11,346.00	15,112.15	4,731.80
Total	91,314.20	139,684.34	148,192.63

ORGANIC SOLVENT (IN KG)	2014	2015	2016
IMI	35,450.60	28,548.00	18,755.75

USED OIL (IN LITERS)	2014	2015	2016
Globe	2,330.00	844.00	5,594.00
IMI	13,855.50	1,118.00	5,234.00
AC Automotive	121,300.00	233,582.50	364,147.50
AC Infrastructure	-	-	4,040.00
Total	137,485.50	235,544.50	379,015.50

PERCENTAGE OF WASTE DIVERTED FROM LANDFILL	2014	2015	2016
Globe	21.00%	12.00%	12.03%
IMI	97.97%	97.96%	97.98%

B. WATER

WATER CONSUMPTION (IN CUBIC METERS) (G4-EN8)	2014	2015	2016
Ayala Land	8,565,696.66	9,272,823.54	10,775,577
BPI	398,762.78	423,013.07	414,902.18
Globe	223,778.69	216,309.37	199,515.04
IMI	751,896.37	711,495.79	823,334.11
AC Energy	-	55,430.00	66,075.00
Total	9,940,134.50	10,679,071.77	12,279,403.33
Water Intensity (cubic meters/million pesos revenue)	32.27	31.14	31.98
Water Productivity (million pesos revenue/cubic meters)	0.031	0.032	0.031

WATER SUPPLIED (IN MILLION CUBIC METERS)	2014	2015	2016
Manila Water - Manila Concession	448.91	461.35	478.86
Boracay Water	4.02	4.32	4.87
Clark Water	11.55	12.82	13.40
Laguna Water	31.84	36.20	42.61
Cebu Water	-	8.08	11.60
Estate Water	-	-	2.07
Total	496.32	522.77	553.42

NON-REVENUE WATER (IN PERCENTAGE)	2014	2015	2016
Manila Water - Manila Concession	11.3%	11.2%	10.8%
Boracay Water	17.2%	21.5%	12.6%
Clark Water	5.3%	4.5%	4.6%
Laguna Water	11.9%	11.5%	19.9%

C. ENERGY AND GHG EMISSION

ENERGY CONSUMED WITHIN THE ORGANIZATION (IN GJ) (G4-EN3)	2014	2015	2016
Diesel	786,335.50	772,605.26	738,109.05
Gasoline	97,094.11	107,870.54	137,656.78
Sub-bituminous coal	-	6,774,993.79	17,339,967.94
Purchased electricity	4,023,833.51	4,589,135.74	3,342,948.58
Total direct energy consumption (in GJ)	883,429.61	7,655,469.59	18,215,733.77
Total energy consumption (in GJ)	4,907,263.12	12,244,605.33	21,558,682.34
Total Energy Intensity (GJ/million pesos revenue) (G4-EN5)	14.57	32.31	50.63
Total Energy Productivity (million pesos revenue/GJ)	0.07	0.03	0.02

DIESEL (IN LITERS)	2014	2015	2016
Ayala Land	6,939,539.92	6,072,601.49	6,076,208.29
BPI	109,666.64	52,268.22	44,289.87
Globe	11,171,497.62	10,020,194.09	10,056,053.47
Manila Water	1,384,637.39	1,075,248.00	1,181,615.00
IMI	825,390.44	841,676.51	686,977.54
AC Infrastructure	-	10,090.97	17,570.87
AC Energy	-	1,983,850.08	1,047,996.10
AC Automotive	103,702.48	119,952.48	164,333.69
Total	20,534,434.48	20,175,881.84	19,275,044.83

DIESEL (IN GJ)	2014	2015	2016
Ayala Land	265,739.32	232,541.20	232,679.32
BPI	4,199.52	2,001.53	1,696.01
Globe	427,795.82	383,708.37	385,081.55
Manila Water	53,022.62	41,175.02	45,248.18
IMI	31,607.09	32,230.74	26,306.78
AC Infrastructure	-	386.42	672.85
AC Energy	-	75,968.58	40,131.45
AC Automotive	3,971.13	4,593.40	6,292.91
Total	786,335.50	772,605.26	738,109.05

GASOLINE (IN LITERS)	2014	2015	2016
Globe	2,577,035.59	2,832,388.26	3,616,301.02
Manila Water	108,830.80	74,603.00	104,571.00
IMI	8,838.84	14,232.76	17,050.85
AC Infrastructure	-	175.50	416.11
AC Energy	-	1,970.00	2,579.57
AC Automotive	106,691.57	188,953.04	230,808.15
Total	2,801,396.81	3,112,322.56	3,971,726.70
Total direct energy consumed (in GJ)	795,457.15	880,475.80	875,765.83
Direct Energy Intensity (GJ/million pesos revenue) (G4-EN5)	2.37	2.32	2.06

GASOLINE (IN GJ)	2014	2015	2016
Globe	89,317.93	98,168.25	125,338.02
Manila Water	3,771.99	2,585.68	3,624.34
IMI	306.35	493.30	590.97
AC Infrastructure	-	6.08	14.42
AC Energy	-	68.28	89.41
AC Automotive	3,697.84	6,548.96	7,999.62
Total	97,094.11	107,870.54	137,656.78
Total direct energy consumed (in GJ) G4-EN3	883,429.61	880,475.80	875,765.83

ELECTRICITY/INDIRECT ENERGY (IN KWH)	2014	2015	2016
Ayala Land (Outside)*	-	-	388,869,075.17
Ayala Land (Inside)*	-	-	340,089,090.47
Ayala Land (Inside + Outside)*	539,957,032.25	631,297,547.67	
BPI	48,686,307.15	52,873,390.80	52,566,069.40
Globe	351,159,083.89	384,584,462.60	446,318,966.14
Manila Water	120,864,133.35	135,331,000.00	139,125,000.00
IMI	54,793,566.40	50,398,915.00	50,355,209.30
AC Health	-	610,400.00	1,193,468.92
AC Automotive	5,184,540.51	6,573,212.55	7,062,238.92
AC Infrastructure	-	10,208,182.00	42,660,890.00
AC Education	752,257.76	1,959,750.92	1,464,463.72
Livelt	871,814.00	923,066.08	640,993.00
Total electricity consumption (in kWh) (G4-EN3)	1,122,268,735.31	1,274,759,927.62	1,081,476,389.87
Total electricity consumption (in GWh) (G4-EN3)	1,122.27	1,274.76	1,081.48
Indirect Energy Intensity (GWh/million peso revenue) (G4-EN5)	0.0033	0.0033	0.0025

ELECTRICITY/INDIRECT ENERGY (GJ)	2014	2015	2016
Ayala Land (Outside)*	-	-	1,399,928.67
Ayala Land (Inside)*	-	-	1,224,320.73
Ayala Land (Inside + Outside)*	1,943,845.32	2,272,671.17	-
BPI	175,270.71	190,344.21	189,237.85
Globe	1,264,172.70	1,384,504.07	1,193,359.14
Manila Water	435,110.88	487,191.60	363,797.74
IMI	197,256.84	181,436.09	181,278.75
AC Health	-	2,197.44	4,296.49
AC Automotive	18,664.35	23,663.57	25,499.02
AC Infrastructure	-	36,749.46	153,579.20
AC Education	2,708.13	7,055.10	5,272.07
Livelt	3,138.53	3,323.04	2,307.57
Total electricity consumption (in GJ) G4-EN3	4,040,167.45	4,589,135.74	3,342,948.58

*For 2016 and onwards, Ayala Land segregated emission data from common areas in its malls and offices which comprise majority of its Scope 2 emissions. In congruence with this, electricity consumption inside and outside the organization are also segregated as the former corresponds to Scope 2 and the latter corresponds to Scope 3.

ENERGY CONSUMPTION OUTSIDE THE ORGANIZATION (IN KWH) (G4-EN4)	2014	2015	2016
Ayala Land	11,699,492.24	8,918,624.58	388,869,075.17

ENERGY GENERATED (IN KWH)*	2015	2016	CO₂ AVOIDED (IN TONNES CO₂E)*	2015	2016
GMCP	3,391,095,912.00	4,053,340,120.00	Northwind	25,355.00	30,246.98
SLTEC	689,540,080.00	1,784,151,904.00	NLR	100,315.14	117,853.10
Northwind	95,678,653.50	107,592,675.00	Montesol	-	15,967.55
NLR	181,237,824.00	212,923,392.00	Total	125,670.14	164,067.62
Montesol	-	21,596,722.00			
Total	4,357,552,469.50	6,179,604,813.00			

GHG EMISSION (IN TONNES CO₂E) SCOPE 1 (G4-EN15)	2014	2015	2016
Ayala Land	21,226.00	33,574.00	43,360.09
BPI	267.54	138.51	117.37
Globe	44,590.03	36,779.90	39,081.15
Manila Water	4,024.50	3,056.00	3,411.00
IMI	447.44	154.48	256.15
AC Automotive	527.58	763.62	980.51
AC Infrastructure	-	27.45	48.06
AC Energy	-	646,238.00	1,643,181.41
AC Energy(renewables)	-	(125,670.14)	(164,067.62)
Total	71,083.08	720,731.97	1,730,435.75
Intensity (tonnes CO ₂ e emitted per million of revenue) (G4-EN18)	0.21	1.90	4.06

GHG EMISSION (IN TONNES CO₂E) SCOPE 2 (G4-EN16)	2014	2015	2016
Ayala Land (From common areas in malls and office; moved to Scope 3)*	-	-	215,108.32
Ayala Land (From Elec consumption by Ayala Land owned properties)*	-	-	197,214.33
Ayala Land (From Elec consumption inside and outside the org)*	294,423.00	357,885.00	
BPI	25,378.76	36,459.00	36,247.09
Globe	199,126.76	216,345.90	251,047.81
Manila Water	84,695.77	100,633.00	100,703.00
IMI	33,051.48	30,400.62	30,374.26
AC Automotive	3,089.65	3,932.99	4,223.16
Livelt	525.87	565.22	352.29
AC Health	-	387.53	719.90
AC Education	453.76	1,182.12	883.36
AC Infrastructure	-	6,157.58	25,733.05
Total	640,745.05	753,948.95	647,498.25
Intensity (tonnes CO ₂ e emitted per million of revenue) (G4-EN18)	1.87	1.98	1.53

GHG EMISSION (IN TONNES CO₂E) SCOPE 3 (G4-EN17)	2014	2015	2016
Ayala Land (From sold residential properties)	7,057.00	5,379.71	14,367.44
Ayala Land (From common areas in malls and offices)	-	-	215,108.32
Ayala Land (From LPG use by tenants in malls)	-	-	18,930.78
BPI	2,091.62	2,250.22	2,063.08
Globe	1,743.29	2,247.40	1,893.67
Manila Water	1,102.00	1,487.00	1,765.00
IMI	1,719.79	2,188.35	2,097.28
AC Energy	-	1,193.13	2,047.76
Total	13,713.70	14,745.82	258,273.33

*Only started reporting from these companies' full operations in 2015

HR PERFORMANCE

A. HR PERFORMANCE

TOTAL WORKFORCE (G4-9)				GENDER DISTRIBUTION (G4-10)	2014		2015		2016	
	2014	2015	2016		MALE	FEMALE	MALE	FEMALE	MALE	FEMALE
BREAKDOWN OF PERMANENT AND FULL-TIME EMPLOYEES										
Ayala Corp	124	133	148	Ayala Corp	63	61	67	66	70	78
Ayala Land	2,992	4,220	4,369	Ayala Land	1,710	1,282	2,155	2,065	2,128	2,241
BPI	14,542	14,647	15,201	BPI	4,378	10,164	4,392	10,255	4,514	10,687
Globe	6,182	6,864	7,180	Globe	3,245	2,937	3,620	3,244	3,806	3,374
Manila Water	1,494	1,555	1,753	Manila Water	979	515	1,013	542	1,120	633
IMI	14,713	14,328	14,146	IMI	5,526	9,187	5,320	9,008	5,581	8,565
AC Automotive	1,517	1,553	1,750	AC Automotive	930	587	743	810	1,035	715
Livelt	1,149	3,131	574	Livelt	569	580	1,689	1,442	292	282
HCX	-	-	114	HCX	-	-	-	-	49	65
AC Energy	8	195	450	AC Energy	5	3	128	67	367	83
AC Infrastructure	4	1,281	1,492	AC Infrastructure	1	3	889	392	1,001	491
AC Education	136	750	1,095	AC Education	58	78	292	458	432	663
AC Health	-	409	637	AC Health	-	-	186	223	270	367
Ayala Foundation	101	89	87	Ayala Foundation	33	68	31	58	30	57
Total	42,962	49,155	48,996	Total	17,497	25,465	20,525	28,630	20,695	28,301

AGE DISTRIBUTION (G4-10)	2014			2015			2016		
	BELOW 30 YEARS OLD	30-50 YEARS OLD	OVER 50 YEARS OLD	BELOW 30 YEARS OLD	30-50 YEARS OLD	OVER 50 YEARS OLD	BELOW 30 YEARS OLD	30-50 YEARS OLD	OVER 50 YEARS OLD
Ayala Corp	11	56	57	13	62	58	19	70	59
Ayala Land	1,031	1,688	273	1,634	2,245	341	1,765	2,297	307
BPI	7,163	6,264	1,115	7,005	6,477	1,165	7,270	6,892	1,039
Globe	1,386	4,610	186	1,543	5,116	205	1,641	5,291	248
Manila Water	368	548	578	399	619	537	491	711	551
IMI	7,350	6,823	540	6,085	7,591	652	5,871	7,575	700
AC Automotive	659	797	61	681	807	65	842	828	80
Livelt	615	516	18	1,789	1,218	124	379	191	4
HCX	-	-	-	-	-	-	62	50	2
AC Energy	1	6	1	93	88	14	139	289	22
AC Infrastructure	1	2	1	192	878	211	288	981	223
AC Education	55	72	9	242	369	139	517	437	141
AC Health	-	-	-	226	177	6	385	242	10
Ayala Foundation	33	58	10	29	54	6	29	48	10
Total	18,673	21,440	2,849	19,931	25,701	3,523	19,698	25,902	3,396

DISTRIBUTION BY POSITION	2014*			2015**			2016		
	RANK AND FILE	MIDDLE MANAGEMENT	SR. MANAGEMENT	RANK AND FILE	MIDDLE MANAGEMENT	SR. MANAGEMENT	RANK AND FILE	MIDDLE MANAGEMENT	SR. MANAGEMENT
Ayala Corp	46	53	25	51	57	25	56	66	26
Ayala Land	1,808	1,036	148	2,858	1,185	177	3,167	1,138	64
BPI	8,952	5,410	180	8,903	5,555	189	10,095	4,913	193
Globe	2,347	3,406	429	2,572	3,828	464	2,617	4,086	477
Manila Water	210	1,024	88	252	1,202	101	255	1,375	123
IMI	13,174	1,450	89	12,476	1,447	405	12,171	1,577	398
AC Automotive	1,382	91	44	1,418	96	39	1,591	112	47
Livelt	992	138	19	922	151	17	506	62	6
HCX	-	-	-	-	-	-	70	42	2
AC Energy	1	5	2	65	107	23	312	113	25
AC Infrastructure	-	-	-	1,200	51	30	1,384	71	37
AC Health	-	-	-	344	58	7	543	85	9
Ayala Foundation	75	21	5	53	32	4	48	36	3
Total	28,987	12,634	1,029	31,114	13,769	1,481	32,815	13,676	1,410

* Variance with 2014 total workforce is due to the non-inclusion of 136 employees from AC Education, 172 from Manila Water subsidiaries, and 4 from AC Infrastructure in the breakdown.

**Variance with 2015 total workforce is due to the non-inclusion of 2,041 employees from Livelt in the breakdown.

DISTRIBUTION BY POSITION			
AC EDUCATION (HEAD COUNT)	2014	2015	2016
Staff	57	301	385
Faculty	79	449	710
Total	136	750	1,095

TRAINING HOURS	2014	2015	2016
Rank and file	878,646	440,353	483,039
Middle Management	287,633	356,107	350,764
Senior Management	17,909	19,199	22,173
AC Education	-	237	29,144
AC Health	-	696	7,716
Total training hours	1,184,187	816,592	892,837
Ayala Group Total Headcount	42,962	49,155	48,996
Ayala Group (Average training hours)	27.56	16.61	18.22

AVERAGE TRAINING HOURS PER POSITION	2014	2015	2016
Rank and file	33.10	14.31	14.97
Middle Management	22.77	25.97	25.81
Senior Management	17.40	13.02	15.83

B. NEW HIRES , TURNOVER AND TRAINING

TOTAL NEW EMPLOYEE HIRES (G4-LA1)	2014	2015	2016
Ayala Corp	11	16	28
Ayala Land	650	902	848
BPI	2,990	1,751	3,630
Globe	712	1,286	1,009
Manila Water	97	178	304
IMI	9,542	6,177	7,512
AC Automotive	485	423	547
Livelt	895	431	228
AC Energy	4	61	103
AC Infrastructure	1	511	213
AC Education	-	274	697
AC Health	-	197	271
HCX	-	-	9
Ayala Foundation	19	19	16
Total	15,406	12,226	15,439

TOTAL EMPLOYEE TURNOVER (G4-LA1)	2014	2015	2016
Ayala Corp	2	12	13
Ayala Land	394	553	566
BPI	1,472	1,646	2,064
Globe	512	599	666
Manila Water	89	75	151
IMI	7,624	7,526	7,355
AC Automotive	371	443	397
Livelt	480	304	200
AC Energy	1	46	112
AC Infrastructure	-	16	101
AC Education	-	83	156
AC Health	-	166	173
HCX	-	-	8
Ayala Foundation	21	28	13
Total	10,964	11,497	11,939

GENDER DISTRIBUTION OF TOTAL NEW EMPLOYEE HIRES (G4-LA1)	2014		2015		2016	
	MALE	FEMALE	MALE	FEMALE	MALE	FEMALE
	Ayala Corp	3	8	7	9	12
Ayala Land	327	323	444	458	409	439
BPI	989	2,001	582	1,169	1,026	2,604
Globe	355	357	677	609	508	501
Manila Water	53	44	117	61	192	112
IMI	4,891	4,651	3,076	3,101	3,379	4,133
AC Automotive	286	199	215	208	291	256
Live It	455	440	199	232	106	122
AC Energy	2	2	41	20	84	19
AC Infrastructure	-	1	460	51	112	101
AC Education	-	-	93	181	351	346
AC Health	-	-	73	124	108	163
HCX	-	-	-	-	3	6
Ayala Foundation	5	14	6	13	3	13
Total	7,366	8,040	5,990	6,236	6,592	8,847

GENDER DISTRIBUTION OF EMPLOYEE TURNOVER (G4-LA1)	2014		2015		2016	
	MALE	FEMALE	MALE	FEMALE	MALE	FEMALE
	Ayala Corp	2	-	5	7	10
Ayala Land	214	180	257	296	307	259
BPI	486	986	572	1,074	624	1,440
Globe	286	226	302	297	341	325
Manila Water	63	26	64	11	99	52
IMI	4,326	3,298	3,550	3,976	2,965	4,390
AC Automotive	232	139	241	202	202	195
Livelt	229	249	148	156	84	116
AC Energy	-	1	35	11	107	5
AC Infrastructure	-	-	7	9	53	48
AC Education	-	-	27	56	44	112
AC Health	-	-	55	111	76	97
HCX	-	-	-	-	2	6
Ayala Foundation	9	12	12	16	2	11
Total	5,847	5,117	5,275	6,222	4,914	7,058

AVERAGE TRAINING HOURS (G4-LA9)	RANK AND FILE			MIDDLE MANAGEMENT			SENIOR MANAGEMENT		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
	Ayala Corp	15.39	14.47	19.36	4.00	16.00	13.39	22.24	16.32
Ayala Land	17.69	24.63	21.47	8.81	24.69	31.28	13.51	16.13	20.48
BPI	49.46	27.71	28.38	37.08	27.06	26.40	12.69	7.75	9.33
Globe	7.29	18.07	17.25	11.34	25.16	29.80	9.70	11.99	20.24
Manila Water	6.16	6.21	9.21	19.12	32.89	22.77	32.41	33.32	19.10
IMI	2.14	0.52	0.92	9.91	6.15	11.99	38.90	6.58	8.19
AC Automotive	27.08	22.67	24.45	9.00	9.36	14.04	9.27	10.10	24.51
Livelt	469.51	35.79	49.52	15.36	10.46	26.56	8.92	14.12	4.67
AC Infrastructure	-	0.06	0.29	-	0.57	3.32	-	-	0.54
Ayala Foundation	2.24	-	6.43	7.62	-	5.97	-	-	15.83
AC Energy	-	11.82	6.68	-	246.34	60.92	-	9.87	21.28
HCX	-	-	0.40	-	-	1.14	-	-	-
Average Training Hours G4-LA9	33.10	14.31	14.97	22.77	25.97	25.81	17.40	13.02	15.83

ECONOMIC PERFORMANCE

ECONOMIC VALUE GENERATED AND DISTRIBUTED (G4-EC1)

ECONOMIC VALUE GENERATED (IN MILLION PESOS)	2014	2015	2016
Ayala Land	95,197.05	107,182.94	124,628.80
BPI	70,002.68	76,171.79	85,961.50
Globe	104,019.87	120,545.37	126,436.00
Manila Water	16,547.00	17,277.78	17,971.21
IMI	38,139.43	36,981.67	40,000.61
AC Infrastructure	-	2.26	0.74
AC Energy	676.00	38.50	960.92
AC Automotive	12,327.00	18,644.03	23,805.05
AC Health	-	1.27	25.95
Livelt	5,741.00	2,053.91	1,594.40
AC Education	2.90	9.13	20.97
Total	342,652.93	378,908.65	421,406.15

PAYMENTS TO EMPLOYEES - WAGES AND BENEFITS

(IN MILLION PESOS)	2014	2015	2016
Ayala Land	4,341.58	4,943.55	5,458.79
BPI	11,653.44	12,295.73	13,266.30
Globe	8,659.62	9,764.17	10,109.60
Manila Water	1,432.31	2,118.45	1,924.02
IMI	7,957.07	6,763.17	6,971.61
AC Infrastructure	-	21.62	26.45
AC Energy	63.00	24.84	51.71
AC Automotive	545.00	576.80	900.31
AC Health	-	1.14	22.60
Livelt	166.00	1,331.18	1,033.34
AC Education	19.99	30.37	42.07
Total	34,838.00	37,871.02	39,806.80

PAYMENTS TO SUPPLIERS - OTHER OPERATING COSTS

(IN MILLION PESOS)	2014	2015	2016
Ayala Land	53,662.55	58,105.46	68,157.06
BPI	8,401.13	9,479.97	9,910.82
Globe	44,122.49	54,081.45	55,729.80
Manila Water	3,317.64	3,470.00	4,052.35
IMI	26,979.97	27,197.48	29,628.75
AC Infrastructure	-	30.84	35.98
AC Energy	283.00	60.48	255.69
AC Automotive	11,562.00	17,651.33	21,985.31
AC Health	-	-	63.97
Livelt	5,393.00	2,416.60	955.11
AC Education	15.72	6.00	20.91
Total	153,737.50	172,499.62	190,795.76

PAYMENTS TO PROVIDERS OF CAPITAL - DIVIDENDS AND INTEREST

(IN MILLION PESOS)	2014	2015	2016
Ayala Land	11,298.72	12,663.03	14,375.60
BPI	15,816.90	18,329.97	20,552.11
Globe	12,478.02	14,236.35	15,504.30
Manila Water	3,649.25	3,497.49	3,514.33
IMI	266.57	470.73	595.08
AC Infrastructure	-	-	-
AC Energy	-	-	-
AC Automotive	53.00	88.85	112.47
AC Health	-	-	-
Livelt	160.00	31.73	17.33
AC Education	-	-	-
Total	43,722.45	49,318.13	54,671.22

PAYMENTS TO GOVERNMENTS - TAXES AND LICENSES

(IN MILLION PESOS)	2014	2015	2016
Ayala Land	8,343.70	9,537.44	11,200.97
BPI	11,202.56	11,978.32	12,115.17
Globe	7,667.57	8,162.11	7,209.10
Manila Water	3,215.38	2,852.76	2,981.09
IMI	603.88	451.72	515.85
AC Infrastructure	-	17.47	14.06
AC Energy	26.00	232.03	69.89
AC Automotive	614.00	614.76	141.78
AC Health	-	1.68	12.50
Livelt	88.00	15.44	10.42
AC Education	3.72	0.02	8.46
Total	31,764.82	33,863.74	34,279.30

PAYMENTS TO COMMUNITIES

(IN MILLION PESOS)	2014	2015	2016
Ayala Land	26.99	126.02	84.83
BPI	51.15	103.34	109.20
Globe	40.10	5.94	-
Manila Water	30.90	51.67	26.67
IMI	1.55	0.50	0.50
AC Infrastructure	0.10	-	0.03
AC Energy	0.30	-	-
AC Automotive	0.40	-	-
AC Health	-	-	-
Livelt	0.50	-	-
AC Education	-	-	-
Total	151.99	287.46	221.22

ECONOMIC VALUE RETAINED (IN MILLION PESO)

	2014	2015	2016
Economic Value Retained	78,328.17	85,068.67	101,631.85

INDEPENDENT ASSURANCE STATEMENT

2016 INTEGRATED REPORT OF AYALA CORPORATION

Introduction

Ayala Corporation (“Ayala Corp.”) has commissioned DNV GL Business Assurance Philippines Branch (“DNV GL”), part of DNV GL Group to undertake independent assurance of sustainability/non-financial disclosures in Ayala Corp’s 2016 Integrated Report (the “Report”) for the year ended 31st December 2016. This assurance engagement was planned and carried out using DNV GL’s assurance methodology VeriSustain™¹(Version 5.0) which is based on our professional experience, international assurance best practice including the International Standard on Assurance Engagement 3000 (ISAE3000) and the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines.

Scope of Assurance

The scope of assurance included a review of sustainability activities and performance data. The Report covers the sustainability performances from the operations in the Philippines over which Ayala Corp. and its subsidiaries have management control for the environment and social aspects while the financial performance includes the business results from overseas activity. The boundary of the report for identified material aspects and performance indicators are defined in ‘About this report’ section, the respective chapters and Materiality section in Annex. The scope of assurance engagement is limited to the non-financial information associated with Ayala Corp. and its subsidiaries operations in the Philippines as listed in Conglomerate Chart in the Report. We evaluated the Report for adherence to the reporting principles for defining the sustainability report content as defined in the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 4.0 and guiding principles in <IR> Framework. We also evaluated if the Report is prepared in accordance with GRI G4 guideline, Core option of reporting. We understand that the reported financial data and information are based on data from Ayala Corp’s and respective subsidiaries’ financial statements, which are subject to a separate independent audit process. The review of financial data taken from the Financial statements is not within the scope of our work. We understand that the reported financial data and information are based on data from Audited Financial Statements, which are subject to a separate independent audit process. We planned and performed our work to obtain the evidence we considered necessary to provide a basis for our assurance opinion.

Responsibilities of Ayala Corp. and of the assurance provider

The Board of Ayala Corp. has sole responsibility for the integrity of the Report. The responsibility includes designing, implementing, and maintaining internal controls over collection, analysis, aggregation and preparation, fair presentation of the information, and data that are free from material misstatement including maintenance of integrity of their website. In performing our assurance work, our responsibility is solely towards the management of Ayala Corp. in accordance with the terms of reference agreed on with Ayala Corp., however our statement represents our independent opinion and is intended to inform Ayala Corp.’s stakeholders. DNV GL is responsible for planning and performing the engagement to obtain limited assurance about whether the reported information meets the disclosure requirements and forming an independent conclusion, based on the procedure we have performed and the evidence we have obtained. DNV GL was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement. We have no other contract with Ayala Corp. DNV GL has provided assurance to Ayala Land, Inc., Globe Telecom, Inc and Manila Water which are subsidiaries of

¹ The VeriSustain protocol is available upon request at DNV GL website (www.dnvgl.com)

Ayala Corp. In our opinion, there is no conflict of interest in the assurance engagement provided to the subsidiaries. DNV GL did not provide any services to Ayala Corp. during 2016 that could compromise the independence or impartiality of our work.

Basis of our opinion

A multi-disciplinary team of sustainability and assurance specialists performed the work at Ayala Corp's headquarters in Makati city, Philippines. In addition, the audit team visited its subsidiaries in the Philippines to test the reliability of data and the robustness of the data aggregation process and Ayala Corp.'s subsidiaries in the Philippines from February to April in 2017. As part of the verification, we planned and performed our work based on our risk assessment related to limited assurance and sampling. Our verification processes were prioritized according to materiality and we based our prioritization on the materiality of issues at a consolidated headquarters level. In doing so, we performed sample-based audits and undertook the following activities;

- interviewed the Chief Finance Officer of Ayala Corporation, and Senior Vice President of Ayala Land and made enquiries of Management in respective subsidiaries including senior management and representatives responsible for sustainability management;
- challenged the sustainability-related statements and claims made in the Report through interviews with data owners, on-site review of the data repositories and performance records, and desktop study of performance data sent from site to Group;
- reviewed the current sustainability issues that could affect Ayala Corp. and its subsidiaries and are of interest of stakeholders;
- assessed the robustness of the underlying data and information flow and controls; and
- performed limited substantive testing on a sampling basis of the information at Headquarters and at the facilities and sites operated by Ayala Land, Inc., Manila Water Company, Inc., Globe Telecom, Inc. and Integrated Micro-Electronics Inc., Bank of the Philippine Islands, AC Infrastructure Holdings Corporation, AC Automotive Holdings Corporation, AC Energy Holdings, Inc. to check that data had been appropriately measured, recorded, collated, and reported.

Conclusion

On the basis of the work undertaken, we provide a limited level of assurance over non-financial disclosure presented in Ayala Corp.'s 2016 Integrated Report. Nothing has come to our attention that causes us to believe that the data and information mentioned in the subject matter and disclosed in the Report does not give a fair representation of Ayala Corp.'s related sustainability performance. Furthermore, nothing has come to our attention causing us to believe that the Report does not adhere to the Principles.

Without affecting our assurance opinion, we also provide the following observations with regard to the adherence to the GRI G4 principles for defining report content principles and Guiding principles of <IR> Framework. We are of the opinion that the report generally meets the GRI G4 In accordance – 'Core option of reporting:

Stakeholder Inclusiveness (GRI), Stakeholder relationships (<IR> Framework)

Ayala Corp. has identified key internal and external stakeholder groups such as Shareholders, Business partners and affiliates, Regulators, Customers and Employees, Communities. Ayala Corp. engages with the stakeholders at the Conglomerate and subsidiary levels through various channels to identify sustainability concerns and expectations. Ayala Corp. could disclose significant concerns and key expectations of stakeholders in the future reporting.

Sustainability Context (GRI)

The Report presents Ayala Corp.'s non-financial performance in the wide context of sustainability. Ayala Corp. commits to creating shared value and improving the impact on society and the environment in its Sustainability philosophy and 360° Sustainability framework. Ayala Corp. reports how it has created shared value with its core businesses and how it has

contributed to the effort of achieving United Nations Sustainable Goals. The Report presents how each subsidiary creates sustainability values with six (6) main capitals as defined in <IR> Framework.

Materiality (GRI, <IR> Framework)

Ayala Corp. has identified material topics based on data managers’ workshops in 2014. Materiality assessment process is addressed in the Report. The Report discloses the identified material aspects at macro-level and aspect boundary. The Report has not missed out any known material aspects and the process of materiality assessment meets the requirements in GRI G4. Ayala Corp. could also consider disclosing material aspects of respective subsidiaries at micro-level, especially those who don’t publish separate reports, which may differ from that at corporate level due to the emerging stakeholder concerns and issues related to the respective industry sectors.

Reliability and Completeness (GRI, <IR> Framework)

The Report provides an overview of value chain with relevant capitals and outcomes across the organization. The Report has fairly attempted to disclose material aspects and relevant performance indicators. Considering much of the data and information are generated from subsidiaries and time constraint in data gathering is expected, establishing robust internal control and reporting system could help Ayala Corp in line with the recommendation described in Accuracy section.

Strategic focus and future orientation (<IR> Framework)

Risk and Opportunity section in which Risk description, potential impact, and corresponding control/mitigation measures are highlighted as well as Risk management under Governance chapter provide insight into Ayala group’s strategy on risk management. The Report shows the value chain maps of each subsidiary with six (6) capitals, key activities in the value chain, outputs and targets. Ayala Corp. could set up quantitative KPIs associated with strategic targets to provide clearer view on implantation of strategy.

Connectivity of information (<IR> Framework)

Past and current capability of Ayala Corp. and its subsidiaries are presented in terms of six (6) capitals and performances. Narrative and quantitative information in the Report represents the Ayala Group’s ability on creating values. The information is clear and understandable.

Conciseness (<IR> Framework)

Considering conciseness principle, infographics, and graphs are appropriately used to convey information. The Report in general addresses the information regarding the governance, performance and prospects in a clear way. Ayala Corp. could improve conciseness by reducing too detailed description of information at subsidiary level.

Consistency and comparability (<IR> Framework)

Ayala Corp. has applied a consistent process to select, compile and report information across the subsidiaries. The Report in general presents its performance over time so that the reader can analyse changes and compare the performances.

Balance (GRI)

In our opinion, the tone in the Report is generally neutral and with no obvious and deliberate intent to unduly influence the reader.

Accuracy (GRI)

The data measurement techniques and basis for calculations have been duly described to DNV GL and can be replicated with same results. DNV GL has evaluated the accuracy of data and information by sampling of data sets. Any errors or misstatements identified during the engagement were communicated and were corrected prior to the Report being published. Restatement is provided to changes in historical disclosure. The data used for reporting of the sustainability performance presented in the Report is centrally collected from the subsidiaries and consolidated for reporting. Ayala Corp. could develop data gathering procedure and train the data owners in each subsidiary before the preparation of the report. Internal verification could also help to improve data accuracy.

Timeliness (GRI)

Previously Ayala Corp. published the annual report and separate sustainability report. The last Sustainability Report was published in 2015. This is the first integrated report from Ayala Corp. and Ayala Corp. plans to report its economic, social and environmental performances in the annual integrated report.

Clarity (GRI)

The comprehensive information is presented in the Report in simple language. Ayala Corp. plans to publish the printed version and to make the soft version in PDF format available from its website which is accessible by a range of stakeholders. The information is presented in a comprehensive manner and consolidated non-financial data tables help to make the information understandable.

Limitation

Our assurance relies on the premise that the data and information provided by Ayala Corp. to us as part of our review procedures have been provided in good faith. Because of the selected nature (sampling) and other inherent limitation of both procedures and systems of internal control, there remains the unavoidable risk that errors or irregularities, possibly significant, may not have been detected. The engagement excludes the sustainability management, performance and reporting practices of subsidiaries, associated companies, suppliers, contractors and any third-parties not included in Corporate Directory section of the Report. The company position statements are excluded from the scope of our work. DNV GL did not interview external stakeholders as part of this Assurance Engagement. Economic performances based on the financial data were cross-checked with internal documents and the audited consolidated financial statements. Limited depth of evidence gathering including inquiry and analytical procedures and limited sampling at lower levels in the organization were applied as per scope of engagement. The baseline data for Environmental and Social performance are verified with samples randomly taken and the aggregated data at the corporate level are used for the verification. DNV GL expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Assurance Statement.

Statement of Competence and Independence

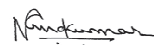
DNV GL established policies and procedures are designed to ensure that DNV GL, its personnel and, where applicable, others are subject to independence requirements (including personnel of other entities of DNV GL) and maintain independence where required by relevant ethical requirements. This engagement work was carried out by an independent team of sustainability assurance professionals. DNV GL was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement. DNV GL maintains complete impartiality toward stakeholders interviewed during the verification process.

For and on behalf of DNV GL Business Assurance AS Philippines Branch

6 April 2017



Seung Hyun Kwak



Nandkumar Vadakepath

Lead Assuror

Assurance Reviewer

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GRI G4 CONTENT INDEX (G4-32)

This report has been prepared 'in accordance' with GRI's G4 Sustainability Reporting Guidelines' Core option.

The GRI Content Index below indicates the reported disclosures, the location of information in this report, and reference pages to the independent assurance statement for relevant indicators.



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	G4-LA9	Employee Training Hours, 127 Performance Indices, 380	
Supplier Assessment for Labor Practices	G4-DMA	Sustainability Philosophy and Framework, 96 Supply Chain Management, 103	
	G4-LA14		We are currently setting up a data gathering system for this Aspect. We will report on this in the next 2-3 years.
CATEGORY: SOCIAL – HUMAN RIGHTS			
Non-discrimination	G4-DMA	Sustainability Philosophy and Framework, 96 Equality within the Group, 122	
	G4-HR3	No incidence reported, no aspect of operation within our organization is identified to have significant risks.	
Freedom of Association and Collective Bargaining	G4-DMA	Sustainability Philosophy and Framework, 96 Percentage of Employees Covered by Collective Bargaining Agreements, 108	
	G4-HR4	No aspect of our operations within our organization was found to have violated or is at significant risk of violating the right to exercise the freedom of association and collective bargaining.	

SPECIFIC STANDARD DISCLOSURES		
DMA AND INDICATORS	PAGE NUMBER/DIRECT ANSWER	REASON(S) FOR OMISSION(S)
Child Labor	G4-DMA G4-HR5	Equality within the Group, 122 No incidence reported, no aspect of our operations within our organization was identified to have existence of child labor.
Forced/ Compulsory Labor	G4-DMA G4-HR6	Equality within the Group, 122 No incidence reported, no aspect of our operations within our organization was identified to have existence of forced labor.
Indigenous Rights	G4-DMA G4-HR8	Equality within the Group, 122 No incidence reported, no aspect of operation within our organization identified to have significant risks
Supplier Human Rights Assessment	G4-DMA G4-HR10	Our Sustainability Philosophy and Framework, 96 Supply Chain Management, 103
		We are currently setting up a data gathering system for this Aspect. We will report on this in the next 2-3 years.

CATEGORY: SOCIAL - SOCIETY

Local Communities	G4-DMA G4-SO1	Sustainability Philosophy and Framework, 96 Addressing Poverty, Hunger and Inequality, 120 Addressing Poverty, Hunger and Inequality, 120
Anti-corruption	G4-DMA G4-SO5	Sustainability Philosophy and Framework, 96 Whistleblower Policy, 159 Anti-Corruption Policy, 160 No confirmed incidents of corruption reported in 2015 to 2016.
Public Policy	G4-DMA G4-SO6	Sustainability Philosophy and Framework, 96 Our businesses made no contributions to political parties.
Anti- competitive Behavior	G4-DMA G4-SO7	Sustainability Philosophy and Framework, 96 No legal actions were filed against Ayala and its companies regarding anti-competitive behavior, violation of antitrust and monopoly laws.
Compliance	G4-DMA G4-SO8	Sustainability Philosophy and Framework, 96 No significant fines and sanctions. Significant fines per Securities and Exchange Commission is greater than ₱50,000.
Supplier Assessment for Impacts on Society	G4-DMA G4-SO10	Sustainability Philosophy and Framework, 96 Supply Chain Management, 103
		We are currently setting up a data gathering system for this Aspect. We will report on this in the next 2-3 years.

CATEGORY: SOCIAL - PRODUCT RESPONSIBILITY

Customer Health and Safety	G4-DMA G4-PR1	Fostering Safety Through Technology, 119 Fostering Safety Through Technology, 119
Product and Service Labelling	G4-DMA G4-PR5	Customers, 100 Customer Satisfaction Performance, 100
Marketing Communication	G4-DMA G4-PR7	Sustainability Philosophy and Framework, 96 No reported incidents of non-compliance reports against Ayala.
Customer Privacy	G4-DMA G4-PR8	Sustainability Philosophy and Framework, 96 No reported incidents of non-compliance complaints against Ayala.
Compliance	G4-DMA G4-PR9	Sustainability Philosophy and Framework, 96 No fines paid on non-compliance with laws and regulations concerning the provision and use of products and services.

AYALA INDICATORS

	PAGE NUMBER / DIRECT ANSWERS
Employee Engagement	No data – most recent survey was taken last 2014
Water	Non Revenue Water, 110 Water Productivity, 136

CORPORATE KNIGHTS CAPITAL'S KEY PERFORMANCE INDICATORS

	PAGE NUMBER / DIRECT ANSWERS
Energy	Energy Productivity, 138
Carbon	Carbon Productivity, 141
Waste	Waste Productivity, 135

BOARD, BOARD COMMITTEE MEETINGS AND DIRECTORS' ATTENDANCE

BOARD MEETINGS				
	DIRECTORS	COMPOSITION	NO. OF MEETINGS ATTENDED / HELD	% PRESENT
1	Jaime Augusto Zobel de Ayala	Chairman (ED)	6/6	100%
2	Fernando Zobel de Ayala	Vice Chairman (ED)	6/6	100%
3	Delfin L. Lazaro	Non-Executive Director (NED)	5/6	83%
4	Xavier P. Loinaz	Independent Director (ID)	6/6	100%
5	Ramon R. Del Rosario, Jr.	Independent Director (ID)	5/6	83%
6	Antonio Jose U. Periquet	Independent Director (ID)	6/6	100%
7	Yoshio Amano	Non-Executive Director (NED)	6/6	100%

FINANCE COMMITTEE MEETINGS				
	MEMBERS	DESIGNATION	NO. OF MEETINGS ATTENDED / HELD	% PRESENT
1	Delfin L. Lazaro	Chairman (NED)	16/17	94%
2	Antonio Jose U. Periquet	Member (ID)	17/17	100%
3	Jaime Augusto Zobel de Ayala	Member (ED)	16/17	94%
4	Fernando Zobel de Ayala ¹	Member (ED)	10/13	77%

Nine out of the 17 meetings of the Committee were via electronic/digital means. The committee passed 11 resolutions and the corresponding per diem were paid to the non-executive and independent directors.

AUDIT COMMITTEE MEETINGS				
	MEMBERS	DESIGNATION	NO. OF MEETINGS ATTENDED / HELD	% PRESENT
1	Xavier P. Loinaz	Chairman (ID)	4/4	100%
2	Ramon R. Del Rosario, Jr.	Member (ID)	4/4	100%
3	Yoshio Amano	Member (NED)	3/4	75%

The Audit Committee also had a joint meeting with the Risk Management and Related Party Transactions Committee on March 3, 2016. It also passed a resolution on the appointment of the audit engagement partner starting calendar year 2016 on March 30, 2016.

RISK MANAGEMENT AND RELATED PARTY TRANSACTIONS COMMITTEE MEETINGS

	MEMBERS	DESIGNATION	NO. OF MEETINGS ATTENDED / HELD	% PRESENT
1	Antonio Jose U. Periquet	Chairman (ID)	4/4	100%
2	Ramon R. Del Rosario, Jr.	Member (ID)	4/4	100%
3	Yoshio Amano	Member (NED)	4/4	100%

The Risk Management and Related Party Transactions Committee also had a joint meeting with the Audit Committee on March 3, 2016.

PERSONNEL AND COMPENSATION COMMITTEE MEETINGS

	MEMBERS	DESIGNATION	NO. OF MEETINGS ATTENDED / HELD	% PRESENT
1	Ramon R. Del Rosario Jr.	Chairman (ID)	3/3	100%
2	Delfin L. Lazaro	Member (NED)	3/3	100%
3	Yoshio Amano	Member (NED)	3/3	100%

NOMINATION COMMITTEE MEETINGS

	MEMBERS	DESIGNATION	NO. OF MEETINGS ATTENDED / HELD	% PRESENT
1	Ramon R. Del Rosario Jr.	Chairman (ID)	4/4	100%
2	Fernando Zobel de Ayala ²	Member (ED)	2/2	100%
3	Antonio Jose U. Periquet	Member (ID)	4/4	100%
4	Xavier P. Loinaz ²	Member (ID)	2/2	100%

COMMITTEE OF INSPECTORS OF PROXIES AND BALLOTS MEETINGS

	MEMBERS³	DESIGNATION	NO. OF MEETINGS ATTENDED / HELD	% PRESENT
1	Solomon M. Hermosura	Chairman	2/2	100%
2	Catherine H. Ang	Member	2/2	100%
3	Josephine G. De Asis	Member	2/2	100%

1 Mr. Fernando Zobel de Ayala was elected to be a member of the Finance Committee on April 15, 2016

2 Mr. Xavier P. Loinaz was elected to be a member of the Nomination Committee on April 15, 2016 and replace Mr. Fernando Zobel de Ayala

3 May not be members of the Board of Directors

REPORT OF THE AUDIT COMMITTEE TO THE BOARD OF DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016

The Board-approved Audit Committee Charter defines the duties and responsibilities of the Audit Committee. In accordance with the Charter, the Committee assists the Board of Directors in fulfilling its oversight responsibilities to the shareholders with respect to:


- Systems of internal controls, risk management and governance process of the Company
- Integrity of the Company's financial statements and the financial reporting process
- Performance of the internal auditors and the external auditors
- Compliance with company policies, applicable laws, rules and regulatory requirements

In compliance with the Audit Committee Charter, we confirm that:

- The Chairman and another member of the Committee are independent directors;
- We had four (4) regular meetings and including a joint meeting with the Risk Management and Related Party Transactions Committee to discuss regulatory risks framework;
- We recommended for approval of the Board and endorsement to the shareholders the reappointment of SGV & Co. as the Company's 2016 independent auditor. We approved the appointment of a new Lead Engagement Partner given the required audit partner rotation every five years;
- We have reviewed and discussed the quarterly unaudited consolidated financial statements and the annual audited consolidated financial statements of Ayala Corporation and Subsidiaries, including the Management's Discussion and Analysis of Financial Condition and Results of Operations, with management, internal auditors and SGV & Co. as the Company's independent auditors. We also reviewed and discussed the annual Parent Company Financial Statements. These activities were performed in the following context:
 - Management has the primary responsibility for the financial statements and the financial reporting process; and
 - SGV & Co. is responsible for expressing an opinion on the conformity of the Ayala Corporation's audited consolidated financial statements with the Philippine Financial Reporting Standards.
- We have discussed and approved the overall scope and the respective audit plans of the Company's internal auditors and SGV & Co. We have also discussed the results of their audits, their assessment of the Company's internal controls, and the overall quality of the financial reporting process including their management letter of comments;
- We have reviewed the reports and updates of the internal auditors ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues. Based on the assurance provided by the internal audit as well as SGV & Co. as a result of their audit activities, the Committee assessed that the Company's systems of internal controls, risk management, and governance processes are adequate;
- We have reviewed and approved all audit, audit-related and non-audit services provided by SGV & Co. to Ayala Corporation and the related fees for such services. We have also assessed the compatibility of non-audit services with the auditors' independence to ensure that such services will not impair their independence;
- We have conducted an annual assessment of our performance to confirm that the Committee had satisfactorily performed its responsibilities based on the requirements of its Charter; and
- We reviewed and reassessed the Audit Committee Charter to ensure that it is updated and aligned with regulatory requirements.

Based on the reviews and discussions undertaken, and subject to the limitations on our roles and responsibilities referred to above, the Audit Committee recommends to the Board of Directors that the audited consolidated financial statements be included in the Annual Report for the year ended December 31, 2016 for filing with the Securities and Exchange Commission and the Philippine Stock Exchange. We are also recommending the re-appointment of SGV & Co. as Ayala Corporation's independent auditor for 2017 based on their performance and qualifications.

March 08, 2017


XAVIER F. LOINAZ
Chairman


RAMON R. DEL ROSARIO JR.
Member


YOSHIO AMANO
Member

REPORT OF THE RISK MANAGEMENT AND RELATED PARTY TRANSACTIONS COMMITTEE TO THE BOARD OF DIRECTORS

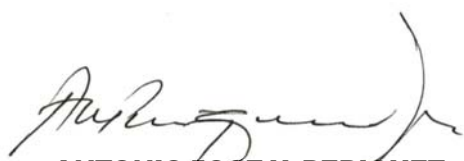
FOR THE YEAR ENDED 31 DECEMBER 2016

The Risk Management and Related Party Transactions Committee assists the board in fulfilling its oversight mandate in the areas of risk governance and related party transactions. Its objectives are to ensure that there exists a sound risk management framework and culture within the company and to screen all material related party transactions for their fairness to shareholders.

The Committee held four meetings in 2016, during which it:

- Reviewed management's adopted risk management framework and its ongoing programs to instill a culture of risk awareness within the Ayala group.
- Was briefed on sources of downside risk and their possible effects on the company, as identified by management and the Group Risk Management Unit.
- Evaluated proposed joint-ventures, investments, divestments, asset sales, disposals and leases involving related parties, and recommended them for either approval or modification in accordance with fairness to the company's shareholders.
- Reviewed its committee charter for relevance.

There were no emergencies that required the calling of any special committee meeting during the year.



ANTONIO JOSE U. PERIQUET

Chairman



RAMON R. DEL ROSARIO JR.

Member



YOSHIO AMANO

Member

2016 DISCLOSURES

In 2016 the company filed, among others, unstructured disclosures involving the following:

UNSTRUCTURED DISCLOSURES

- ESOWN Grants for the years 2015 and 2016
- SEC approves Ayala Corporation's shelf registration of ₱20 billion Bonds
- Ayala Corporation Retains Highest Rating for ₱40 billion in Outstanding Bonds
- Appointment of Ayala Automotive Holdings Corporation as Exclusive Distributor of KTM Motorcycles
- 2020 Target Income
- Voting Preferred Shares dividend rate repricing
- Ayala's proposed 7-year fixed-rate bonds of up to ₱10 billion obtained PRS AAA rating
- Appointment of new Managing Director and Assistant Corporate Secretary
- GNPower Dingjin Initial Drawdown
- Divestment of Integreon, Inc.
- Turn-over of BPI Globe BanKo to Bank of the Philippine Islands
- Exercise of Call Option on ₱10 billion Ayala 5.45 percent Bonds Due 2019
- AC Energy increases stake in NorthWind Power Development Corp to 67.79 percent
- AC Energy sells ownership stake in Hydro Companies and 15 percent stake in South Luzon Thermal Energy Corporation
- Consolidated Changes in the Annual Corporate Governance Report for the year 2015 and regular updates on the ACGR for the year 2016

- Participation of directors and officers in corporate governance seminars in 2016
- Annual and quarterly press statements on the financial and operating results
- Declaration of Cash Dividends to Outstanding Common and Preferred Shares
- Notices of interest payments for all outstanding corporate bonds
- Notices of analysts' briefings
- Notice and agenda of the 2016 Annual Stockholders' Meeting with detailed explanation of the agenda items
- Results of the ASM and organizational meeting of the Board of Directors
- Setting of the 2017 annual stockholders' meeting
- Certification of Independent Directors
- General Information Sheet for 2016, including amendments
- Attendance of Board of Directors in 2016
- Public Ownership Reports
- Top 100 Stockholders' Reports

NEWS CLARIFICATION

- LRMC commits over ₱40 billion for LRT1 upgrade and development
- Ayala to build 100 clinics
- Ayala Corporation set ₱20 billion float
- Ayala sets to manufacture KTM motorcycles in PH
- Ayala eyeing utilities and real estate in Indonesia

CHANGES IN SHAREHOLDINGS

Summarized below are the reported trades in Ayala Securities of the directors and officers in 2016:

	SECURITY	BALANCE AS OF DECEMBER 31, 2015	ACQUIRED	DISPOSED OF	BALANCE AS OF DECEMBER 31, 2016
DIRECTORS					
Jaime Augusto Zobel de Ayala	Common	82,900	106,419	52,923	136,396
	Preferred B Series 1	20,000	0	0	20,000
	Voting Preferred	543,802	0	0	543,802
Fernando Zobel de Ayala	Common	82,900	94,946	0	177,846
	Voting Preferred	554,983	0	0	554,983
Yoshio Amano	Common	1	0	0	1
Delfin L. Lazaro	Common	30,807	0	0	30,807
	Voting Preferred	258,297	0	0	258,297
Xavier P. Loinaz	Common	126,614	0	0	126,614
	Voting Preferred	65,517	0	0	65,517
Antonio Jose U. Periquet	Common	1,200	0	0	1,200
	Preferred B Series 2	400,000	0	0	400,000
Ramon R. del Rosario, Jr.	Common	1	0	0	1
OFFICERS					
Gerardo C. Ablaza, Jr.	Common	531,833	20,624	0	552,457
	Preferred B Series 2	10,000	0	0	10,000
Cezar P. Consing	Common	18,594	28,015	0	46,609
Bernard Vincent O. Dy	Common	0	0	0	0
Arthur R. Tan	Common	259,762	21,776	25,000	256,538
Ernest Lawrence L. Cu*	Common	58,926	16,279	0	75,205
Jose Rene Gregory D. Almendras**	Common	10,800	0	0	10,800
Alfredo I. Ayala	Common	139,667	13,030	0	152,697
Paolo Maximo F. Borromeo	Common	12,189	14,231	0	26,420
John Eric T. Francia	Common	36,796	44,720	0	81,516
	Common	73,831	23,162	0	96,993
Solomon M. Hermosura	Voting Preferred Shares	53,583	0	0	53,583
	Common	128,237	42,141	6,690	163,688
Ruel T. Maranan	Common	0	5,155	0	5,155
John Philip S. Orbeta	Common	436,147	35,512	0	471,659
Catherine H. Ang	Common	3,448	6,761	0	10,209
	Voting Preferred Shares	5,290	0	0	5,290
Ma. Cecilia T. Cruzabra	Common	5,344	4,370	0	9,714
Josephine G. de Asis	Common	1,000	8,201	0	9,201
Dodjie D. Lagazo	Common	0	0	0	0
Joanne M. Lim***	Common	0	0	0	0
Charlene Mae C. Tapic-Castro***	Common	0	0	0	0
TOTAL		3,952,469	485,342	84,613	4,353,198

*Not a reportable officer of Ayala Corporation but a member of the Ayala Group Management Committee

**Managing Director effective August 1, 2016

***Joanne M. Lim replaced Charlene Mae C. Tapic-Castro as Assistant Corporate Secretary effective June 24, 2016

AYALA GROUP MANAGEMENT COMMITTEE MEMBERS / SENIOR LEADERSHIP TEAM

GERARDO C. ABLAZA, JR. Filipino, 63, has served as member of the Ayala Corporation Management Committee since April 2009 and the Ayala Group Management Committee since 1998. He is the President and CEO of Manila Water Company, Inc., a publicly-listed company. He is a member of the Board of Directors of Ho Chi Minh City Infrastructure Investment Joint Stock Company, a listed company on the Ho Chi Minh Stock Exchange. His other significant positions are: Director of Manila Water Philippine Ventures, Inc., Boracay Island Water Company, Inc., Clark Water Corporation, Manila Water Total Solutions Corporation, Manila Water Asia Pacific Pte. Ltd., Manila Water South Asia Holdings Pte. Ltd., Kenh Dong Water Holdings Pte. Ltd., and Thu Duc Water Holdings Pte. Ltd., Azalea International Ventures Partners Ltd., Asiacom Philippines, Inc., Livelt Investment Ltd.; AC Energy Holdings, Inc., AC Infrastructure Holdings Corporation, Purefoods International Ltd., ACST Business Holdings, Inc., and Ayala Retirement Fund Holdings, Inc., He is also the Chairman of the Board of Trustees of the Manila Water Foundation, Inc. and member of the Board of Trustees of Ayala Foundation, Inc. Mr. Ablaza was a Director of Globe Telecom, Inc. from 1997 to April 12, 2015 and the President and CEO of the same from 1998 to April 2009. He was also the Chairman of the Board of Directors of Innove Communications Inc., a wholly owned subsidiary of Globe Telecom Inc. from October 2003 to April 2009. Before joining the Ayala Group, Mr. Ablaza was Vice President and Country Business Manager for Philippines and Guam of Citibank, N.A. for its Global Consumer Banking Business (1994-1997), Vice President for Consumer Banking of Citibank, N.A. Singapore (1994-1995). In 2004, Mr. Ablaza was recognized by CNBC as the Asia Business Leader of the Year, making him the first Filipino CEO to win the award. In the same year, he was awarded by Telecom Asia as the Best Asian Telecom CEO. In 2013, he was recognized for his consistent leadership and innovation across the banking, investment, telecommunications, and utility service industries through the Citi Distinguished Alumni Award for Leadership and Ingenuity. Mr. Ablaza graduated summa cum laude from the De La Salle University in 1974 with a degree in Liberals Arts, Major in Mathematics (Honors Program). As one of the most accomplished graduates of his alma mater, he sits as a member of the Board of Trustees in various De La Salle schools in the country.

CEZAR P. CONSING, Filipino, 57, is a Senior Managing Director of Ayala Corporation and a member of the Ayala Group Management Committee since April 2013. He also holds the following positions in other publicly-listed companies: President and CEO of Bank of the Philippine Islands, Independent Director of Jollibee Foods Corporation, and Director of National Reinsurance Corporation of the Philippines. His other significant positions are: Chairman of BPI Globe Bank, Inc., BPI/MS Insurance Corporation, BPI Century Tokyo Lease and

Finance Corporation, and BPI Europe PLC; Vice Chairman of BPI Capital Corporation; Director of BPI Family Savings Bank, Inc. and Endeavor Philippines; and Director and Non-Executive Chairman of Filgifts.com. He was a partner at the Rohatyn Group from 2004 to March 2013; an Investment Banker with J.P. Morgan & Co. from 1985 to 2004; and an independent director of CIMB Group Holdings Berhad and CIMB Group Sdn. Berhad from 2004 to 2012, and First Gen Corporation from 2005 to 2013. He graduated with a degree of A.B (Accelerated Program) Economics (Magna Cum Laude) from De La Salle University in 1979 and took his M.A. Applied Economics in the University of Michigan in 1980.

BERNARD VINCENT O. DY, Filipino, 53, has been a member of the Ayala Group Management Committee since April 2014. He is the President & Chief Executive Officer of Ayala Land, Inc. (ALI). Prior to this post, he was the Head of the Residential Business, Commercial Business and Corporate Marketing and Sales of ALI. He is the Chairman of three other publicly-listed companies namely: Cebu Holdings, Inc., Cebu Property Ventures and Development Corporation, and Prime Orion Properties, Inc. His other significant positions include: Chairman of Ayala Property Management Corporation, Makati Development Corporation, Ayala Land International Sales, Inc., Amicassa Process Solutions, Inc., Amaia Land Corporation, Avida Land Corp., Alveo Land Corp., Alviera Country Club, Inc., AyalaLand Commercial Reit, Inc., Lagdigan Land Corporation, Bellavita Land Corporation, Avencosouth Corp., Ayagold Retailers, Inc., Station Square East Commercial Corporation, Aviana Development Corp., Cagayan De Oro Gateway Corp., BGSouth Properties, Inc., BGNorth Properties, Inc., BGWest Properties, Inc., Portico Land Corp., Nuevocentro, Inc., Philippine Integrated Energy Solutions, Inc., SIAL Specialty Retailers, Inc., and SIAL CVS Retailers, Inc.; Vice Chairman of Ayala Greenfield Development Corporation; Chairman and President of Serendra, Inc.; and Director and President of Bonifacio Land Corporation, Emerging City Holdings, Inc., Columbus Holdings, Inc. Berkshires Holdings, Inc., Fort Bonifacio Development Corporation, Aurora Properties Incorporated, Vesta Property Holdings, Inc., Ceci Realty Inc., Alabang Commercial Corporation, Accendo Commercial Corp., Hero Foundation Incorporated, Bonifacio Art Foundation; Director of Whiteknight Holdings, Inc., AyalaLand Medical Facilities Leasing, Inc., Alveo-Federal Land Communities, Inc., ALI Eton Property Development Corporation; Trustee of Ayala Foundation, Inc.; and Member of Ayala Group Club, Inc., In 2015, he was inducted as member of the Advisory Council of the National Advisory Group for the Police Transformation Development of the Philippine National Police. He earned a degree of B.B.A Accountancy from the University of Notre Dame in 1985 and took his Master's Degree in Business Administration in 1997 and in International Relations in 1989, both at the University of Chicago.

ARTHUR R. TAN, Filipino, 57, has been a member of the Ayala Group Management Committee since 2002. He is a Senior Managing Director of the Company since January 2007. He has been the Chief Executive Officer of Integrated Micro-Electronics, Inc. (IMI), a publicly-listed company, since April 2002. He was the President of IMI from April 2002 to June 23, 2016. Concurrently, he is also the Chairman of the Board and Chief Executive Officer of PSi Technologies Inc., President and Executive Officer of Speedy-Tech Electronics Ltd.; and President and Chief Executive Officer of AC Industrial Technology Holdings, Inc. Prior to IMI, he was the Northeast Area Sales Manager and Acting Design Center Manager of American Microsystems Inc. (Massachusetts, USA), from 1994 to 1998, of which he became the Managing Director for Asia Pacific Region/Japan from 1998 to 2001. He graduated with B.S. in Electronics Communications Engineering degree from Mapua Institute of Technology in 1982 and attended post graduate programs at the University of Idaho, Singapore Institute of Management, IMD, and Harvard Business School.

ERNEST LAWRENCE L. CU, Filipino, 56, has been a member of the Ayala Group Management Committee since January 2009. He is the President and Chief Executive Officer of Globe Telecom, Inc., a publicly-listed company. He is a trustee of Ayala Foundation, Inc. and Hero Foundation, Inc. He is also a director of BPI Globe BanKo, Inc., Systems Technology Institute, Inc., and Prople BPO, Inc. Prior to joining Globe, he was the President and CEO of SPI Technologies, Inc. In 2016, he was adjudged Best CEO by Finance Asia. A third for Cu, he first received the award in 2010, then again in 2015. Also in 2016, for the fourth straight year, Mr. Cu was recognized as one of the 100 most influential telecom leaders worldwide by London-based Global-Telecoms Business Magazine Power 100. Cu is the only Filipino executive to make it to the Power 100 and among the top 10 in Asia. In 2014, he was honored as the Telecommunications Executive of the Year in the Stevies International Business Awards. He earned international accolades in 2012 as CEO of the Year by Frost & Sullivan Asia Pacific. In 2010, he was adjudged Best CEO by Finance Asia. He was moreover conferred the International Association of Business Communicators' CEO EXCEL award for communication excellence in telecoms and IT, and he was also voted as one of the Most Trusted Filipinos in a poll conducted by Readers Digest. He earned a degree in BS Industrial Management Engineering from De La Salle University in 1982 and took his Master's Degree in Business Administration at the J.L. Kellogg Graduate School of Management in 1984.

JOSE RENE GREGORY D. ALMENDRAS, Filipino, 56, has been a Managing Director and member of the Ayala Corporation Management Committee and the Ayala Group Management Committee since August 1, 2016. He is currently the President & CEO of AC Infrastructure Holdings Corporation (AC Infra). He also serves as a member of the Board of Directors of the following companies within the Ayala Group: Light Rail Manila Holdings, Inc., MCX Tollway Inc., and AF Payments Inc. On a concurrent basis, he heads the Public Affairs Group of Ayala Corporation. He served as Secretary of Foreign Affairs for the Republic of the Philippines from March to June 2016. He also served as the Cabinet Secretary under the Office of the President from November 2012 to March 2016. Prior to his appointment as Cabinet Secretary, he served as the Secretary of the Department of Energy from July 2010 to

October 2012. Under his leadership, the Department of Energy ranked as one of the Top 10 Performers in a survey among 50 government agencies on government performance specifically in ensuring integrity in public service. In 2011, he became the co-chair of the high-level discussion on the Long Term Strategy for the International Renewable Energy Agency held in Abu Dhabi. In the same year, the Philippines became a rotating member of the Executive Board of the International Energy Forum at the 4th Asian Energy Ministerial Roundtable on "Sustainable Growth and Energy Independence" in Kuwait. In June 2013, he was given the rare privilege of addressing the United Nations Economic and Social Council (ECOSOC) at the Palais des Nations, Geneva and then again in December 2013 for the United Nations' Special Meeting of the ECOSOC in New York. He was the President and CEO of Manila Water Company, Inc. before he decided to serve the government in 2010. He obtained his Bachelors of Science in Business Management degree from the Ateneo de Manila University in 1981. He attended the Strategic Business Economics Program from University of Asia & the Pacific in 1999.

ALFREDO I. AYALA, Filipino, 55, has been a Managing Director of Ayala Corporation and a member of the Ayala Group Management Committee since June 2006. He is the Chief Executive Officer of Livelt Investments, Ltd. and of Ayala Education, which are Ayala Corporation's holding companies for its business processing outsourcing and education investments, respectively. Currently, he also holds the following positions: Director of Affinity Express Holdings, Ltd., Affinity Express Philippines, Inc., and HCX Technology Partners, Inc.; Chairman and President of AC College of Enterprise and Technology, Inc., LINC Institute; Chairman of Affordable Private Education Center, Inc.; Vice Chairman, President & CEO of University of Nueva Caceres; Trustee of Ayala Foundation, Inc. He is also a Trustee of International Business Processing Association of the Philippines and of Philippine Business for Education. He has an MBA from the Harvard Graduate School of Business Administration and B.A. in Development Studies and Economics, graduating with honors from Brown University.

PAOLO MAXIMO F. BORROMELO, Filipino, 39, is a Managing Director effective January 1, 2016 and a member of the Ayala Corporation Management Committee and the Ayala Group Management Committee since September 2014. He has served as Group Head of Corporate Strategy and Development of the Company since September 2014. In his role, he oversees the overall corporate planning process, portfolio strategy, group-wide innovation projects and new business development initiatives, as well as investor relations. In addition, he leads Ayala Corporation's healthcare businesses. He sits on the board of Ayala Healthcare Holdings, Inc. and the Generika Group of Companies. He also sits on the board of Ayala Education, Affordable Private Education Center, Inc., and Livelt Investments, Ltd. Prior to joining Ayala, he was a Principal at Booz & Company, a global strategy consulting firm, based in San Francisco, California, USA. He obtained his Bachelors of Science degree in Management Engineering from the Ateneo de Manila University and his Master's in Business Administration with honors from the Wharton School at the University of Pennsylvania.

JOHN ERIC T. FRANCIA, Filipino, 45, is a Managing Director

and a member of the Ayala Corporation Management Committee and the Ayala Group Management Committee since January 2009. He is the Head and Chief Executive Officer of AC Energy Holdings, Inc. He is a Director of Manila Water Company, Inc., a publicly-listed company. He is also a member of the Board of Directors of the following companies within the Ayala Group: Livelt Investments Ltd., Ayala Education, Inc., Ayala Aviation Corporation, NorthWind Power Development Corporation, North Luzon Renewable Energy Corporation, South Luzon Thermal Energy Corporation, GNPowder Mariveles Coal Plant Ltd., GNPowder Kauswagan Ltd. Company, GNPowder Dinginin Ltd. Company, Monte Solar Energy Corporation, Quadriver Energy Corporation, AF Payments, Inc., Light Rail Manila Corporation, MCX Tollway, Inc. and HCM City Infrastructure Investment Joint Stock Company. Mr. Francia was the head of the Company's Corporate Strategy and Development Group, which is responsible for overseeing Ayala's portfolio strategy and new business development, from January 2009 to September 2014. He headed Ayala's Energy and Infrastructure Group from September 14 to July 31, 2016. Prior to joining Ayala, Mr. Francia was a senior consultant and member of the management team of Monitor Group, a strategy consulting firm based in Cambridge, Massachusetts, USA. Prior to consulting, he spent a few years in the field of academe and media. He received his undergraduate degree in Humanities and Political Economy from the University of Asia & the Pacific, graduating magna cum laude. He then completed his Master's Degree in Management Studies at the University of Cambridge in the UK, graduating with First Class Honors.

SOLOMON M. HERMOSURA, Filipino, 54, has served as Managing Director of Ayala Corporation since 1999 and a member of the Ayala Corporation Management Committee since 2009 and the Ayala Group Management Committee since 2010. He is also the Group Head of Corporate Governance, General Counsel, Compliance Officer, and Corporate Secretary of Ayala Corporation. He is the CEO of Ayala Group Legal. He serves as the Corporate Secretary and Group General Counsel of Ayala Land, Inc., and Corporate Secretary of Globe Telecom, Inc., Manila Water Company, Inc., Integrated Micro-Electronics, Inc. and Ayala Foundation, Inc.; and a member of the Board of Directors of a number of companies in the Ayala group. He served as a Director of Bank of the Philippine Islands from April 18, 2013 to April 9, 2014 and of Integrated Micro-Electronics, Inc. from April 14, 2009 to April 12, 2012. He graduated valedictorian with a Bachelor of Laws degree from San Beda College in 1986 and placed third in the 1986 Bar Examination.

JOSE TEODORO K. LIMCAOCO, Filipino, 54, is the Chief Finance Officer and Finance Group Head of Ayala Corporation since April 2015. He is a director of Globe Telecom, Inc. and Integrated Micro-Electronics, Inc., two of the publicly-listed companies of the Ayala Group; and an independent director of SSI Group, Inc. also a publicly-listed company. He is the Chairman of Ayala Healthcare Holdings, Inc., Darong Agricultural and Development Corporation, and Zapfam Inc. He is the Chairman, President and CEO of Water Capital Works, Inc. He is the President of Liontide Holdings, Inc. and of Philwater Holdings Company, Inc. He is a Director of Ayala Hotels, Inc., AC Energy Holdings, Inc., Ayala Aviation Corporation, Ayala Education, Inc., Asiacom Philippines, Inc., AG Counselors Corporation, Michigan Holdings, Inc., AC Industrial Technology Holdings, Inc. (formerly Ayala Automotive Holdings Corporation), BPI Globe BanKo, LICA Management Inc., and Just For Kids, Inc. He joined Ayala Corporation as a Managing Director

in 1998. Prior to his appointment as CFO in April 2015, he held various responsibilities including President of BPI Family Savings Bank, President of BPI Capital Corporation, Officer-in-Charge for Ayala Life Assurance, Inc. and Ayala Plans, Inc., Trustee and Treasurer of Ayala Foundation, Inc., President of myAyala.com, and CFO of Azalea Technology Investments, Inc. He has held prior positions with JP Morgan & Co. and with BZW Asia. He graduated from Stanford University with a BS Mathematical Sciences (Honors Program) in 1984 and from the Wharton School of the University of Pennsylvania with an MBA (Finance and Investment Management) in 1988.

RUEL T. MARANAN, Filipino, 54, is a Managing Director of Ayala Corporation since January 1, 2015. He has also served as President of Ayala Foundation, Inc. since March 1, 2015. He was the Group Director of Manila Water Company, Inc. (MWC)'s Corporate Human Resources Group from 2004 to 2014. Before joining MWC, he was part of various organizations such as Globe Telecom, Inc., Vitarich Corporation, and Integrated Farm Management, among others. In MWC, he introduced numerous innovations in human resources management, rallying behind the company's being the first Filipino company to win the prestigious Asian Human Capital Award in 2011, an award sponsored by the Singapore Ministry of Manpower, CNBC Asia-Pacific, and INSEAD. Through his leadership in human resources, MWC was vested the 2006 Outstanding Employer of the Year by the People Management Association of the Philippines. Mr. Maranan earned his AB Social Sciences degree from the Ateneo de Manila University and his law degree from the University of Santo Tomas. The latter institution has recently granted him the UST 2016 Outstanding Alumni Award under Private Sector. He has also completed the Leadership Management Program of Harvard.

JOHN PHILIP S. ORBETA, Filipino, 55, has served as a member of the Ayala Corporation Management Committee since May 2005 and the Ayala Group Management Committee since April 2009. He is currently the Managing Director and Group Head for Corporate Resources, covering Strategic Human Resources, Knowledge Management, Information & Communications Technology, and Corporate Support Services at Ayala Corporation. He is currently the Chairman of Ayala Aviation Corporation and HCX Technology Partners, Inc. and President of Ayala Group Club, Inc. Mr. Orbeta also serves as a Board Director of AG Counselors Corporation, AC Industrial Technologies, Inc., Ayala Healthcare Holdings, Inc., BPI Family Bank, Inc., ALFM Growth Fund, Inc., ALFM Money Market Fund, Inc., ALFM Peso Bond Fund, Inc., ALFM Dollar Bond Fund, Inc., ALFM Euro Bond Fund, Inc. and the Philippine Stock Index Fund Corp. Mr. Orbeta previously served as the President and CEO of Ayala Automotive Holdings Corporation and Automobile Central Enterprise, Inc. (Philippine importer of Volkswagen), and the Chairman and CEO of Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc. and Iconic Dealership, Inc.. Prior to joining Ayala Corporation, he was the Vice President and Global Practice Director of the Human Capital Consulting Group at Watson Wyatt Worldwide (now Willis Towers Watson), overseeing the firm's practices in executive compensation, strategic rewards, data services and organization effectiveness around the world. He was also a member of Watson Wyatt's Board of Directors. He graduated with a degree in A.B. Economics from the Ateneo de Manila University in 1982.

GUIDE TO ENTITIES AND TRADING NAMES MENTIONED IN THE REPORT

(G4-3, G4-4, G4-5)



CORE BUSINESSES



Makati Development Corp. (MDC)
Ayala Property Management Corp. (APMC)
Cebu Holdings, Inc. (CHI)
Bellavita Land Corp.



Boracay Water
Cebu Water
Clark Water
Laguna Water
Estate Water
Healthy Family
Thu Duc Water
Kehn Dong Water
Saigon Water
Integrated Used Water Solutions



Banko
Rizal Bank



Bayan Telecom
Vega Telecom
Mynt

EMERGING BUSINESSES



North Luzon Renewables (NLR)
NorthWind Power Development Corp.
Monte Solar Energy, Inc. (MonteSol)
South Luzon Thermal Energy Corp. (SLTEC)
GN Power Mariveles Coal Plant (GMPC)
GN Power Kauswagan (GNPK)
GN Power Dinginin Ltd. Co. (GNPD)
Chevron Geothermal



Muntinlupa-Cavite Expressway (MCX)
Light Rail Manila Corp. (LRMC)
Beep card



Integrated Micro-electronics (IMI)
AC Automotive
Honda
Isuzu
Volkswagen
KTM



Affordable Private Education Center (APEC)
Professional Employment Program (PEP)
Learning with Industry Collaboration Academy (LINC)
University of Nueva Caceres (UNC)



FamilyDOC
Generika

SOCIAL COMMITMENT



Ayala Museum
Filipinas Heritage Library
CENTEX

AYALA GROUP NETWORK

(G4-3, G4-4, G4-5, G4-31)

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www.ayalafoundation.org

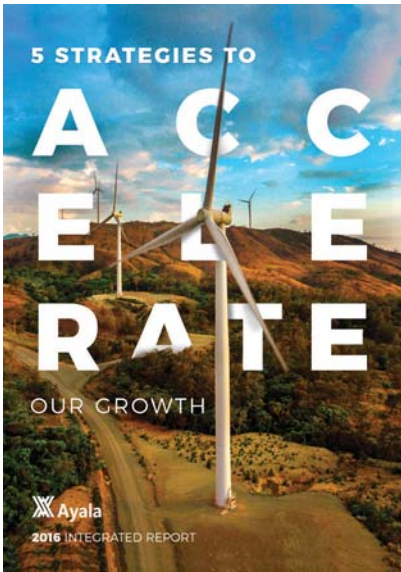
Sustainability

E-mail: rebete.ji@ayalafoundation.org



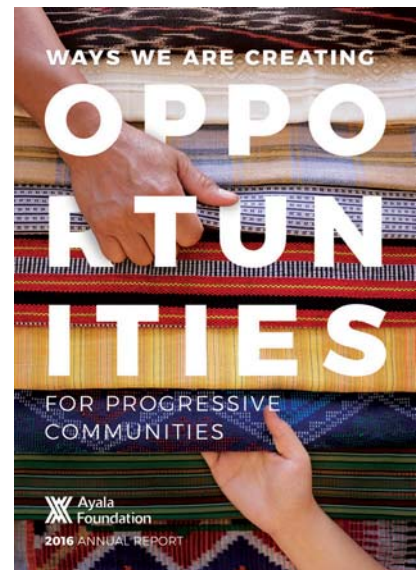
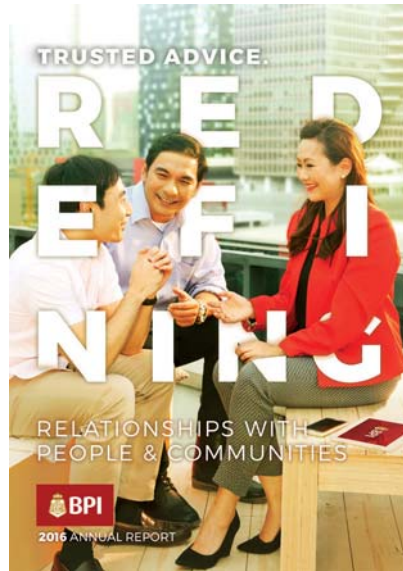
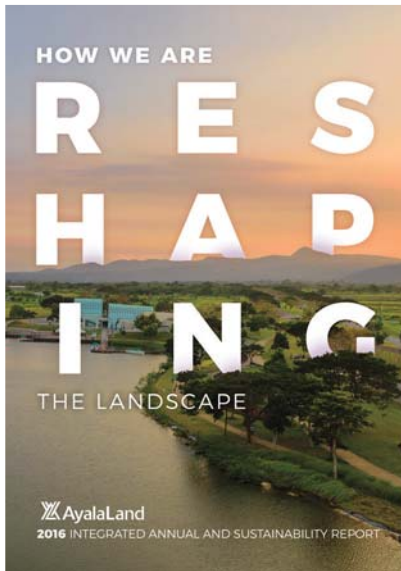


1. President and COO Fernando Zobel de Ayala introduces Ayala's new branding story, "Accelerating the Future."
2. CEOs discuss how human resources can contribute to Ayala's 2020 Vision during the 10th Ayala group HR Summit
3. Chairman and CEO Jaime Augusto Zobel de Ayala keynotes the inaugural Manufacturing Summit organized by the Department of Trade and Industry
4. Entrepreneurs participate in Storytelling Sessions at the 6th Ayala group Sustainability Summit
5. Department of Information and Communications Technology Secretary Rudy Salalima keynotes the Ayala group ICT Summit
6. Ayala group executives exchange innovation perspectives with Yuri van Geest at Spark3, the group's innovation summit
7. Senior executives and investor relations officers of the Ayala group gather at the 2nd group-wide Investor Relations Forum
8. Ayala group employees cheer for athletes at the 8th Ayala Olympics
9. Chairman Emeritus Jaime Zobel de Ayala joins participants of the 19th Ayala Young Leaders Congress
10. Ayala launches its new branding story, "Accelerating the Future"
11. Ayala launches its new brand campaign in Quezon City with APEC Schools students in attendance
12. Mr. Zobel greets the BPI Cebu team at the Ayala brand launch in the city



2016 AYALA GROUP UNIFIED ANNUAL REPORTS

Today, Ayala finds itself uniquely positioned to capture exciting opportunities across various sectors in the domestic and regional environments. As we work to achieve our vision for 2020, we accelerate the growth of our businesses and contribute to the development of the nation. In this year’s Ayala group unified annual reports, we present how our collective achievements are resonating not just within our businesses, but also across the Philippines and Southeast Asia—transforming industries and contributing to society.



CORPORATE INFORMATION

STAKEHOLDER INQUIRIES

Ayala Corporation welcomes inquiries from analysts, the financial community, institutional and retail investors, customers, media, and the general public. Please contact:

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MEDIA	corpcomm@ayala.com.ph
CAREERS	careersatayala@ayala.com.ph

DOWNLOAD THE AYALA INVESTOR RELATIONS MOBILE APPLICATION



SHAREHOLDER SERVICES AND ASSISTANCE

For inquiries regarding dividend payments, change of address and account status, and lost or damaged stock certificates, please write or call:

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ABOUT THE COVER

Our cover photo was shot onsite at North Luzon Renewables, an 81MW wind farm in Pagudpud, Ilocos Norte.

DEVELOPED AND PRODUCED BY AYALA – INVESTOR RELATIONS AND SUSTAINABILITY UNITS

Concept, design, and layout by PublicisJimenezBasic

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Operational photos by Erik Liongoren and Jem Villarin
Cover and other additional photography from Ayala group of companies

ABOUT OUR PAPER

The Ayala Corporation Integrated Annual Report cover and main pages were printed on Sensation Satin Ultra White paper, which is FSC® Certified, process chlorine-free, 100% post-consumer fibers. The financial statements of this report were printed on Cocoon, which is also 100% recycled paper. Primex Printers, Inc. utilized a carbon neutral XL 75 offset press in the production of this report.



"As we reflect on the past year, we feel a great sense of pride to see the significant transformation of our businesses in the Ayala group. In 2016, we successfully concluded our five-year strategic plan to expand our earnings capacity, improve shareholder returns, and strengthen our portfolio by investing in new value enhancing businesses."

FERNANDO ZOBEL DE AYALA
PRESIDENT AND CHIEF OPERATING OFFICER

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