

# COVER SHEET

for  
**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

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**COMPANY NAME**

|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |  |   |   |   |   |  |   |   |   |  |   |
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**PRINCIPAL OFFICE** ( No. / Street / Barangay / City / Town / Province )

|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
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| e |   | T | o | w | e | r | , |   | A | D | B |   | A | v | e | n | u | e |   | c | o | r | n | e | r |   | P | o | v |
| e | d | a |   | R | o | a | d | , |   | P | a | s | i | g |   | C | i | t | y |   |   |   |   |   |   |   |   |   |   |
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Form Type

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Department requiring the report

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Secondary License Type, If Applicable

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| N | / | A |
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**COMPANY INFORMATION**

|                            |                              |                           |
|----------------------------|------------------------------|---------------------------|
| Company's Email Address    | Company's Telephone Number   | Mobile Number             |
| <b>www.jgsummit.com.ph</b> | <b>633-7631</b>              | -                         |
| No. of Stockholders        | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
| <b>1,033</b>               | <b>2nd Thursday of June</b>  | <b>12/31</b>              |

**CONTACT PERSON INFORMATION**

The designated contact person ***MUST*** be an Officer of the Corporation

|                               |                                   |                    |               |
|-------------------------------|-----------------------------------|--------------------|---------------|
| Name of Contact Person        | Email Address                     | Telephone Number/s | Mobile Number |
| <b>Francisco M. Del Mundo</b> | <b>Pancho.DelMundo@urc.net.ph</b> | <b>633-7631</b>    |               |

**CONTACT PERSON'S ADDRESS**

|   |
|---|
| <b>41st Floor, Robinsons-Equitable Tower, ADB Avenue corner Poveda Road, Pasig City</b> |
|---|

**NOTE 1:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**2:** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended **December 31, 2017**
2. SEC Identification Number **184044**
3. BIR Tax Identification No. **000-775-860**
4. Exact name of registrant as specified in its charter **JG Summit Holdings, Inc.**
5. **Pasig City, Philippines**  
Province, Country or other jurisdiction of  
incorporation or organization
6.  (SEC Use Only)  
Industry Classification Code:
7. **43<sup>rd</sup> Floor, Robinsons-Equitable Tower, ADB Ave. corner Poveda Road, Pasig City 1600**  
Address of principal office Postal Code
8. **(632) 633-7631**  
Registrant's telephone number, including area code
9. **Not Applicable**  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the RSC, or Sec. 4 and 8 of the RSA

| Title of Each Class   | Number of Shares of Common Stock<br>Outstanding and Amount of Debt Outstanding |
|-----------------------|--|
| <b>Common Stock</b>   | <b>7,162,841,657</b>   |
| <b>Long-term Debt</b> | <b>30,000,000,000</b>  |

11. Are any or all of these securities listed on a Stock Exchange.  
  
Yes [ / ]      No [ ]  
If yes, state the name of such stock exchange and the classes of securities listed herein:

**Philippine Stock Exchange (PSE)**  
**Common Stock**

12. Check whether the registrant:
  - (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);  
Yes [ / ]      No [ ]

(b) has been subject to such filing requirements for the past 90 days.

Yes [ / ]

No [ ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within 60 days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in "Annex B").

The aggregate market value of stocks held by non-affiliates is ₱362,442,223,253.

## TABLE OF CONTENTS

|   | <u>Page No.</u> |
|---|-----------------|
| <b>PART I - BUSINESS AND GENERAL INFORMATION</b>  |                 |
| Item 1 Business.....  | 4               |
| Item 2 Properties.....  | 38              |
| Item 3 Legal Proceedings.....   | 42              |
| Item 4 Submission of Matters to a Vote of Security Holders.....                           | 42              |
| <b>PART II - OPERATIONAL AND FINANCIAL INFORMATION</b>                                    |                 |
| Item 5 Market for Registrant's Common Equity and<br>Related Stockholder Matters.....      | 42              |
| Item 6 Management's Discussion and Analysis or Plan of Operation.....                     | 44              |
| Item 7 Financial Statements.....  | 69              |
| Item 8 Information on Independent Accountant<br>and other Related Matters.....            | 70              |
| <b>PART III - CONTROL AND COMPENSATION INFORMATION</b>                                    |                 |
| Item 9 Directors and Executive Officers of Registrant.....                                | 71              |
| Item 10 Executive Compensation.....   | 78              |
| Item 11 Security Ownership of Certain Record and Beneficial<br>Owners and Management..... | 79              |
| Item 12 Certain Relationships and Related Transactions.....                               | 81              |
| <b>PART IV - CORPORATE GOVERNANCE</b>   |                 |
| Item 13 Corporate Governance.....   | 81              |
| <b>PART V - EXHIBITS AND SCHEDULES</b>  |                 |
| Item 14 Exhibits and Reports on SEC Form 17-C.....  | 82              |
| <b>SIGNATURES.....</b>  | <b>83</b>       |
| <b>INDEX TO FINANCIAL STATEMENTS AND<br/>SUPPLEMENTARY SCHEDULES</b>                      |                 |

## PART I - BUSINESS AND GENERAL INFORMATION

### Item 1. Description of Business

#### (A) Business Development

JG Summit Holdings, Inc. (JG Summit / the Company), which is controlled by the Gokongwei Family, was incorporated in November 1990 as the holding company for a group of companies with substantial business interests in foods, agro-industrial and commodities, real estate and hotel, air transportation, banking and petrochemicals. The Company also has core investments in telecommunications and power generation and distribution.

The Company is one of the largest and most diversified conglomerates within the Philippines. The Company was listed on the PSE in 1993.

The Company and its subsidiaries (the Group), conduct businesses throughout the Philippines, but primarily in and around Metro Manila (where it is based) and in the regions of Luzon, Visayas and Mindanao.

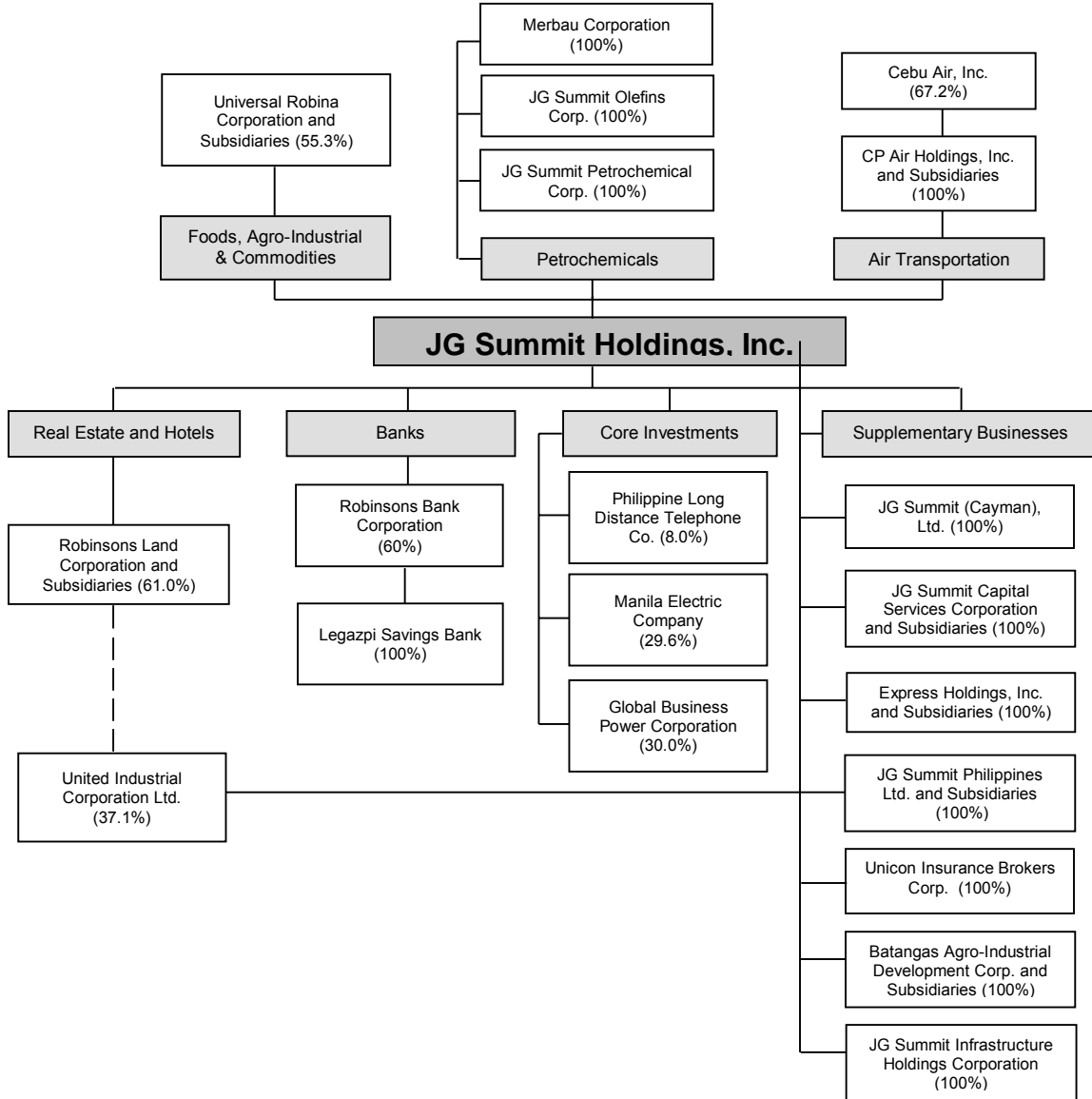
The Group also has a branded consumer foods business in the People's Republic of China (PRC), ASEAN and Oceania (New Zealand and Australia) regions, and a core investment in a property development company in Singapore.

The Company has not been into any bankruptcy, receivership or similar proceedings for the past two years.

The Gokongwei Family beneficially owns approximately 18.2% of the outstanding share capital of the Company. In addition, certain members of the Gokongwei Family are trustees of the Gokongwei Brothers Foundation, which holds interest in approximately 27.9% of the existing outstanding share capital of the Company.

**(B) Business of Issuer**

The industry segments where the Company and its subsidiaries and affiliates operate are summarized below:



The following table shows the breakdown of the Company's revenues and net profits from continuing operations by business areas (in millions except % amounts):

|  | REVENUES       |            |         |     |         |     | Net Income attributable to Parent Co. |              |          |       |        |     |
|--|----------------|------------|---------|-----|---------|-----|---------------------------------------|--------------|----------|-------|--------|-----|
|  | 2017           |            | 2016    |     | 2015    |     | 2017                                  |              | 2016     |       | 2015   |     |
|  | Peso           | %          | Peso    | %   | Peso    | %   | Peso                                  | %            | Peso     | %     | Peso   | %   |
| Food, Agro-Industrial and<br>Commodity Food Products | <b>124,740</b> | <b>47</b>  | 112,458 | 47  | 111,779 | 49  | <b>6,016</b>                          | <b>66</b>    | 7,172    | 66    | 7,738  | 34  |
| Air Transportation                                   | <b>68,169</b>  | <b>26</b>  | 62,078  | 26  | 56,537  | 25  | <b>5,316</b>                          | <b>60</b>    | 6,558    | 60    | 2,950  | 13  |
| Petrochemicals                                       | <b>42,597</b>  | <b>12</b>  | 29,960  | 12  | 27,745  | 12  | <b>5,991</b>                          | <b>47</b>    | 5,126    | 47    | 3,156  | 14  |
| Real estate and hotels                               | <b>26,269</b>  | <b>11</b>  | 25,578  | 11  | 22,838  | 10  | <b>7,338</b>                          | <b>58</b>    | 6,295    | 58    | 6,137  | 27  |
| Banks  | <b>4,489</b>   | <b>1</b>   | 3,419   | 1   | 2,969   | 1   | <b>185</b>                            | <b>1</b>     | 154      | 1     | 64     | 1   |
| Other Supplementary<br>Businesses                    | <b>8,455</b>   | <b>3</b>   | 7,941   | 3   | 8,400   | 3   | <b>4,582</b>                          | <b>(131)</b> | (14,321) | (131) | 2,663  | 11  |
| Adjustments/eliminations                             | <b>(1,274)</b> | <b>-</b>   | (931)   | -   | (996)   | -   | <b>(58)</b>                           | <b>(1)</b>   | (66)     | (1)   | (98)   | -   |
| Total from Continuing<br>Operations                  | <b>273,445</b> | <b>100</b> | 240,503 | 100 | 229,272 | 100 | <b>29,369</b>                         | <b>100</b>   | 10,918   | 100   | 22,610 | 100 |

Information as to domestic and foreign revenues, including foreign currency denominated revenues and dollar linked revenues, and their contributions to total revenues follow (in millions except % amounts):

|          | 2017           |            | 2016    |     | 2015    |     |
|----------|----------------|------------|---------|-----|---------|-----|
|          | Amount         | %          | Amount  | %   | Amount  | %   |
| Domestic | <b>176,285</b> | <b>65</b>  | 163,546 | 68  | 152,282 | 66  |
| Foreign  | <b>97,160</b>  | <b>35</b>  | 76,957  | 32  | 76,990  | 34  |
|          | <b>273,445</b> | <b>100</b> | 240,503 | 100 | 229,272 | 100 |

#### **a) FOODS, AGRO-INDUSTRIAL AND COMMODITIES**

##### ***Business Development***

The Company operates its food business through Universal Robina Corporation (URC), which is one of the largest branded food product companies in the Philippines, with the distinction of being called the country's first "Philippine Multinational." It has established a strong presence in ASEAN and has further expanded its reach to the Oceania region through the acquisitions of Griffin's Food Limited and Snack Brands Australia (SBA), the second largest salty snacks player in Australia. URC was founded in 1954 when Mr. John Gokongwei, Jr. established Universal Corn Products, Inc., a cornstarch manufacturing plant in Pasig. URC is involved in a wide range of food-related businesses, including the manufacture and distribution of branded consumer foods, production of hogs and poultry, manufacture of animal feeds and veterinary products, flour milling, and sugar milling and refining. It has also ventured into the renewables business for sustainability through Distillery and Cogeneration divisions. In the Philippines, URC is a dominant player with leading market shares in snacks, candies and chocolates and is a significant player in biscuits. It is also the largest player in the Ready-to-Drink (RTD) tea market and cup noodles, and is a competitive 3rd player in coffee business. With the acquisition of Balayan Mill last February 2016, URC Sugar division is now the largest producer in the country based on capacity.

### **Principal Products or Services**

URC operates its food business through operating divisions and wholly owned or majority-owned subsidiaries that are organized into three core business segments: branded consumer foods, agro-industrial products and commodity food products.

Branded consumer foods (BCF) segment, including our packaging division, is URC's largest segment contributing about 82.5% of revenues for the year ended December 31, 2017. Established in the 1960s, the branded consumer foods segment manufactures and distributes a diverse mix of salty snacks, chocolates, candies, biscuits, packaged cakes, beverages and instant noodles. The manufacture, distribution, sales, and marketing activities of URC's consumer foods products are carried out mainly through its branded consumer foods division consisting of snack foods, beverage, and noodles, although it conducts some of its branded consumer foods operations through its majority-owned subsidiaries and joint venture companies. URC established the BOPP Packaging and Flexible Packaging divisions to engage in the manufacture of bi-axially oriented polypropylene (BOPP) films for packaging companies and flexible packaging materials to cater various BCF products. Both manufacturing facilities are located in Simlong, Batangas and are ISO 9001:2008 certified for Quality Management Systems.

Majority of URC's consumer foods business is conducted in the Philippines but has expanded more aggressively into other ASEAN markets, primarily through its wholly-owned subsidiary, URC International. In 2014, URC has expanded its reach to the Oceania region through the acquisition of Griffin's Foods Limited, a leading snackfoods player in New Zealand, which owns many established brands such as Griffin's, Cookie Bear, Eta, Huntley & Palmer's, and Nice & Natural. In September 2016, URC completed the acquisition of Consolidated Snacks Pty Ltd., which trades under the company name Snack Brands Australia (SBA), the second largest salty snacks player in Australia with a wide range of chips including the iconic brands like Kettle, Thins, CC's and Cheezels. The international operations contributed about 34.3% of URC's revenues for the year ended December 31, 2017.

URC's agro-industrial products segment operates four segments: (1) Robina Farm-Hogs, (2) Robina Farm-Poultry, (3) the manufacturing and distribution of animal feeds (URC Feeds), and (4) the production and distribution of animal health products (URC Veterinary Drugs). This segment contributed approximately 8.1% of URC's revenues in 2017.

URC's commodity food products segment operates three divisions: (1) sugar milling and refining through Sugar division, (2) flour milling and pasta manufacturing through Flour division, and (3) renewable energy development through Distillery and Cogeneration divisions. This segment contributed approximately 9.4% of URC's revenues in 2017.

The percentage contribution to URC's revenues for the three years ended December 31, 2017, 2016 and 2015 by each of URC's principal business segments is as follows:

|                          | For the years ended December 31 |        |        |
|--------------------------|---------------------------------|--------|--------|
|                          | 2017                            | 2016   | 2015   |
| Branded Consumer Foods   | 82.5%                           | 82.8%  | 84.0%  |
| Agro-Industrial Products | 8.1%                            | 8.2%   | 8.0%   |
| Commodity Food Products  | 9.4%                            | 9.0%   | 8.0%   |
|                          | <b>100.0%</b>                   | 100.0% | 100.0% |



The geographic percentage distribution of URC's revenues for the period ended December 31, 2017, 2016 and 2015 is as follows:

|               | For the years ended December 31 |        |        |
|---------------|---------------------------------|--------|--------|
|               | 2017                            | 2016   | 2015   |
| Philippines   | 65.7%                           | 70.7%  | 69.2%  |
| International | 34.3%                           | 29.3%  | 30.8%  |
|               | 100.0%                          | 100.0% | 100.0% |

**Customers**

URC's businesses are not dependent upon a single customer or a few customers that a loss of anyone of them would have a material adverse effect on URC. URC has no single customer that, based upon existing orders, will account for 20.0% or more of its total sale of goods and services.

**Distribution, Sales and Marketing**

URC has developed an effective nationwide distribution chain and sales network that it believes provide its competitive advantage. URC sells its branded food products primarily to supermarkets, as well as directly to top wholesalers, large convenience stores, large scale trading companies and regional distributors, which in turn sell its products to other small retailers and down line markets. URC's branded consumer food products are distributed to approximately 120,000 outlets in the Philippines and sold through its direct sales force and regional distributors. URC intends to enlarge its distribution network coverage in the Philippines by increasing the number of retail outlets that its sales force and distributors directly service.

The branded consumer food products are generally sold by URC from salesmen to wholesalers or supermarkets, and regional distributors to small retail outlets. 15 to 30-day credit terms are extended to wholesalers, supermarkets and regional distributors.

URC believes that its emphasis on marketing, product innovation and quality, and strong brand equity has played a key role in its success in achieving leading market shares in the different categories where it competes. In particular, URC launched "Jack n' Jill" as a master umbrella brand for all its snack food products in order to enhance customer recognition. URC devotes significant expenditures to support advertising and branding to differentiate its products and further expand market share both in the Philippines and its overseas markets, including funding for advertising campaigns, such as television commercials and radio and print advertisements, as well as trade and consumer promotions.

For URC's agro-industrial segment (AIG), both piggery and poultry farms have been accredited as GAHP (Good Animal Husbandry Practice), 100% compliant to Good Manufacturing Practices (GMP) and its meats and eggs have been certified as No Hormone, and Antibiotic residue free. This has allowed URC to aggressively capture the quality conscious meat segment of the country as embodied by the Robina Farms brand with its key positioning of Robina raised, Family safe products. Similarly, the Feeds business headed by their brand champions such as Uno+, Supremo Gamefowl and Top Breed Dog meals increased its distribution network supported by the Kabalikat Farm Program covering Hog and Gamefowl raisers.

### ***Competition***

The consumer foods business is highly competitive and competition varies by country and product category. URC believes that the principal competitive factors include price, taste, quality, convenience, brand recognition and awareness, advertising and marketing, availability of products and ability to get its products widely distributed. Generally, URC faces competition from both local and multinational companies in all of its markets. In the Philippines, major competitors in the market segments in which it competes include Liwayway Marketing Corporation, Monde M.Y. San Corporation, Columbia Foods International, Republic Biscuit Corporation, Suncrest Foods Inc., Del Monte Phil. Inc., Monde Nissin Corporation, Nestle Philippines Inc., San Miguel Pure Foods Company Inc. and Kraft Foods Inc. Internationally, major competitors include Procter & Gamble, Effem Foods/Mars Inc., Lotte Group, Perfetti Van Melle Group, Mayora Inda PT, Apollo Food, Frito-Lay, Nestlé S.A., PepsiCo, Inc., Cadbury Schweppes PLC and Kraft Foods International.

The market for the agro-industrial business is highly fragmented, very competitive, cyclical and principally domestic. URC is focused and known in providing Total Agri-Solution and farm management expertise including state of the art diagnostic capability.

URC's commercial feeds segment principal competitive factors are quality, brand equity, credit term and price. It faces competition from local, multinational companies, and even foreign companies in all of its markets. Since the business is highly fragmented, it also faces increasing speed of change in the market particularly customer preferences and lifestyle. URC's principal competitors are San Miguel Corporation (B-Meg and Integra), UNAHCO (Sarimanok, Thunderbird and GMP), and Aboitiz Inc. (Pilmico). A number of multinationals including Cargil Purina Phils. Inc, CJ and Sun Jun of Korea, and New Hope of China are also key players in the market. The market for commercial drugs is composed of both local and multinational companies. Furthermore, URC AIG is one of the only few Philippine companies in this market. URC's principal competitors are Pfizer, Inc., UNAHCO (Univet), and Merial Limited, a company jointly owned by Merck and Co., Inc. and Aventis. S.A.

URC believes that the principal competitive factors for hogs are quality, reliability of supply, price, and proximity to market. Its principal competitors are San Miguel Corp. (Monterey), Aboitiz Inc. (Pilmico) and Foremost Farms, Inc. URC considers quality, price, egg productivity, and disease resistance as the principal competitive factors of its poultry business. Its principal competitors are Bounty Farms, Inc., Foremost Farms, Inc., Brookdale Farms, and Heritage Vet Corp. for layer chicks.

### ***Enhancement and development of New Products***

URC intends to continuously introduce innovative new products, product variants and line extensions in the snackfoods (snacks, biscuits, candies, chocolates and bakery), beverage and grocery (instant noodles and tomato-based) products. In 2017 alone, URC's BCF Philippines has introduced 39 new products, which contributed 1.83% to its total sales.

URC supports the rapid growth of the business through line expansion, construction and acquisition of plants.

### ***Raw Materials/Suppliers***

A wide variety of raw materials are required in the manufacture of URC's food products, including corn, wheat, flour, sugar, robusta coffee beans, palm oil and cocoa powder. Some of which are purchased domestically and some of which were imported. URC also obtains a major portion of its raw materials from its commodity food products segments, such as flour and sugar, and flexible packaging materials from its packaging segment. A portion of flexible

packaging material requirements is also purchased both locally and from abroad (Vietnam and Indonesia), while aseptic packaging is purchased entirely from China.

For its feeds segment, URC requires a variety of raw materials, including corn grains, soya beans and meals, feed-wheat grains, wheat bran, wheat pollard, soya seeds, rice bran, copra meal and fish meal. URC purchases corn locally from corn traders and imports feed-wheat from suppliers in China, North America, and Europe. Likewise, soya seeds are imported from the USA. For its animal health products, URC requires a variety of antibiotics and vitamins, which it acquires from suppliers in Europe and Asia. URC maintains approximately two months physical inventory and one month in-transit inventory for its imported raw materials.

For its hog business, URC requires a variety of raw materials, primarily close-herd breeding stocks. For its poultry business, URC purchases the parent stock for its layer chicks from Dekalb from Europe. Robina Farms obtains all of the feeds it requires from its Feeds segment and substantially all of the minerals and antibiotics from its Veterinary Drugs segment as part of its vertical integration. URC purchases vaccines, medications and nutritional products from a variety of suppliers based on the values of their products.

URC obtains sugar cane from local farmers. Competition for sugar cane supply is very intense and is a critical success factor for its sugar business. Additional material requirements for the sugar cane milling process are either purchased locally or imported. URC generally purchases wheat, the principal raw material for its flour milling and pasta business, from suppliers in the United States, Canada and Australia.

URC's policy is to maintain a number of suppliers for its raw and packaging materials to ensure a steady supply of quality materials at competitive prices. However, the prices paid for raw materials generally reflect external factors such as weather conditions, commodity market fluctuations, currency fluctuations and the effects of government agricultural programs. URC believes that alternative sources of supply of the raw materials that it uses are readily available. Its policy is to maintain approximately 30 to 90 days of inventory.

***Patents, Trademarks, Licenses, Franchises, Concessions or Labor Contract***

URC owns a substantial number of trademarks registered with the Bureau of Trademarks subject to the provisions of RA 8293 also known as the Intellectual Property Code of the Philippines (IP Code) and recorded with the Intellectual Property Office of the Philippines (IPOPhil). In addition, certain trademarks have been strategically registered in other countries in which it operates. These trademarks are important in the aggregate because brand name recognition is a key factor in the success of many of its product lines. Trademark registration is a means to protect these brand names from counterfeiting and infringement.

Trademarks registered under RA 166, also known as the Trademark Law, are registered for twenty (20) years. Upon renewal, these trademarks become subject to the IP Code having a registration period of ten (10) years and renewable thereafter. In general, trademarks in other countries have a ten-year registration which are renewable as well, allowing relatively a lifetime of territorial and limited trademark registration.

URC also uses brand names under licenses from third parties. These licensing arrangements are generally renewable based on mutual agreement. Its licensed brands include Nissin Cup Noodles, Nissin Yakisoba Instant Noodles and Nissin Pasta Express, Vitasoy, Calbee and B'lue, among others. Licensing Agreements are voluntarily registered with the Documentation, Information and Technology Transfer Bureau of the IPOPhil.

### ***Regulatory Overview***

As manufacturer of consumer food and commodity food products, URC is required to guarantee that the products are pure and safe for human consumption, and that it conforms to standards and quality measures prescribed by the Bureau of Food and Drugs.

URC's sugar mills are licensed to operate by the Sugar Regulatory Administration and renew its sugar milling licenses at the start of every crop year. URC is also registered with the Department of Energy as a manufacturer of bio-ethanol and as a renewable energy developer.

All of URC's livestock and feed products have been registered with and approved by the Bureau of Animal Industry, an agency of the Department of Agriculture which prescribes standards, conducts quality control test of feed samples, and provides technical assistance to farmers and feed millers.

Some of URC's projects, such as the sugar mill and refinery, bioethanol production, biomass power cogeneration and hog and poultry farm operations are registered with the Board of Investments (BOI) which allows URC certain fiscal and non-fiscal incentives.

### ***Effects of Existing or Probable Governmental Regulations on the Business***

URC operates its businesses in a highly regulated environment. These businesses depend upon licenses issued by government authorities or agencies for their operations. The suspension or revocation of such licenses could materially and adversely affect the operation of these businesses.

### ***Research and Development***

URC develops new products and variants of existing product lines, researches new processes and tests new equipment on a regular basis in order to maintain and improve the quality of its food products. In Philippine operations alone, about ₱91 million was spent for research and development activities for 2017 and approximately ₱35 million and ₱42 million for 2015 and 2014, respectively.

URC has research and development staff for its branded consumer foods and packaging divisions located in its research and development facility in Metro Manila and in each of its manufacturing facilities. In addition, URC hires experts from all over the world to assist its research and development staff. It conducts extensive research and development for new products, line extensions for existing products and for improved production, quality control and packaging as well as customizing products to meet the local needs and tastes in the international markets. URC's commodity foods segment also utilizes this research and development facility to improve their production and quality control. It also strives to capitalize on its existing joint ventures to effect technology transfers.

URC has a dedicated research and development team for its agro-industrial business that continually explores advancements in feeds, breeding and farming technology. It regularly conducts market research and farm-test for all of its products. As a policy, no commercial product is released if it was not tested and used in Robina Farms.

### ***Transactions with Related Parties***

The largest shareholder, JG Summit Holdings, Inc., is one of the largest and most diversified conglomerates listed on the Philippine Stock Exchange. JG Summit provides URC with certain corporate center services including corporate finance, corporate strategy and development, corporate affairs, corporate governance and management systems, corporate internal audit, procurement, human resources, general counsel, information technology and

corporate advertising and public relations. JG Summit also provides URC with valuable market expertise in the Philippines as well as intra-group synergies.

#### ***Costs and Effects of Compliance with Environmental Laws***

The operations of URC are subject to various laws and regulations enacted for the protection of the environment, including Philippine Clean Water Act (R.A. No. 9275), Clean Air Act (R.A. No. 8749), Ecological Solid Waste Management Act (R.A. No. 9003), Toxic Substances and Hazardous and Nuclear Wastes Control Act (R.A. No. 6969), Pollution Control Law (R.A. No. 3931, as amended by P.D. 984), the Environmental Impact Statement System (P.D. 1586), the Laguna Lake Development Authority (LLDA) Act of 1966 (R.A. No. 4850), Renewable Energy Act (R.A. No. 9513), Electric Power Industry Reform Act (R.A. No. 9136) and Environmental Compliance Certificates (ECCs) requirements of P.D. No. 1586, in accordance with DENR Administrative Order No. 2003-30. URC believes that it has complied with all applicable environmental laws and regulations, an example of which is the installation of wastewater treatment systems in its various facilities. Compliance with such laws does not have, and in URC's opinion, is not expected to have, a material effect upon its capital expenditures, earnings or competitive position. As of December 31, 2017, URC has invested about ₱225 million in wastewater treatment in its facilities in the Philippines.

### **b) REAL ESTATE AND HOTELS**

#### ***Business Development***

The Company operates its real estate business through Robinsons Land Corporation (RLC), which is one of the Philippines' leading real estate developers in terms of revenues, number of projects and total project size. It is engaged in the development and operation of shopping malls and hotels, and the development of mixed-use properties, office and residential buildings, as well as land and residential housing developments, including socialized housing projects located in key cities and other urban areas nationwide. RLC adopts a diversified business model, with both an "investment" component, in which it develops, owns and operates commercial real estate projects (principally shopping malls, office buildings and hotels) and a "development" component, in which it develops residential real estate projects for sale (principally residential condominiums, upper-middle to high-end residential developments and low-and-middle cost lots and houses in its subdivision developments).

RLC was incorporated on June 4, 1980 and its shares were offered to the public in an initial public offering and were subsequently listed in the Manila Stock Exchange and the Makati Stock Exchange (predecessors of the Philippine Stock Exchange) on October 16, 1989.

#### ***Principal Products or Services***

RLC has five business divisions: a) Commercial Centers, b) Residential, c) Office Buildings, d) Hotels, and e) Infrastructure and Integrated Developments.

#### ***a.) Commercial Centers Division***

RLC's Commercial Centers Division develops, leases and manages shopping malls throughout the Philippines. As of December 31, 2017, it operated 47 shopping malls, comprising 9 malls in Metro Manila and 38 malls in other urban areas throughout the Philippines, and had another 8 new malls and 4 expansion projects in the planning and development stage for completion in the next two years.

The Commercial Centers Division's main revenue stream is derived from the lease of commercial spaces. Revenues from the Commercial Centers Division, which represent recurring lease rentals, comprise significant part of RLC's revenues. Historically, revenues from lease rentals have been a steady source of operating cash flows for RLC. RLC expects that the revenues and operating cash flows generated by the commercial centers business

shall continue to be the driver for its growth in the future.

#### **b.) Residential Division**

The Residential Division, which focuses on the construction of residential condominium and subdivision projects, is categorized into four brands. The different brands differ in terms of target market, location, type of development and price ranges to allow clear differentiation among markets. These four brands are.

- **Luxuria** - builds its brand on providing a seamless pampered experience via its generous living spaces, distinctive style infrastructure, iconic locations and attention to service and detail. It provides uniquely luxurious living spaces through its projects located in iconic locations such as Cebu, Ortigas Center and Makati. As of December 31, 2017, there are 9 residential projects under the Luxuria portfolio, of which 8 have been completed and 1 project is under construction.
- **Robinsons Residences** - offers the perfect urban home for professionals and urbanities, combining prime locations with contemporary designs, comfortably spacious units, stress-busting amenities and lifestyle perks and privileges. As of December 31, 2017, Robinsons Residences segment had a portfolio of 29 residential condominium buildings/towers, of which 25 had been completed and 4 projects are under various stages of development.
- **Robinsons Communities** - is the residential brand of RLC which caters to the needs of early nesters, young mobile achievers and families coming from B to BB segment who wish to live independently and comfortably close to their workplace, schools and leisure centers. As of December 31, 2017, Robinsons Communities had completed 26 residential condominium buildings/towers and 2 subdivision projects. It has 3 on-going projects in different stages that are scheduled for completion over the next five years. Robinsons Communities is currently focusing on the development of both Mid-rise and High-rise residential condominium projects that primarily offer compact units with price levels below ₱3.0 million. Its condominium projects are located in Metro Manila and Tagaytay City while the subdivisions are in Quezon City.
- **Robinsons Homes** - offers choice lots in master planned, gated subdivisions with option for house construction to satisfy every Filipino's dream of owning his own home. As of December 31, 2017, Robinsons Homes has 38 projects in its portfolio. 13 of these projects are on-going construction, 2 of which are awaiting for the receipt of License to Sell (LS) to launch, namely Terrazo at Robinsons Vineyard and Monte Del Sol. Among the 38 projects, 25 have been substantially completed and sold.

#### **c.) Office Buildings Division**

Office Buildings division develops office buildings for lease. As of December 31, 2017, the Office Buildings Division of RLC has completed 17 office developments located in Quezon City, Ortigas Central Business District in Pasig City, Mandaluyong City, Makati Central Business District in Makati City, Fort Bonifacio in Taguig City, Cebu City, San Nicolas, Ilocos Norte, Tarlac City, Naga City and Davao City, and is targeting to complete 6 office buildings located in key cities across the country in the next two years.

#### **d.) Hotels Division**

RLC's Hotels division has a diverse portfolio covering three brand segments: upscale international deluxe hotels, mid-market boutique city and resort hotels, and essential service value hotels. In the international deluxe category, Crowne Plaza Manila Galleria and Holiday Inn Manila Galleria, both managed by the Intercontinental Hotels Group, are key players in the hotel market in the Ortigas business district in Pasig City, Metro Manila. RLC's mid-market Summit Hotels and Resorts brand operates Summit Ridge Tagaytay, Summit Circle

Cebu, Summit Hotel Magnolia and the recently-opened Summit Galleria Cebu. The third brand segment is the popular Go Hotels that is present in 15 key cities across the Philippines.

Although the hotels division is an important part of RLC's business, RLC considers its primary value to be as a complement to its other developments. Over the next years, we will see more Go Hotels and Summit Hotels in major cities of the country.

Serving over 2.0 million guests to date, Go Hotels has steadily increased its presence in the Philippines with 10 operational branches, offering a total of more than 1,400 rooms, in strategic cities across the country. Its thrust is to build in locations with high market demand. To support expansion of the brand, Go Hotels has also opened its business to franchising.

**e.) Infrastructure and Integrated Developments Division**

RLC's Infrastructure and Integrated Developments Division focuses on mixed-used developments and master planned communities. These developments incorporate different property formats such as residences, work places, commercial centers, and other institutional developments into a single setting. Another major role of this division is to seek business opportunities brought about by Public-Private Partnerships. As of December 31, 2017, this division has completed the master planning of two (2) integrated developments located in the cities of Pasig and Quezon and in the municipalities of Taytay and Cainta.

The percentage contribution to RLC's revenues for the three years ended December 31, 2017, 2016 and 2015 by each of its business segment is as follows:

|                       | For the years ended December 31 |               |               |
|-----------------------|---------------------------------|---------------|---------------|
|                       | 2017                            | 2016          | 2015          |
| Commercial Centers    | 48.0%                           | 44.5%         | 46.2%         |
| Residential Buildings | 29.1%                           | 34.4%         | 33.0%         |
| Office Buildings      | 14.5%                           | 13.2%         | 12.0%         |
| Hotels                | 8.4%                            | 7.9%          | 8.8%          |
|                       | <b>100.0%</b>                   | <b>100.0%</b> | <b>100.0%</b> |

**Competition**

**Commercial Centers Division**

RLC has two major competitors in its commercial centers division – SM Prime Holdings, Inc. (SM) and Ayala Land, Inc. (ALI). Each of these companies has certain distinct advantages over RLC, including SM's considerably larger mall portfolio and ALI's access to prime real estate in the heart of Metro Manila. There are a number of other players in the shopping mall business in the Philippines, but they are significantly smaller and, because of the high barriers to entry into the business (which include cost, branding, reputation, scale and access to prime real estate), RLC expects that it will continue to compete principally with these two major companies in this market sector for the foreseeable future. RLC has, however, recently seen an increase in the development of specialty malls by companies that are not traditional players in the industry, and it is unclear whether or how this trend might affect the competitive landscape. Shopping mall operators also face competition from specialty stores, general merchandise stores, discount stores, warehouse outlets, street markets and online stores.

RLC believes its strength is in its mixed-use, retail, commercial and residential developments. RLC operates on the basis of its flexibility in developing malls with different sizes depending on the retail appetite of the market per location. It is focused on balancing its core tenant mix

and providing a more distinctive shopping mall experience to its loyal customers, as well as its ability to leverage the brand equity and drawing power of its affiliated companies in the retail trade business.

### **Residential Division**

- **Robinsons Luxuria**

The Robinsons Luxuria brand continues to develop projects that cater to the high-end market. It strives to compete with developers who have already established their names in tapping this slice of the market. RLC aims to increase its share of this elite market segment and steer buyers of competitors such as Ayala Land Premier, Rockwell Land (Rockwell), Century Properties and Megaworld Corporation (Megaworld) to its developments.

- **Robinsons Residences**

RLC's competitors (Alveo Land, Megaworld, Filinvest and Ortigas & Co.) under this segment target the same market and offer similar products. There are also a number of players who try to compete in this segment of the market with one or two projects. Projects under Robinsons Residences remain one of the top of mind developments as a result of our growing experienced sales and distribution network and our convenient locations. Our projects are found within Central Business Districts or a RLC mixed-use development.

- **Robinsons Communities**

RLC Robinsons Communities in particular, has numerous competitors in the middle income segment. This is in part a function of the fact that as compared to other business areas, RLC does not enjoy the same "early mover" advantage. Currently, Robinsons Communities' competitors include companies like Avida Land (AL), Filinvest Land (FL), SM Development Corporation (SMDC) and DMCI Homes. Based on public records and independent industry reports and its own market knowledge, RLC believes that it is among the top five middle-ranged condominium developers in the Philippines in terms of revenues from sales. RLC believes that it can successfully compete in this market segment on the basis of its brand name, technical expertise, financial standing and track record of successfully completed, quality projects.

- **Robinsons Homes**

Robinsons Homes stands in close competition with ALI, FL and Vista Land (VL). It competes on the basis of location. It is a nationwide residential subdivision developer with projects in Laoag, Tarlac, Pampanga, Antipolo, Cavite, Batangas, Puerto Princesa, Bacolod, Cebu, Cagayan de Oro, Davao and General Santos. Robinsons Homes is creating not just subdivisions but is forming nurturing communities with lifestyle amenities and support developments in response to the changing lifestyle of Filipinos. RLC believes that its market specific branding, reliability to deliver and consistent quality products at an affordable price has contributed to its ability to generate sales and its overall success. In order to cater to varying market profiles, Robinsons Homes launched its four sub-brands namely: *Happy Homes* for socialized housing, *Springdale* for affordable market segment, *Brighton* for mid-cost development and *Bloomfields* for high-end market.

### **Office Buildings Division**

RLC believes that competition for office space is principally on the basis of location, quality and reliability of the project's design and equipment, reputation of the developer, availability of space, and PEZA registration. The biggest competitors of RLC under this segment are ALI, Megaworld and SM. It competes in this market on the basis of the strategic locations of its buildings, including their proximity to the malls and residences as part of its mixed-use developments, and its accessibility to public transportation, building features as the office projects can accommodate all types of tenants including companies in the IT Business



Process Management (IT-BPM) sector, corporate headquarters and traditional offices. RLC also believes that its established reputation of good quality, ease of doing business, and completing projects on time makes it one of the most preferred choices of the IT-BPM industry as well as local and multinational companies. RLC is committed in providing an excellent customer experience and satisfaction by developing office projects of high quality and reliability, meeting the evolving needs of its customers.

### **Hotels Division**

Philippine Tourism is highly influenced by general political and economic conditions within the country. The Philippines is a preferred destination in the global tourism industry because of its competitiveness in terms of pricing hotel rooms and airline ticket, natural resources and eco-tourism.

The hotel business has seen a continued stabilized situation due to remittances from Filipino overseas workers, IT infrastructure projects in the Philippines, and the continuous drive of the local tour operators in developing affordable tour packages.

Foreseen increase of business travels coming from government led infrastructure projects with Chinese and Japanese investors such as construction of the Mega Manila Subway, Manila Bay Smart City Development - 407 hectare reclamation project, Manila- Clark Railway Project, Ortigas- BGC flyover.

There is sustained growth in domestic tourism due to more affordable flights and ease of air access. 28% of domestic travelers are millennials aged 15-24 years of age; 24% are aged 25-34 years of age, 19% for 35-44 years of age, 14% for 45-54 years age; 9% for 55-64 and 6% above 65 years old.

The tourism outlook in the Philippines seems optimistic, driven by the presence of low cost carriers and with several hotels opening in Makati, Ortigas, and Fort Bonifacio CBD. With total expected supply of 3,500 rooms from year 2017, the DOT continues to attract in bound tourism by an aggressive global marketing campaign and brand awareness.

Taking advantage of the increasing inbound and outbound travels looking for accommodation, a number of local and foreign competitors have entered or signified interest to enter the country. These chains, considered competitors of its Go Hotels, include Red Planet, Fave Hotels of Indonesia, Tryp hotels and Microtel by Wyndham. Other hotel chains which have also been growing geographically include Park Inn by Radisson, Novotel, Seda Hotels by Ayala, Accor, and Ascott Hotels. These hotel chains cater to the mid-scale market and are thus considered competitors of RLC's Summit Hotel brand. In the Ortigas Central Business District, new players such as Mercure, Citadines, JoyNostalg by Accor and Marco Polo compete with RLC's two IHG-managed hotels.

Crowne Plaza Manila Galleria, with upcoming brand refresh is expected to ensure Travelling for Success --- Sleep Advantage supporting the environment expected by our high achiever and Meetings Success, assuring a unique guest experience when conducting meetings and celebrating milestones.

Holiday Inn remains to be the only dominant international mid-market brand in Ortigas which caters to both Leisure and Corporate Transient business in the area, despite increasing competition from Mercure & Joy Nostalg by Accor and Citadines by Ascott, which have mushroomed over last 2 years.

**Infrastructure and Integrated Developments Division**

Though Infrastructure and Integrated Developments (IID) is a new Division under RLC, RLC is not a newcomer in integrated developments. RLC has developed four major mixed used developments in Metro Manila alone, namely, Robinsons Galleria, Robinsons Forum, Robinsons Manila, and Robinsons Magnolia. These projects are anchored by Robinsons Mall with components of Office and/or Residential and/or Hotel/Leisure. With the formation of the Infrastructure and Integrated Development Division, RLC can now focus on this new fast growing development format.

All major developers are now into integrated development. Developers are now acquiring big parcels of land and incorporating different real estate components to attract investors and customers. The biggest competitors of RLC in integrated developments are Ayala Land, Megaworld, Filinvest, Eton, and SM.

RLC-IID will harness opportunities for synergies with RLC's other business units: Commercial, Residential, Hotel, and Office Division. RLC, having years of experience in these real estate components, will thus have a competitive advantage. With efficient master planning, innovative designs, and quality construction, RLC is committed to sustainable and future-proof communities.

***Raw Materials/Suppliers***

Construction and development of malls, high-rise office and condominium units as well as land and housing construction are awarded to various reputable construction firms subject to a bidding process and management's evaluation of the price and qualifications of and its relationship with the relevant contractor. Most of the materials used for the construction are provided by the contractors themselves in accordance with the underlying agreements, although sometimes RLC will undertake to procure the construction materials when it believes that it has an advantage in doing so. RLC typically will require the contractor to bid for a project on an itemized basis, including separating the costs for project materials that it intends to charge. If RLC believes that it is able to acquire any of these materials (such as cement or steel) at a more competitive cost than is being quoted to it, it may remove these materials from the project bid and enter into a separate purchase order for the materials itself, to reduce project costs.

***Customers***

RLC has a broad market base. The loss of any one customer would not have a materially adverse effect upon RLC.

***Related Party Transactions***

RLC leases significant portions of its commercial centers and office buildings to various subsidiaries and affiliates. Anchor tenants of the shopping malls are generally composed of affiliates in the retail trade business, namely Robinsons Department Store, Robinsons Supermarket and Handyman Do-It-Best. Other affiliates include Top Shop, Robinsons Savings Bank and Cebu Pacific. RLC's lease contracts and/or supply services with these affiliate companies are under commercial terms at least as favorable as the terms available to non-affiliated parties.

In addition, JG Summit also provides RLC with certain corporate services including debt management, corporate finance, corporate planning, procurement, human resources, treasury services, legal and corporate communications.

## ***Regulatory and Environmental Matters***

### **Shopping Malls**

Shopping mall centers are regulated by the local government unit of the city or municipality where the establishment is located. In line with this, mall operators must secure the required mayor's permit or municipal license before operating. In addition, no mall shall be made operational without complying first with the provisions of the fire code and other applicable local ordinances. Furthermore, shopping malls with food establishments must obtain a sanitary permit from the Department of Health. It is also compulsory for shopping malls discharging commercial waste water to apply for a waste water discharge permit from the Department of Environment and Natural Resources (DENR) and to pay the fee incidental to the permit.

As a tourism-related establishment, shopping malls may obtain accreditation from the DoT. A shopping mall can only be accredited upon conformity with the minimum physical, staff and service requirements promulgated by the DoT.

### **Residential Condominium and Housing and Land Projects**

Presidential Decree No. 957, as amended, is the principal statute which regulates the development and sale of real property as part of a condominium project or subdivision. Presidential Decree No. 957 covers subdivision projects and all areas included therein for residential, commercial, industrial and recreational purposes as well as condominium projects for residential or commercial purposes. The Housing and Land Use Regulatory Board (HLURB) is the administrative agency of the Government which, together with local government units, enforces this decree and has jurisdiction to regulate the real estate trade and business.

All subdivision and condominium plans for residential, commercial, industrial and other development projects are subject to approval by the relevant local government unit in which the project is situated. The development of subdivision and condominium projects can commence only after the relevant government body has issued the development permit.

Further, all subdivision plans and condominium project plans are required to be filed with and approved by the HLURB. Approval of such plans is conditional on, among other things, the developer's financial, technical and administrative capabilities. Alterations of approved plans which affect significant areas of the project, such as infrastructure and public facilities, also require the prior approval of the relevant local government unit. Owners of or dealers in real estate projects are required to obtain licenses to sell before making sales or other dispositions of lots or real estate projects. Dealers, brokers and salesmen are also required to register with the HLURB. Project permits and licenses to sell may be suspended, cancelled or revoked by the HLURB by itself or upon a verified complaint from an interested party for reasons such as non-delivery of title to fully-paid buyers or deviation from approved plans. A license or permit to sell may only be suspended, cancelled or revoked after a notice to the developer has been served and all parties have been given an opportunity to be heard in compliance with the HLURB's rules of procedure and other applicable laws. Subdivision or condominium units may be sold or offered for sale only after a license to sell has been issued by the HLURB. The license to sell may be issued only against a performance bond posted to guarantee the completion of the construction of the subdivision or condominium project and compliance with applicable laws and regulations.

There are essentially two different types of residential subdivision developments, which are distinguished by different development standards issued by the HLURB. The first type of subdivision, aimed at low-cost housing, must comply with Batas Pambansa Blg. 220, which

allows for a higher density of building and relaxes some construction standards. Other subdivisions must comply with Presidential Decree 957, which set out standards for lower density developments. Both types of development must comply with standards regarding the suitability of the site, road access, necessary community facilities, open spaces, water supply, the sewage disposal system, electrical supply, lot sizes, the length of the housing blocks and house construction.

Under current regulations, a developer of a residential subdivision is required to reserve at least 30% of the gross land area of such subdivision for open space for common uses, which include roads and recreational facilities. A developer of a commercial subdivision is required to reserve at least 3.5% of the gross project area for parking and pedestrian malls.

Further, Republic Act (RA) No. 7279 requires developers of proposed subdivision projects to develop an area for socialized housing equivalent to at least 20% of the total subdivision area or total subdivision project cost, at the option of the developer, within the same or adjacent regions, whenever feasible, and in accordance with the standards set by the HLURB. Alternatively, the developer may opt to buy socialized housing bonds issued by various accredited government agencies or enter into joint venture arrangements with other developers engaged in socialized housing development. RLC has benefited from providing low-income housing or projects of such types which are financially assisted by the government. These policies and programs may be modified or discontinued in the future. The Government may also adopt regulations which may have the effect of increasing the cost of doing business for real estate developers. Under current law, income derived by domestic corporations from the development and sale of socialized housing which currently, among other things, must have a basic selling price of no more than ₱300,000, is exempt from project related income taxes. Under the current Investment Priorities Plan issued by the Board of Investments, mass housing projects including development and fabrication of housing components, are eligible for government incentives subject to certain policies and guidelines. In the future, since the sale of socialized housing units comprise a portion of homes sold by RLC, any changes in the tax treatment of income derived from the sale of socialized housing units may affect its effective rate of taxation.

### **Hotels**

The Philippine DoT promulgated the Hotel Code of 1987 (the "Hotel Code") in order to govern the business and operation of all hotels in the Philippines. Investors that wish to operate a hotel must first register and apply for a license with the local government of the city or municipality where the hotel is located. For purposes of registration and licensing, hotels are classified into four groups: De Luxe Class, First Class, Standard Class and Economy Class. The Hotel Code provides minimum standards for the establishment, operation and maintenance of hotels depending on the hotel's classification. The Philippine DoT is in the process of revising the current classification from Hotel Class System to Hotel Star Rating System.

A certificate of registration and license as a hotel will not be granted unless the relevant establishment has passed all the conditions of the Hotel Code, the Fire and Building Codes, Zoning Regulations and other municipal ordinances. Furthermore, hotels can only be opened for public patronage upon securing of a sanitary permit from the city or municipal health office having jurisdiction over the establishment. The DoT is the government agency which is tasked with the accreditation of hotels. The Department promulgates the minimum standards and procedures for hotel accreditation. While accreditation is non-compulsory, accredited hotels are given incentives by the DoT.

### **Zoning and Land Use**

Under the agrarian reform law currently in effect in the Philippines and the regulations issued thereunder by the Department of Agrarian Reform (DAR), land classified for agricultural purposes as of or after 15 June 1988, cannot be converted to non-agricultural use without the prior approval of DAR.

Land use may be also limited by zoning ordinances enacted by local government units. Once enacted, land use may be restricted in accordance with a comprehensive land use plan approved by the relevant local government unit. Lands may be classified under zoning ordinances as commercial, industrial, residential or agricultural. While a procedure for change of allowed land use is available, this process may be lengthy and cumbersome.

### **Special Economic Zone**

The Philippine Economic Zone Authority (PEZA) is a government corporation that operates, administers and manages designated special economic zones (Ecozones) around the country. PEZA registered enterprises locating in an Ecozone are entitled to fiscal and non-fiscal incentives such as income tax holidays and duty free importation of equipment, machinery and raw materials. Information technology (IT) enterprises offering IT services (such as call centers and business process outsourcing using electronic commerce) are entitled to fiscal and non-fiscal incentives if they are PEZA-registered locators in a PEZA-registered IT Park, IT Building, or Ecozone. RLC actively seeks PEZA registration of its buildings, as this provides significant benefits to its tenants. As of 2017, a number of RLC malls and office buildings are PEZA-registered.

### **United Industrial Corporation Limited**

In May 1999, the Company, through a subsidiary, acquired a 23.0% stake in a Singapore listed company, United Industrial Corporation Limited (UIC) which is one of the largest property developers in Singapore owning various office buildings that are located in prime locations in Singapore and China. As of December 31, 2017, the Company's indirect interest in the shares of UIC increased to 37.1%. Other than the Company, the only significant stockholder in UIC is the United Overseas Bank Group of Singapore.

## **c) AIR TRANSPORTATION**

### ***Business Development***

Cebu Air, Inc. (CEB) was incorporated on August 26, 1988 and was granted a 40-year legislative franchise to operate international and domestic air transport services in 1991. It commenced its scheduled passenger operations in 1996 with its first domestic flight from Manila to Cebu. In 1997, it was granted the status as an official Philippine carrier to operate international services by the Office of the President of the Philippines. International operations began in 2001 with flights from Manila to Hong Kong.

With the liberalization of the airline industry in 1995, JG Summit acquired 49.0% of CEB's outstanding capital stock to undertake domestic and international flights to and from major cities in the Philippines and around the world. In September 2001, the Company, through a subsidiary, acquired the remaining 51.0% of CEB's capital stock, thus making it a wholly owned subsidiary as of year-end 2001. In May 2006, CEB was acquired by CP Air Holdings Inc. (CP Air) through a deed of assignment by the Company, which resulted in the 100% ownership by CP Air of CEB. CP Air is a wholly owned subsidiary of the Company. On October 26, 2010, CEB's common stock was listed with the PSE. As of December 31, 2017, JG Summit has 67.2% effective ownership in CEB.

CEB operates under the trade name “Cebu Pacific Air” and is the leading low-cost carrier in the Philippines. It pioneered the “low fare, great value” strategy in the local aviation industry by providing scheduled air travel services targeted to passengers who are willing to forego extras for fares that are typically lower than those offered by traditional full-service airlines while offering reliable services and providing passengers with a fun travel experience.

In 2005, CEB adopted the low cost carrier (LCC) business model. The core element of the LCC strategy is to offer affordable air services to passengers. This is achieved by having: high-load, high-frequency flights; high aircraft utilization; a young and simple fleet composition; and low distribution costs.

CEB has ten special purpose entities (SPE) that it controls, namely: Cebu Aircraft Leasing Limited, Boracay Leasing Limited, Surigao Leasing Limited, Vector Aircraft Leasing Limited, Panatag One Aircraft Leasing Limited, Panatag Two Aircraft Leasing Limited, Panatag Three Aircraft Leasing Limited, Summit A Aircraft Leasing Limited, Summit B Aircraft Leasing Limited and Summit C Aircraft Leasing Limited.

On March 20, 2014, CEB acquired 100% ownership of Tiger Airways Philippines (TAP), including 40% stake in Roar Aviation II Pte. Ltd. (Roar II), a wholly owned subsidiary of Tiger Airways Holdings Limited (TAH). On April 27, 2015, with the approval of the Securities and Exchange Commission (SEC), TAP was rebranded and now operates as CEBGO, Inc.

In May 2017, CEB lost control over Ibon Leasing Limited (ILL) due to loss of power to influence the relevant activities of ILL as the result of sale of aircraft to third party. Accordingly, CEB derecognized its related assets and liabilities in its consolidated financial statements.

Effective April 2018, Cebu Aircraft Leasing Limited (CALL) and Sharp Aircraft Leasing Limited (SALL) will be dissolved due to the sale of aircraft to third parties.

On March 7, 2018, CEB incorporated 1Aviation Groundhandling Services Corporation (a wholly-owned subsidiary).

As of December 31, 2017, CEB operates an extensive route network serving 76 domestic routes and 37 international routes with a total of 2,485 scheduled weekly flights. It operates from seven hubs, including the Ninoy Aquino International Airport (NAIA) Terminal 3 and Terminal 4 both located in Pasay City, Metro Manila; Mactan-Cebu International Airport located in Lapu-Lapu City, part of Metropolitan Cebu; Diosdado Macapagal International Airport (DMIA) located in Clark, Pampanga; Davao International Airport located in Davao City, Davao del Sur; Ilo-ilo International Airport located in Ilo-ilo City, regional center of the western Visayas region; Kalibo International Airport in Kalibo, Aklan and Laguindingan Airport in Misamis Oriental.

As of December 31, 2017, CEB operates a fleet of 61 aircraft which comprises of one (1) Airbus A319, thirty-six (36) Airbus A320, eight (8) ATR 72-500, eight (8) ATR 72-600 and eight (8) Airbus A330 aircraft. It operates its Airbus aircraft on both domestic and international routes and operates the ATR 72-500 and ATR 72-600 aircraft on domestic routes, including destinations with runway limitations. The average aircraft age of CEB’s fleet is approximately 5.01 years as of December 31, 2017.

Aside from passenger service, CEB also provides airport-to-airport cargo services on its domestic and international routes. In addition, it offers ancillary services such as cancellation and rebooking options, in-flight merchandising such as sale of duty-free products on international flights, baggage and travel-related products and services.

The percentage contributions to CEB's revenues of its principal business activities are as follows:

|                    | For the years ended December 31 |               |               |
|--------------------|---------------------------------|---------------|---------------|
|                    | 2017                            | 2016          | 2015          |
| Passenger Services | 73.4%                           | 75.3%         | 75.5%         |
| Cargo Services     | 6.8%                            | 5.8%          | 6.2%          |
| Ancillary Services | 19.8%                           | 18.9%         | 18.3%         |
|                    | <b>100.0%</b>                   | <b>100.0%</b> | <b>100.0%</b> |

On May 16, 2016, CEB and seven other market champions in Asia Pacific, announced the formation of the world's first, pan-regional low cost carrier alliance, the Value Alliance. CEB, together with Jeju Air (Korea), Nok Air (Thailand), NokScoot (Thailand), Scoot (Singapore), Tigerair Singapore, Tigerair Australia and Vanilla Air (Japan) will deliver greater value, connectivity and choice for travel throughout Southeast Asia, North Asia and Australia, as the airlines bring their extensive networks together. The Value Alliance airlines collectively fly to more than 160 destinations from 17 hubs in the region.

On February 23, 2015 and May 12, 2016, CEB signed a forward sale agreement with a subsidiary of Allegiant Travel Company (collectively known as "Allegiant"), covering CEB's sale of 10 Airbus A319 aircraft. The delivery of the aircraft to Allegiant is scheduled to start on various dates in 2015 until 2018.

In May 2017 and November 2017, CEB entered into sale and operating leaseback transactions with Ibon Leasing Limited and JPA No. 78/79/80/81 Co., Ltd. which transferred economic ownership of two (2) and four (4) Airbus A320 aircraft, respectively.

Aside from these, there are no material reclassifications, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business that was made in the past three years. CEB has not been subjected to any bankruptcy, receivership or similar proceeding in the said period.

#### ***Distribution Methods of Products or Services***

CEB has three principal distribution channels: the internet; direct sales through booking sales offices, call centers and government/corporate client accounts; and third-party sales outlets.

#### Internet

In January 2006, CEB introduced its internet booking system. Through [www.cebupacificair.com](http://www.cebupacificair.com), passengers can book flights and purchase services online. The system also provides passengers with real time access to CEB's flight schedules and fare options. CEBGO, Inc.'s flights can be booked through the Cebu Pacific website and its other booking channels starting in March 2014.

As part of the strategic alliance between CEB and TAH, the two carriers entered into an interline agreement with the first interline flights made available for sale in TAH's website starting July 2014. Interline services were made available in Cebu Pacific's website in September 2014. With this, guests of both airlines now have the ability to cross-book flights on a single itinerary and enjoy seamless connections with an easy one-stop ticketing for connecting flights and baggage check-in. In December 2014, CEB also launched its official mobile application which allows guests to book flights on-the-go through their mobile devices.

CEB's participation in the Value Alliance with other low-cost carriers in the region will increase its distribution reach by enabling its customers to view, select and book the best-available airfares on flights from any of the airlines in a single transaction, directly from each partner's website. This is made possible through the groundbreaking technology developed by Air Black Box (ABB). ABB allows guests to enjoy the full suite of ancillary choices they have come to appreciate from low cost carriers across all partner airline sectors in a single itinerary.

#### Booking Offices and Call Centers

As of December 31, 2017, CEB has a network of nine booking offices located throughout the Philippines and 2 regional booking offices, one in Hong Kong and another in Seoul, South Korea. It directly operates these booking offices, which also handle customer service issues, such as customer requests for change of itinerary. In addition, it operates two in-house call centers, one in Manila and the other in Cebu. It also uses a third-party call center outsourcing service to help accommodate heavy call traffic. Its employees who work as reservation agents are also trained to handle customer service inquiries and to convert inbound calls into sales. Purchases made through call centers can be settled through various modes, such as credit cards, payment centers and authorized agents.

#### Government/Corporate Client Accounts

As of December 31, 2017, CEB has government and corporate accounts for passenger sales. It provides these accounts with direct access to its reservation system and seat inventory as well as credit lines and certain incentives. Further, clients may choose to settle their accounts by post-transaction remittance or by using pre-enrolled credit cards.

#### Third Party Sales Outlets

As of December 31, 2017, CEB had a network of distributors in the Philippines selling its domestic and international air services within an agreed territory or geographical coverage. Each distributor maintains and grows its own client base and can impose on their clients a service or transaction fee. Typically, a distributor's client base would include agents, travel agents or end customers. It also has a network of foreign general sales agents, wholesalers, and preferred sales agents who market, sell and distribute its air services in other countries.

#### **Customers**

CEB's business is not dependent upon a single customer or a few customers that a loss of anyone of which would have a material adverse effect on CEB.

#### **Competition**

The Philippine aviation authorities deregulated the airline industry in 1995 eliminating certain restrictions on domestic routes and frequencies which resulted in fewer regulatory barriers to entry into the Philippine domestic aviation market. On the international market, although the Philippines currently operates under a bilateral framework, whereby foreign carriers are granted landing rights in the Philippines on the basis of reciprocity as set forth in the relevant bilateral agreements between the Philippine government and foreign nations, in March 2011, the Philippine government issued EO 29 which authorizes the Civil Aeronautics Board (CAB) and the Philippine Air Panels to pursue more aggressively the international civil aviation liberalization policy to boost the country's competitiveness as a tourism destination and investment location.

Currently, CEB faces intense competition on both its domestic and international routes. The level and intensity of competition varies from route to route based on a number of factors.



Principally, it competes with other airlines that service the routes it flies. However, on certain domestic routes, CEB also considers alternative modes of transportation, particularly sea and land transport, to be competitors for its services. Substitutes to its services also include video conferencing and other modes of communication.

CEB's major competitors in the Philippines are Philippine Airlines ("PAL"), a full-service Philippine flag carrier; PAL Express (formerly Airphil Express) a low-cost domestic operator and which code shares with PAL on certain domestic routes and leases certain aircraft from PAL; and Philippines Air Asia (a merger between former Air Asia Philippines and Zest Air). Most of CEB's domestic and international destinations are also serviced by these airlines. According to latest CAB data as of December 31, 2017, CEB is the leading domestic airline in the Philippines by passengers carried, with a market share of 55.3%.

CEB is the leading regional low-cost airline offering services to more destinations and serving more routes with a higher frequency between the Philippines and other ASEAN countries than any other airline in the Philippines. Currently, it competes with the following LCC's and full-service airlines in its international operations: AirAsia, Jetstar Airways, PAL, Cathay Pacific, Singapore Airlines, and Thai Airways, among others.

***Publicly-Announced New Product or Service***

CEB continues to analyze its route network. It can opt to increase frequencies on existing routes or add new routes/destinations. It can also opt to eliminate unprofitable routes and redeploy capacity.

CEB plans to expand its fleet over the course of the next three years by additional (thirty-two) 32 aircraft (before any returns and sale of aircraft) by the end of 2020. The additional aircraft will support CEB's plans to increase frequency on current routes and to add new city pairs and destinations. CEB continued to boost its domestic growth and market share during the year by deploying more A330 aircraft to Cebu and Davao, upgrading key domestic routes from ATR to A320 aircraft, boosting inter-island connectivity with the introduction of new flights from Manila to Tablas, Masbate and Siargao; from Clark to Caticlan and Busuanga; from Cebu to Busuanga, Cotabato and Masbate; from Cagayan de Oro to Bacolod, Caticlan, Dumaguete, Tagbilaran and Zamboanga; from Davao to Dumaguete, Tacloban and Tagbilaran; from Kalibo to Clark; and from Zamboanga to Cotabato and increasing frequencies on existing routes such as Manila to Caticlan, Davao and Dumaguete; and Cebu to Siargao. CEB has also announced its plan to launch direct flights between Manila and Batanes starting March 25, 2018. Frequencies on some international routes were also increased such as Manila to Bali, Hanoi, Osaka, Nagoya, Tokyo (Narita) and Sydney. CEB also upgraded selected flights between Manila and Hong Kong from Airbus A320 to the larger A330 aircraft to accommodate additional passenger traffic. Three long haul routes were suspended during the year namely Manila to Riyadh, Kuwait and Doha. A330 aircraft used for these suspended flights were redeployed to serve other key domestic and regional markets.

Further, CEB has a firm order for sixteen (16) ATR 72-600 with options to acquire an additional ten (10) ATR 72-600. The new ATR 72-600 will be equipped with the high density Armonia cabin, the widest cabin in the turboprop market. It will be fitted with seventy-eight (78) slim-line seats and wider overhead bins with 30% more stowage space for greater comfort for passengers. Eight (8) out of the sixteen (16) ATR 72-600 aircraft were received in 2016 and 2017 while the rest are scheduled for delivery from 2018 to 2020. CEB also has an existing order for thirty-two (32) Airbus A321 NEO (New Engine Option) aircraft with options for a further ten Airbus A321 NEO. Airbus A321 NEO will be the first of its type to operate in the Philippines, being a larger and longer-haul version of the familiar Airbus A320. These 220-seater aircraft will have a much longer range which will enable CEB to serve cities in

Australia, India and Northern Japan, places the A320 cannot reach. This order for A321 NEO aircraft will be delivered between 2018 and 2022. On June 7, 2017, CEB also placed an order with Airbus S.A.S to purchase seven (7) new A321 CEO aircraft due for delivery starting 2018 to meet its increased capacity requirements.

### **Raw Materials**

Fuel is a major cost component for airlines. CEB's fuel requirements are classified by location and sourced from various suppliers.

CEB's fuel suppliers at its international stations include Shell-Singapore, Shell-Hong Kong, Shell-Dubai, Shell-Narita, SK Corp-Korea, Chevron-Sydney and World Fuel-China among others. It also purchases fuel from local suppliers like Petron, Chevron Manila and Shell Manila. CEB purchases fuel stocks on a per parcel basis, in such quantities as are sufficient to meet its monthly operational requirements. Most of its contracts with fuel suppliers are on a yearly basis and may be renewed for subsequent one-year periods.

### **Patents, Trademarks, Licenses, Franchises, Concessions and Royalty Agreements**

#### Trademarks

Trademark registrations with the Intellectual Property Office of the Philippines (IPOPhil) prior to the effective date of Republic Act No. 8293, or the current Intellectual Property Code of the Philippines, are valid for 20 years from the date of issue of the certificate of registration. Meanwhile, trademark registrations covered by Republic Act No. 8293 are valid for ten years from the date of the certificate of registration. Regardless of whether the trademark registration is for 20 years or ten years, the same may be renewed for subsequent ten-year terms.

CEB holds the following valid and subsisting trademark registrations:

- CEBU PACIFIC, the Cebu Pacific feather-like device, CEBU PACIFIC AIR, CEBU PACIFIC AIR.COM;
- The CEB Mascot;
- Various trademarks for CEB's branding campaigns such as WHY EVERYONE FLIES, WHY EVERYJUAN FLIES, and the logos used for such purposes;
- CEBGO and the Cebgo logo;
- A trademark for the strategic alliance entered into by the Parent Company and TAH; and
- GETGO and the GetGo logo for its lifestyle rewards program

On June 1, 2015, CEB rolled out its new logo which features shades of the Philippines' land, sea, sky and sun. This new branding also symbolizes the airline's growth and evolution from a low-cost pioneer to its larger operations today. The new logo and new branding have been registered as trademarks of CEB.

Meanwhile, CEB has 26 trademarks registered with the Intellectual Property Office of China and three (3) trademarks with the Intellectual Property Office of Singapore.

CEB has also incorporated the business names "Cebu Pacific" and "Cebu Pacific Air" with its Articles of Incorporation, as required by Memorandum Circular No. 21-2013 issued by the Securities and Exchange Commission (SEC). Registering a business name with the SEC precludes another entity engaged in the same or similar business from using the same business name as one that has been registered.

CEB, together with other airline members, also has trademarks registered for the Value Alliance logo in various jurisdictions.

#### Licenses/Permits

CEB operates its business in highly regulated environment. The business depends upon the permits and licenses issued by the government authorities or agencies for its operations which include the following:

- Legislative Franchise to Operate a Public Utility
- Certificate of Public Convenience and Necessity
- Letter of Authority
- Air Operator Certificate
- Certificate of Registration
- Certificate of Airworthiness

CEB also has to seek approval from the relevant airport authorities to secure airport slots for its operations.

#### Franchise

In 1991, pursuant to Republic Act No. 7151, CEB was granted a franchise to operate air transportation services, both domestic and international. In accordance with CEB's franchise, this extends up to year 2031:

- a) CEB is subject to franchise tax of five percent of the gross revenue derived from air transportation operations. For revenue earned from activities other than air transportation, CEB is subject to corporate income tax and to real property tax.
- b) In the event that any competing individual, partnership or corporation received and enjoyed tax privileges and other favorable terms which tended to place CEB at any disadvantage, then such privileges shall have been deemed by the fact itself of CEB's tax privileges and shall operate equally in favor of CEB.

In December 2008, pursuant to Republic Act No. 9517, CEBGO, Inc. (formerly TAP), CEB's wholly owned subsidiary, was granted a franchise to establish, operate and maintain domestic and international air transport services with Clark Field, Pampanga as its base. This franchise shall be for a term of twenty five (25) years.

#### ***Government Approval of Principal Products or Services***

CEB operates its business in highly regulated environment. The business depends upon the permits and licenses issued by the government authorities or agencies for its operations which include the following:

- Legislative Franchise to Operate a Public Utility
- Certificate of Public Convenience and Necessity
- Letter of Authority
- Air Operator Certificate
- Certificate of Registration
- Certificate of Airworthiness

CEB also has to seek approval from the relevant airport authorities to secure airport slots for its operations.

## ***Effects of Existing or Probable Government Regulations on the Business***

### Civil Aeronautics Administration and Civil Aviation Authority of the Philippines (CAAP)

Policy-making for the Philippine civil aviation industry started with RA 776, known as the Civil Aeronautics Act of the Philippines (the "Act"), passed in 1952. The Act established the policies and laws governing the economic and technical regulation of civil aeronautics in the country. It established the guidelines for the operation of two regulatory organizations, CAB for the regulation of the economic activities of airline industry participants and the Air Transportation Office, which was later transformed into the CAAP, created pursuant to RA 9497, otherwise known as the Civil Aviation Authority Act of 2008.

The CAB is authorized to regulate the economic aspects of air transportation, to issue general rules and regulations to carry out the provisions of RA 776, and to approve or disapprove the conditions of carriage or tariff which an airline desires to adopt. It has general supervision and regulation over air carriers, general sales agents, cargo sales agents, and airfreight forwarders, as well as their property, property rights, equipment, facilities and franchises.

The CAAP, a government agency under the supervision of the Department of Transportation and Communications (DOTC) for purposes of policy coordination, regulates the technical and operational aspects of air transportation in the Philippines, ensuring safe, economic and efficient air travel. In particular, it establishes the rules and regulations for the inspection and registrations of all aircraft and facilities owned and operated in the Philippines, determines the charges and/or rates pertinent to the operation of public air utility facilities and services, and coordinates with the relevant government agencies in relation to airport security. Moreover, CAAP is likewise tasked to operate and maintain domestic airports, air navigation and other similar facilities in compliance with the International Civil Aviation Organization (ICAO), the specialized agency of the United Nations whose mandate is to ensure the safe, efficient and orderly evolution of international civil aviation.

CEB complies with and adheres to existing government regulations.

### Aviation Safety Ranking and Regulations

In early January 2008, the Federal Aviation Administration (FAA) of the United States (US) downgraded the aviation safety ranking of the Philippines to Category 2 from the previous Category 1 rating. The FAA assesses the civil aviation authorities of all countries with air carriers that operate to the U.S. to determine whether or not foreign civil aviation authorities are meeting the safety standards set by the ICAO. The lower Category 2 rating means a country either lacks laws or regulations necessary to oversee airlines in accordance with minimum international standards, or its civil aviation authority is deficient in one or more areas, such as technical expertise, trained personnel, record-keeping or inspection procedures. Further, it means Philippine carriers can continue flying to the US but only under heightened FAA surveillance or limitations. In addition, the Philippines was included in the "Significant Safety Concerns" posting by the ICAO as a result of unaddressed safety concern highlighted in the recent ICAO audit. As a result of this unaddressed safety concern, Air Safety Committee (ASC) of the European Union banned all Philippine commercial air carriers from operating flights to and from Europe. The ASC based its decision on the absence of sufficient oversight by the CAAP.

In February 2013, the ICAO has lifted the significant safety concerns on the ability of CAAP to meet global aviation standards. The ICAO SSC Validation Committee reviewed the corrective actions, evidence and documents submitted by the Philippines to address the

concerns and determined that the corrective actions taken have successfully addressed and resolved the audit findings.

On April 10, 2014, the ASC of the European Union lifted its ban on CEB after its evaluation of the airline's capacity and commitment to comply with relevant aviation safety regulations. On the same date, the US FAA also announced that the Philippines has complied with international safety standards set by the ICAO and has been granted a Category 1 rating. The upgrade to Category 1 status is based on a March 2014 FAA review of the CAAP. With this, Philippine air carriers can now add flights and services to the US.

In September and December 2014, CEB received CAAP's approval for extended range operations in the form of a certification for Extended Diversion Time Operations (EDTO) of up to 90 and 120 minutes, respectively. EDTO refers to a set of rules introduced by the ICAO for airlines operating twin-engine aircraft on routes beyond 60 minutes flying time from the nearest airport. This certification allows CEB to serve new long haul markets and operate more direct routes between airports resulting to more fuel savings and reduced flight times.

These developments open the opportunity for CEB to establish new routes to other countries in the U.S. and Europe.

#### Executive Order (EO) 28 and 29

In March 2011, the Philippine Government issued EO 28 which provides for the reconstitution and reorganization of the existing Single Negotiating Panel into the Philippine Air Negotiating Panel (PANP) and Philippine Air Consultation Panel (PACP) (collectively, the Philippine Air Panels). The PANP shall be responsible for the initial negotiations leading to the conclusion of the relevant Air Services Agreements (ASAs) while the PACP shall be responsible for the succeeding negotiations of such ASAs or similar arrangements.

Also in March 2011, the government issued EO 29 which authorizes the CAB and the Philippine Air Panels to pursue more aggressively the international civil aviation liberalization policy to boost the country's competitiveness as a tourism destination and investment location. Among others, EO 29 provides the following:

- In the negotiation of the ASAs, the Philippine Air Panels may offer and promote third, fourth and fifth freedom rights to the country's airports other than the NAIA without restriction as to frequency, capacity and type of aircraft, and other arrangements that will serve the national interest as may be determined by the CAB; and
- Notwithstanding the provisions of the relevant ASAs, the CAB may grant any foreign air carriers increases in frequencies and/or capacities in the country's airports other than the NAIA, subject to conditions required by existing laws, rules and regulations. All grants of frequencies and/or capacities which shall be subject to the approval of the President shall operate as a waiver by the Philippines of the restrictions on frequencies and capacities under the relevant ASAs.

The issuance of the foregoing EOs may significantly increase competition.

#### ASEAN Open Skies Agreement

In February 2016, the Philippine government ratified the ASEAN Open Skies agreement which allows designated carriers of ASEAN countries to operate unlimited flights between capitals, leading to better connectivity and more competitive fares and services. Subject to regulatory approvals, this liberalized and equitable air services agreement further allows carriers to upgrade its ASEAN flights to wide-bodied aircraft and increase capacity without the need for air talks thus allowing airlines to focus on expanding its operations, stimulating

passenger traffic, and improving customer experience rather than spending valuable resources on negotiating for additional air rights.

#### Air Passenger Bill of Rights

The Air Passenger Bill of Rights (the "Bill"), which was formed under a joint administrative order of the DOTC, the CAB and the Department of Trade and Industry (DTI), was signed and published by the Government on December 11, 2012 and came into effect on December 21, 2012. The Bill sets the guidelines on several airline practices such as overbooking, rebooking, ticket refunds, cancellations, delayed flights, lost luggage and misleading advertisement on fares.

#### Republic Act No. 10378 - Common Carriers Tax (CCT) Act

Republic Act No. 10378, otherwise known as the Common Carriers Tax Act, was signed into law on March 7, 2013. This act recognizes the principle of reciprocity as basis for the grant of income tax exceptions to international carriers and rationalizes other taxes imposed thereon by amending sections 28(A)(3)(a), 109, 108 and 236 of the National Internal Revenue Code, as amended.

Among the relevant provisions of the act follows:

- a.) An international carrier doing business in the Philippines shall pay a tax of two and one-half percent (2 1/2%) on its Gross Philippine Billings, provided, that international carriers doing business in the Philippines may avail of a preferential rate or exemption from the tax herein imposed on their gross revenue derived from the carriage of persons and their excess baggage on the basis of an applicable tax treaty or international agreement to which the Philippines is a signatory or on the basis of reciprocity such that an international carrier, whose home country grants income tax exemption to Philippine carriers, shall likewise be exempt from the tax imposed under this provision;
- b.) International air carriers doing business in the Philippines on their gross receipts derived from transport of cargo from the Philippines to another country shall pay a tax of three percent (3% of their quarterly gross receipts; and
- c.) VAT exemption on the transport of passengers by international carriers.

While the removal of CCT takes away the primary constraint on foreign carrier's capacity growth and places the Philippines on an almost level playing field with that of other countries, this may still be a positive news for the industry as a whole, as it may drive tourism into the Philippines. With CEB's dominant network, it can benefit from the government's utmost support for tourism.

#### ***Research and Development***

CEB incurred minimal amounts for research and development activities, which do not amount to a significant percentage of revenues.

#### ***Costs and Effects of Compliance with Environmental Laws***

The operations of CEB are subject to various laws enacted for the protection of the environment. CEB has complied with the following applicable environmental laws and regulations:

- Presidential Decree No. 1586 (Establishing an Environmental Impact Assessment System) which directs every person, partnership or corporation to obtain an Environmental Compliance Certificate (ECC) before undertaking or operating a project declared as environmentally critical by the President of the Philippines. Petro-

chemical industries, including refineries and fuel depots, are considered environmentally critical projects for which an ECC is required. CEB has obtained ECC's for the fuel depots it operates and maintains for the storage and distribution of aviation fuel for its aircraft.

- RA 8749 (The Implementing Rules and Regulations of the Philippines Clean Air Act of 1999) requires operators of aviation fuel storage tanks, which are considered as a possible source of air pollution, to obtain a Permit to Operate from the applicable regional office of the Environmental Management Bureau (EMB). CEB's aviation fuel storage tanks are subject to and are compliant with this requirement.
- RA 9275 (Implementing Rules and Regulations of the Philippines Clean Water Act of 2004) requires owners or operators of facilities that discharge regulated effluents to secure from the Laguna Lake Development Authority (LLDA) (Luzon area) and/or the applicable regional office of the EMB (Visayas and Mindanao areas) a Discharge Permit, which is the legal authorization granted by the DENR for the discharge of waste water. CEB's operations generate waste water and effluents for the disposal of which a Discharge Permit was obtained from the LLDA and the EMB of Region 7 which enables it to discharge and dispose of liquid waste or water effluent generated in the course of its operations at specifically designated areas. CEB also contracted the services of government-licensed and accredited third parties to transport, handle and dispose its waste materials.

On an annual basis, CEB spends approximately ₱21,400 in connection with its compliance with applicable environmental laws. Compliance with the foregoing laws does not have a material effect to CEB's capital expenditures, earnings and competitive position.

#### **d) PETROCHEMICALS**

##### ***Business Development***

JG Summit Petrochemical Corporation (JGSPC) was incorporated in the Philippines on February 24, 1994 and is 100% owned by the Company.

Its primary purpose is to engage in, operate, conduct, maintain, manage and carry on the business of manufacturing, dealing and marketing of polyethylene and polypropylene and related petrochemical products or by-products, in all their forms, varieties and stages of production and preparation, or of any article or commodity consisting of, or partly consisting of petrochemicals. The plant is the Philippines' first integrated polyethylene (PE) and polypropylene (PP) complex and is located at Barangay Simlong, Batangas City.

JGSPC completed its capacity expansion and rehabilitation projects in March 2014, which increased its annual polymer production capacity to 320,000 megatons (MT) for PE and 190,000 MT for PP from its initial production capacity of 175,000 MT for PE and 180,000 MT for PP.

##### ***Principal Products or Services***

JGSPC manufactures PE and PP. JGSPC's principal product lines include High Density Polyethylene (HDPE) grades for film, blow molding, monofilament, pipe and injection molding applications. Linear Low Density Polyethylene (LLDPE) grades for film and injection molding applications and PP homopolymer grades for yarn, film, injection molding and thermoforming applications and random copolymer PP grades for blow molding and injection molding applications.

The percentage contribution to JGSPC's revenues for the three years ended December 31, 2017, 2016 and 2015 by each of its principal product categories is as follows:

|                    | For the years ended December 31 |        |        |
|--------------------|---------------------------------|--------|--------|
|                    | 2017                            | 2016   | 2015   |
| Polyethylene (PE)  | 60.7%                           | 64.3%  | 63.8%  |
| Polypropylene (PP) | 39.3%                           | 35.7%  | 36.2%  |
|                    | 100.0%                          | 100.0% | 100.0% |

JGSPC products are sold under the EVALENE brand name and are manufactured under strict compliance with a Quality Management System based on ISO 9002 certified standards.

***Distribution, Sales and Marketing***

JGSPC sells directly to small, medium and large plastic converters in the Philippines through its in-house sales group. Product distribution to the domestic market is handled directly by JGSPC in coordination with third party trucking services. JGSPC also sells PE and PP for export to international markets, either direct to resin end users or through reputable trading companies.

JGSPC was in technical shutdown from October 2012 to February 2014. The shutdown was in line with the full implementation of its Polymer Plant Capacity Expansion and Rehabilitation Projects. On November 1, 2014, JGSPC declared commercial production and completion of its Expansion and Rehabilitation projects.

***Competition***

To be highly competitive, JGSPC is committed to produce consistently good quality products using world-class technology and by employing highly competent plastics processing personnel. Continuous research and development is conducted in-house by the Product Innovations and Customer Solutions Department, with the assistance of polymer technology licensors Univation and WR Grace.

JGSPC is the largest polymer resins producer and the only local manufacturer that can produce both PE and PP in an integrated complex. The two other companies that produce polyolefins produce either PE or PP only. These are NPC Alliance Corporation (NPCAC), whose production capacity is 250,000 MT per annum for PE, and Philippine Polypropylene Inc. (PPI), whose production capacity is 160,000 MT per annum for PP. Manufacturing sites of both competitors are located in Bataan province, north of Manila. The balance for the local polyolefins demand is supplied by imported material brought in either directly by local plastic products manufacturers or by international and local traders. Imported PE and PP resin goods are currently JGSPC's primary competition.

JGSPC through its Marketing Department also is able to develop specialty PE and PP grades for specific niche markets, products for which may be difficult to source via the import market.

***Raw Materials/Suppliers***

The principal raw materials used by JGSPC in the production of its polyolefin products are polymer-grade propylene and ethylene, commonly known as olefins, which are mainly derived from naphtha produced in the oil refining process. Prior to the completion of JG Summit Olefins Corporation (JGSOC)'s Naphtha Cracker Plant, JGSPC purchased olefins from international sources through suppliers which include Japanese trading companies Marubeni and Mitsui & Co. Ltd.



Since November 2014, JGSOC now directly supplies JGSPC with previously imported raw materials ethylene and propylene. Per design, the olefins output capacity of JGSOC matches the feedstock volume requirements of JGSPC.

### **Customers**

JGSPC aims to supply the majority of manufacturers of plastic-based products in the Philippines. It also sells its products to internal parties which include the packaging division of URC, and to external parties comprised of more than 300 local manufacturers. Loss of any one customer would not have a materially adverse effect on JGSPC. JGSPC also exports PE and PP worldwide.

### **Related Party Transactions**

JGSPC, in its regular conduct of business, has engaged in transactions with the Company and its affiliates. These transactions principally consist of sales, advances to and from these affiliated companies.

### **Regulatory Overview**

The Philippine Government through the DTI's Board of Investments (BOI) implements policies which directly affect the various manufacturing industries including the petrochemical industry. Under the Philippine Investment Priorities Plan, the BOI has the power to grant fiscal incentives to manufacturers establishing new plants or undertaking rehabilitation or expansion programs. Through several dialogues held with the BOI, JGSPC has emphasized the importance of fully developing the petrochemical industry to help with the sustainable development of the Philippine economy. The BOI has granted JGSPC's capacity expansion project generous fiscal incentives such as income tax holiday (ITH) and duty-free importation of capital equipment, as well as tax credits on locally purchased equipment. JGSPC's ITH incentive on capacity expansion project ended on September 30, 2016.

### **Costs and Effects of Compliance with Environmental Laws**

JGSPC takes pride in consistently undertaking projects to help preserve the environment. The safety of employees and the community is foremost and is never compromised. JGSPC complies with all applicable laws on the environment and is committed to be environmentally responsible by having an effective environmental management system based on the requirements of ISO 14001:2004 (EMS). Compliance with such laws has not had, and in JGSPC's opinion, is not expected to have a material effect upon JGSPC's capital expenditures, earnings or competitive position.

## **e) OLEFINS**

### **Business Development**

JG Summit Olefins Corporation (JGSOC) was incorporated in the Philippines on April 22, 2008. JGSOC is wholly owned by the Company and is setup to operate the country's first Naphtha Cracker Plant.

The naphtha cracker is a back integration for the existing PE and PP plants of JGSPC. The cracking facility was constructed adjacent to the existing PE and PP plants of JGSPC. Commercial operations commenced on November 1, 2014.

### **Principal Products or Services**

The technology selected for the naphtha cracking facility of JGSOC is licensed by CB&I Lummus (formerly ABB Lummus Global), an experienced licensor and worldwide supplier of ethylene technology with around 40% of worldwide capacity currently licensed. The cracker is the first of its kind in the Philippines.

The plant has the capacity to produce on a per annum basis around 320,000 MT of ethylene, 190,000 MT of propylene, 216,000 MT of pyrolysis gas and 110,000 MT of mixed C4.

### **Customers**

JGSOC sells its primary products ethylene and propylene directly to JGSPC, while other products pyrolysis gasoline and mixed C4 are exported to international markets.

### **Raw Materials/Suppliers**

The feedstock naphtha is purchased from international sources. JGSOC also imported LPG in November 2015 which was used as cracker feedstock simultaneous with naphtha in November and December 2015 productions. Future importations of LPG and its use as cracker feedstock are performed when economically feasible.

### **Registration with the Board of Investments (BOI)**

JGSOC is registered with the BOI under the Omnibus Investments Code of 1987 (E.O. 226) on December 15, 2010 as a new producer of ethylene, propylene, pyrolysis gasoline and other by-products produced by the Naphtha Cracker Project on a Pioneer status. Under its certificate of registration, JGSOC shall be entitled to certain tax and nontax incentives such as: (a) ITH for six (6) years from actual start of commercial operations; only income generated from the registered activity shall be entitled to ITH incentives; additional deduction from taxable income of fifty percent (50%) of wages corresponding to the increment of direct labor; (c) employment of foreign nationals; (d) tax credit for taxes and duties on raw materials and supplies and semi-manufactured products used on its export products and forming part thereof, among others; (e) simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies; (f) access to Customs Bonded Manufacturing Warehouse (CBMW); (g) exemption from wharfage dues, export taxes, duties, imposts and fees on export products; and (h) importation of consigned equipment.

### **f) BANKING SERVICES**

Robinsons Bank Corporation (RBC / the Bank), a commercial bank, is the surviving entity between the merger of Robinsons Savings Bank and Robinsons Bank Corporation (formerly known as The Royal Bank of Scotland (Phils.)) as approved by the Bangko Sentral ng Pilipinas (BSP) in December 2010 and by the SEC in May 2011. 60% of the common stocks are owned by JG Capital Services Corporation (JGCSC), a wholly-owned subsidiary of JG Summit, while Robinsons Holdings Inc. (RRHI) owns the remaining 40%.

Robinsons Savings Bank started its operations in November 1997, and was a wholly-owned subsidiary of JGSCS at that time. In the second quarter of 2010, JGCSC and RRHI then jointly acquired 100% of the shares of The Royal Bank of Scotland (Phils.).

RBC continues to look for attractive mergers and acquisitions to fast track its goal to become a significant player in the banking industry in the next five years. In December 2012, RBC acquired Legazpi Savings Bank (LSB), making it a wholly owned subsidiary of the Bank. With this venture, RBC intends to utilize the capacity and branch network of LSB as its vehicle to engage in countryside banking and microfinance lending.

### **Principal Products or Services**

As of December 31, 2017, RBC (on a Parent/Solo basis) has a network of 134 branches; 66 of which are strategically located in Metro Manila and 68 others are situated in Luzon, Visayas and Mindanao. Moreover, 45 of its branches are located inside malls, mostly in Robinsons Malls, that are easily accessible and available 6 to 7 days a week. RBC also has

234 ATMs, which are part of the Bancnet consortium, all of which are within reach and available 24 hours a day, 7 days a week. RBC also has one Micro-Banking Office (MBO) situated in economic processing zone; while its subsidiary, LSB, has 12 branches in the Bicol Region and has 2 Micro-Banking Offices (MBOs) situated in Bicol Region and Calabarzon.

Having a proven track record in the banking industry and as JG Summit Group's major financial service arm, RBC continuously strives to carry on its vision of leading the country to global-competitiveness through quality and innovative banking products and services. It provides a broad range of traditional banking services such as savings, current and time deposits, treasury and trust products, and foreign currency-denominated deposits. It also offers commercial loans, consumer loans such as housing, car and personal loans, motorcycle loans, micro financing, and other products or services such as cash management, trade financing and remittance, among others. In 2017, the Bank unleashed the power of 2 Gives through Robinsons Bank DOS Mastercard. The DOS card is the first and only credit card in the market that automatically splits all transactions into two monthly installments at 0%. DOS card holders can now live life lighter. The card is 3D Secure, providing the card holders protection from fraud and scheme.

RBC aims to be among the top big banks in the country and continues to be a strategic player in the industry. RBC prides itself with a business portfolio of market leaders, a solid financial position, and a formidable management team which steers the Bank ahead of changing times and through the challenges that come along with it. Thus, RBC is positioned not only to be more responsive in meeting the banking requirements of its retail customers and business partners, but also to fully serve the general banking public.

#### ***Strong Investor Base***

RBC is part of the JG Summit Holdings conglomerate. It maintains good patronage of the concessionaires, contractors and suppliers of the JG Group of Companies; exhibiting strong deposit and loan acquisitions. The Bank being owned by JGSCS and RRHI, RBC is in the company of leading and established corporations in the country today.

#### ***Regulatory Overview***

The earnings of banks are affected not only by general economic conditions, but also by the policies of various governmental and regulatory authorities in the country and abroad. The establishment and operation of banking institution in the Philippines is governed by the General Banking Act. The BSP acting through the Monetary Board, exercises overall supervision of, and regulates the industry.

#### **g) CORE INVESTMENTS**

On March 29, 2011, the Company executed a sale and purchase agreement with PLDT under which PLDT has agreed to purchase all the rights, title and interest in the assets of Digitel. The acquisition was completed on October 26, 2011 following the issuance by the SEC of its confirmation of the valuation of the enterprise assets and the approval by National Telecommunications Commission of the transfer of 51.6% interest in Digitel. In November 2011, the Company subsequently sold 5.81 million and 4.56 million PLDT shares to an associate company of First Pacific Company Limited and NTT Docomo, Inc., respectively for approximately US\$600 million. The Company is represented in PLDT's board of directors with one board seat. The transaction triggered a mandatory tender offer for the acquisition of the remaining 48.5% of Digitel shares held by the public. PLDT launched a tender offer for such shares that ended January 16, 2012.

As of December 31, 2017, the Company has an 8.0% shareholding in PLDT, one of the largest and most diversified telecommunications provider in the Philippines, which provides a wide range of telecommunications services in the country through its extensive fibre optic backbone and wireless, fixed line, broadband and satellite networks. PLDT's business comprises three divisions: wireless, fixed line and BPO.

On December 11, 2013, the Company completed the purchase of a 27.1% stake in Manila Electric Company (Meralco) for ₱71.9 billion, which was funded by a combination of debt and equity capital. Meralco is the largest electricity distributor in the country, which provides electricity to over 5 million consumers in 34 cities and 77 municipalities. On June 14, 2017, the Company acquired additional 2.44% stake in Meralco for ₱6.9 billion, resulting in the increase in ownership interest in Meralco to 29.56%.

On June 30, 2016, the Company completed the purchase of a 30.0% stake in Global Business Power Corporation (GBPC) for ₱11.82 billion. GBPC is one of the leading independent power producers in the Visayas region and Mindoro island with a combined gross maximum capacity of 704 MW comprising 696.5 MW of power supplied to the Visayas grid and 7.5 MW of power supplied within Mindoro island.

#### **h) SUPPLEMENTARY BUSINESSES**

The Company has an interest in insurance brokering and securities investments and business process outsourcing.

#### ***Competition***

Many of the Group's activities are carried on in highly competitive industries. Given the Group's diversity, the Group competes with different companies domestically and internationally, depending on the product, service or geographic area. While the Group is one of the largest conglomerates in the Philippines, its subsidiaries compete in different sectors against a number of companies with greater manufacturing, financial, research and development and market resources than the Group.

The following table sets out the Group's principal competitors in each of the principal industry segments in which it operates:

| Industry Segment  | Principal Competitors   |
|---|---|
| Branded Consumer Foods, Agro-Industrial and Commodity Food Products | Liwayway Marketing Corporation, Monde M.Y. San Corporation, Columbia Foods International, Republic Biscuit Corporation, Suncrest Foods Inc., Del Monte Phil. Inc., Monde Nissin Corporation, Nestle Philippines Inc., San Miguel Pure Foods Company, Inc., Kraft Foods Inc., Procter & Gamble, Effem Foods/Mars Inc., Lotte Group, Perfetti Van Melle Group, Mayora Inda PT, , Apollo Food, Frito-Lay, Nestle S.A., PepsiCo, Inc., Cadbury Schweppes PLC, Kraft Foods International, San Miguel Corp. (B-Meg and Integra), UNAHCO (Sarimanok, Thunderbird and GMP), Aboitiz Inc. (Pilmico), Cargil Purina Phils. Inc., CJ and Sun Jun of Korea, New Hope of China, Pfizer, Inc., UNAHCO (Univet), Merial Limited, San Miguel Corp (Monterey), Foremost Farms Inc., Bounty Farms Inc., Brookdale Farms, and Heritage Vet Corp. |

| Industry Segment               | Principal Competitors  |
|--------------------------------|--|
| Real Estate and Hotels         | SM Prime Holdings, Inc., ALI, Ayala Land Premier Rockwell, Century Properties, Alveo Land, Megaworld, Filinvest, Ortigas & Co., Avida Land, SMDC, DMCI Homes, Vista Land, Red Planet, Fave Hotels of Indonesia, Tryp Hotels, Microtel by Wyndham, Park Inn by Radisson, Novotel, Seda Hotels by Ayala, Accor, Ascott Hotels, Mercure, Citadines, JoyNostalg by Accor, Marco Polo and Eton. |
| Air Transportation             | PAL, PAL Express, Philippines Air Asia for Domestic flights; AirAsia, Jetstar Airways, PAL, Cathay Pacific, Singapore Airlines and Thai Airways, among others for International flights  |
| Banking and Financial Services | Bank of Commerce, Philippine Bank of Communications, and Maybank Philippines Incorporated  |
| Petrochemicals                 | Imports  |

***Publicly-Announced New Product or Service***

Other than those discussed above under the air transportation segment, the Group has no publicly-announced new product or service as of the date of the report.

***Patents, Trademarks, Licenses, Franchises Concessions, Royalty Agreements***

The Group owns a substantial number of trademarks registered with the Intellectual Property Office of the Philippines (IPOPhil). Trademark registrations with the IPOPhil prior to the effective date of Republic Act No. 8293, or the current Intellectual Property Code of the Philippines, are valid for 20 years from the date of issue of the certificate of registration. Meanwhile, trademark registrations covered by Republic Act No. 8293 are valid for ten years from the date of the certificate of registration. Regardless of whether the trademark registration is for 20 years or ten years, the same may be renewed for subsequent ten-year terms.

The Group also has various licenses and franchises issued by the government to enable them to operate its diverse businesses including food, real estate, banking and financial services, telecommunications, air transportation and power generation.

***Effect of Existing or Probable Governmental Regulations on the Business***

The Company operates the majority of its businesses, including food, real estate, banking and financial services, telecommunications, air transportation and power generation activities, in a highly regulated environment. Many of these businesses depend upon licenses or franchises issued by the government authorities or agencies for their operations. These businesses would be materially adversely affected by the suspension or revocation of these licenses or franchises, which in turn may have a material adverse effect upon the Company. In addition, the introduction or inconsistent application of, or changes in regulations may from time to time materially affect the Company's operations.

***Cost and Effects of Compliance with Environmental Laws***

The operations of the Company are subject to various laws enacted for the protection of the environment. The Company believes that it has complied with all applicable Philippine environmental laws and regulations, an example of which is the installation of waste and industrial water treatments in its various facilities. Compliance with such laws has not had, and in the Company's opinion, is not expected to have, a material effect upon the Company's capital expenditures, earnings or competitive position.

### **Employees and Labor**

The number of full-time employees employed by the Company and its operating subsidiaries as of December 31, 2017 is shown in the following table:

| Company   | No. of<br>Employees |
|---|---------------------|
| Branded Consumer Foods, Agro-industrial, &<br>Commodity Food Products | 13,881              |
| Airlines  | 4,363               |
| Property Development and Hotel Management                             | 2,130               |
| Finance   | 1,629               |
| Petrochemicals  | 875                 |
| Supplementary Businesses  | 16                  |
|   | 22,894              |

The Company's management believes that good labor relations generally exist throughout the operating companies. For most of the operating companies, collective bargaining agreements exist between the relevant representative unions for the employees and the relevant operating companies. The collective bargaining agreements generally cover a five-year term with a right to renegotiate the economic terms of the agreement after three years, and contain provisions for annual salary increment, health and insurance benefits and closed-shop arrangements. The management believes that those collective bargaining agreements, which are soon to expire or which have expired, will, as a result of existing good labor relations, be successfully renewed or renegotiated.

### **Risks**

The major business risks facing the Group are as follows:

*a. Competition*

Many of the Group's activities are in highly competitive industries. The Group faces competition in all segments of its businesses both in the Philippine market and in international markets. The Group's ability to compete effectively will require continuous efforts in sales and marketing of our existing products, development of new products and cost rationalization. There can be no assurance that the Group's sales volume and market share will not be adversely affected by negative consumer reaction to higher prices as a result of price reduction or promotional sales undertaken by its competitors.

*b. Financial Market*

The Group has a foreign exchange exposure primarily associated with fluctuations in the value of the Philippine Peso against the U.S. dollar and other foreign currencies. The Group's revenues are predominantly denominated in Pesos, while certain expenses, including fixed debt obligations, are denominated in foreign currencies. Prudent fund management is employed to minimize effects of fluctuations in interest and currency rates.

*c. Raw Materials*

The Group's production operations are dependent in obtaining adequate supply of raw materials on a timely basis. In addition, its profitability depends in part on the prices of raw materials since a portion of the Group's raw material requirements is imported

including packaging materials. To mitigate these risks, alternative sources of raw materials are used in operations.

*d. Cost and Availability of Fuel*

The cost and availability of fuel are subject to many economic and political factors and events occurring throughout the world, the most important of which are not within the Group's control. Fuel prices have been subject to high volatility, fluctuating substantially over the past several years. Any increase in the cost of fuel or any decline in the availability of adequate supplies of fuel could have a material adverse effect on the Group's airline operations and profitability. The airline business implements various fuel management strategies to manage the risk of rising fuel prices including hedging.

*e. Key Executives*

The Company's key executives play an integral part in the latter's success. The experience, knowledge, business relationships and expertise of these executives could be difficult to replace and may result in a decrease in the Company's operating proficiency and financial performance should any of them decide to leave the Company.

*f. Philippine Regulations*

The Group operates a material part of its businesses in a highly regulated environment. Many of these businesses depend upon licenses and franchises issued by government authorities or agencies for their operation. These businesses would be materially adversely affected by the suspension or revocation of these licenses or franchises.

The Group is also subject to numerous environmental laws and regulations relating to the protection of the environment and human health and safety, among others. Many of these environmental laws and regulations are becoming increasingly stringent and compliance to such is becoming increasingly complex and costly.

**Working Capital**

The working capital requirement of each subsidiary varies depending on the industry it is engaged in and is financed by operations and short-term loans from banks.

**Item 2. Properties**

JG Summit and its Subsidiaries conduct businesses throughout the Philippines, but primarily in and around Metro Manila (where it is based) and in the regions of Visayas and Mindanao. Substantially, all facilities are owned by the Company and are in good condition.

URC operates manufacturing/farm facilities located in the following:

| Location (Number of facilities) | Type of Facility                                      | Owned/Rented | Condition |
|---------------------------------|---|--------------|-----------|
| Pasig City (5)                  | Branded consumer food plants, feedmills and flourmill | Owned        | Good      |
| Libis, Quezon City (1)          | Branded consumer food plant                           | Owned        | Good      |
| Cabuyao, Laguna (1)             | Branded consumer food plant                           | Owned        | Good      |
| Luisita, Tarlac (1)             | Branded consumer food plant                           | Owned/Rented | Good      |
| San Fernando, Pampanga (1)      | Branded consumer food plant                           | Owned/Rented | Good      |
| Dasmariñas, Cavite (2)          | Branded consumer food plants                          | Owned        | Good      |

| Location (Number of facilities)                            | Type of Facility                             | Owned/Rented | Condition |
|--|--|--------------|-----------|
| Cagayan de Oro (1)   | Branded consumer food plant                  | Owned        | Good      |
| San Pedro, Laguna (2)                                      | Branded consumer food plant                  | Owned        | Good      |
| Calamba, Laguna (1)  | Branded consumer food plant                  | Owned/Rented | Good      |
| San Pablo, Laguna (2)                                      | Branded consumer food plant                  | Owned        | Good      |
| Binan, Laguna (1)  | Branded consumer food plant                  | Owned        | Good      |
| Antipolo, Rizal (4)  | Poultry and piggery farms and slaughterhouse | Owned/Rented | Good      |
| Taytay, Rizal (1)  | Poultry farm                                 | Owned/Rented | Good      |
| Naic, Cavite (1)   | Poultry farm                                 | Owned        | Good      |
| San Miguel, Bulacan (2)                                    | Piggery and poultry farms                    | Owned        | Good      |
| Bustos, Bulacan (1)  | Piggery farm                                 | Owned/Rented | Good      |
| Pandi, Bulacan (1)   | Piggery farm                                 | Owned/Rented | Good      |
| Novaliches, Quezon City (1)                                | Piggery farm                                 | Owned        | Good      |
| Rosario, Batangas (1)                                      | Piggery farm                                 | Owned        | Good      |
| Magalang, Pampanga (1)                                     | Piggery farm                                 | Rented       | Good      |
| Davao City, Davao (1)                                      | Flourmill                                    | Owned        | Good      |
| Tabok City, Cebu (1)                                       | Branded consumer food plant                  | Owned        | Good      |
| San Fernando, Cebu (1)                                     | Branded consumer food plant                  | Owned        | Good      |
| Mandaue City, Cebu (1)                                     | Feedmill                                     | Owned        | Good      |
| Bais, Negros Oriental (1)                                  | Distillery plant                             | Owned        | Good      |
| Manjuyod, Negros Oriental (1)                              | Sugar mill                                   | Owned        | Good      |
| Piat, Cagayan (1)  | Sugar mill                                   | Owned        | Good      |
| Kabankalan, Negros Occidental (2)                          | Sugar mill and cogeneration plant            | Owned        | Good      |
| San Enrique, Iloilo City (1)                               | Sugar mill                                   | Owned        | Good      |
| Santa Catalina, Negros Oriental (1)                        | Sugar mill                                   | Owned        | Good      |
| Balayan, Batangas (1)                                      | Sugar mill                                   | Owned        | Good      |
| Simlong, Batangas (2)                                      | BOPP plant/flexible packaging                | Owned        | Good      |
| Samutsakhorn Industrial Estate, Samutsakhorn, Thailand (5) | Branded consumer food plants                 | Owned        | Good      |
| Pasir Gudang, Johor, Malaysia (1)                          | Branded consumer food plant                  | Owned        | Good      |
| Jiangsu, China (1)   | Branded consumer food plant                  | Owned        | Good      |
| Guangdong, China (1)                                       | Branded consumer food plant                  | Owned        | Good      |
| Industrial Town, Bekasi, Indonesia (1)                     | Branded consumer food plant                  | Owned        | Good      |
| VSIP, Binh Duong Province, Vietnam (3)                     | Branded consumer food plants                 | Owned        | Good      |
| Thach That District, Han Noi, Vietnam (1)                  | Branded consumer food plant                  | Owned        | Good      |
| Mingaladon, Yangon, Myanmar (1)                            | Branded consumer food plant                  | Owned        | Good      |
| Papakura, Auckland, New Zealand (1)                        | Branded consumer food plant                  | Owned        | Good      |
| Wiri, Auckland, New Zealand (1)                            | Branded consumer food plant                  | Owned        | Good      |
| Smithfield, Sydney, New South Wales, Australia (1)         | Branded consumer food plant                  | Rented       | Good      |
| Blacktown, Sydney, New South Wales, Australia (1)          | Branded consumer food plant                  | Rented       | Good      |

URC intends to continuously expand the production and distribution of the branded consumer food products internationally through the addition of manufacturing facilities located in geographically desirable areas, especially in the ASEAN countries, the realignment of the production to take advantage of markets that are more efficient for production and sourcing of raw materials, and increased focus and support for exports to other markets from the manufacturing facilities. It also intends to enter into alliances with local raw material suppliers and distributors.

Annual lease payments for rented properties amounted to ₱282 million in 2017. Lease contracts are renewable annually.



RLC has invested in a number of properties located across the Philippines for existing and future development projects. All of these properties are fully owned by RLC and none of which are subject of any mortgage, lien or any form of encumbrance. RLC also enters into joint venture arrangements with land owners in order to optimize their capital resources. Not only does this encourage raw land development for future projects but it also provides them with exclusive development and marketing rights.

The following are locations of RLC's properties:

a) Land

| Location            | Use   | Status          |
|---------------------|---|-----------------|
| <b>Metro Manila</b> |   |                 |
| Manila              | Mixed-use (mall/residential/hotel)                                  | No encumbrances |
| Quezon City         | Residential/Mixed-use (mall/residential/hotel/office)               | No encumbrances |
| Pasay City          | Residential   | No encumbrances |
| Mandaluyong City    | Mixed-use (mall/hotel/residential)                                  | No encumbrances |
| Makati City         | Office Building/Residential   | No encumbrances |
| Pasig City          | Residential/Mall/Office Building/Mixed-use (mall/hotel/residential) | No encumbrances |
| Parañaque City      | Residential   | No encumbrances |
| Muntinlupa City     | Residential   | No encumbrances |
| Las Piñas City      | Mall  | No encumbrances |
| Taguig City         | Residential   | No encumbrances |
| Malabon City        | Mall  | No encumbrances |
| Metro Manila area   | Land bank   | No encumbrances |
| <b>Luzon</b>        |   |                 |
| La Union            | Residential   | No encumbrances |
| Pangasinan          | Mall  | No encumbrances |
| Bulacan             | Mall  | No encumbrances |
| Nueva Ecija         | Mall  | No encumbrances |
| Pampanga            | Mall  | No encumbrances |
| Tarlac              | Mall/Office Building  | No encumbrances |
| Batangas            | Mall/Residential  | No encumbrances |
| Cavite              | Mall/Residential/Mixed-use (mall/hotel/residential)                 | No encumbrances |
| Laguna              | Mall  | No encumbrances |
| Palawan             | Mixed-use (mall/hotel/residential)                                  | No encumbrances |
| Rizal               | Residential/Mall  | No encumbrances |
| Isabela             | Mall  | No encumbrances |
| Ilocos              | Mixed-use (mall/office)   | No encumbrances |
| Camarines Sur       | Mall/Office Building  | No encumbrances |
| Luzon area          | Land bank   | No encumbrances |
| <b>Visayas</b>      |   |                 |
| Bacolod City        | Mall  | No encumbrances |
| Cebu                | Mixed-use (mall/hotel/residential/office)                           | No encumbrances |
| Negros Oriental     | Mixed-use (mall/hotel)  | No encumbrances |
| Leyte               | Mall/Hotel  | No encumbrances |
| Roxas City          | Mall  | No encumbrances |
| Visayas area        | Land bank   | No encumbrances |
| <b>Mindanao</b>     |   |                 |
| Agusan Del Norte    | Mall/Hotel  | No encumbrances |
| Cagayan De Oro City | Residential   | No encumbrances |
| Davao               | Mall/Hotel/Office Building  | No encumbrances |
| South Cotabato      | Mall/Residential  | No encumbrances |
| Lanao Del Norte     | Mall  | No encumbrances |
| Mindanao area       | Land bank   | No encumbrances |

b) Building and Improvements

| Location            | Use   | Status          |
|---------------------|---|-----------------|
| <b>Metro Manila</b> |   |                 |
| Manila              | Mixed-use (mall/hotel/residential)                                  | No encumbrances |
| Quezon City         | Residential/Mixed-use (mall/residential/hotel/office)               | No encumbrances |
| Pasay City          | Residential   | No encumbrances |
| Mandaluyong City    | Mixed-use (mall/hotel/residential)                                  | No encumbrances |
| Makati City         | Office Building/Residential   | No encumbrances |
| Pasig City          | Residential/Mall/Office Building/Mixed-use (mall/hotel/residential) | No encumbrances |
| Paranaque City      | Residential   | No encumbrances |
| Muntinlupa City     | Residential   | No encumbrances |
| Las Pinas City      | Mall  | No encumbrances |
| Taguig City         | Residential/Office Building   | No encumbrances |
| Malabon City        | Mall  | No encumbrances |
| <b>Luzon</b>        |   |                 |
| La Union            | Residential   | No encumbrances |
| Pangasinan          | Mall  | No encumbrances |
| Bulacan             | Mall  | No encumbrances |
| Nueva Ecija         | Mall  | No encumbrances |
| Pampanga            | Mall  | No encumbrances |
| Tarlac              | Mall/Office Building  | No encumbrances |
| Batangas            | Mall/Residential  | No encumbrances |
| Cavite              | Mall/Residential/Mixed-use (mall/hotel/residential)                 | No encumbrances |
| Laguna              | Mall  | No encumbrances |
| Palawan             | Mixed-use (mall/hotel/residential)                                  | No encumbrances |
| Rizal               | Residential/Mall  | No encumbrances |
| Isabela             | Mall  | No encumbrances |
| Ilocos              | Mixed-use (mall/office)   | No encumbrances |
| Camarines Sur       | Mall/Office Building  | No encumbrances |
| <b>Visayas</b>      |   |                 |
| Iloilo              | Mall/Mixed-use (mall/hotel)   | No encumbrances |
| Bacolod City        | Mall/Hotel  | No encumbrances |
| Cebu                | Mixed-use (mall/hotel/residential/office)                           | No encumbrances |
| Negros Oriental     | Mixed-use (mall/hotel)  | No encumbrances |
| Leyte               | Mall/Hotel  | No encumbrances |
| Roxas City          | Mall  | No encumbrances |
| <b>Mindanao</b>     |   |                 |
| Agusan Del Norte    | Mall/Hotel  | No encumbrances |
| Cagayan De Oro City | Mall/Residential  | No encumbrances |
| Davao               | Mall/Hotel/Office Building  | No encumbrances |
| South Cotabato      | Mall/Residential  | No encumbrances |
| Lanao Del Norte     | Mall  | No encumbrances |
| Mindanao Area       | Land bank   | No encumbrances |

RLC owns all the land properties upon which all of its existing commercial centers are located except for the following: (i) Robinsons Place Iloilo, (ii) Robinsons Cagayan De Oro, (iii) Robinsons Cainta, (iv) Robinsons Pulilan, (v) Robinsons Place Jaro, and (vi) Cyber Sigma. These six land properties are leased at prevailing market rates. The leases for the Iloilo and Cagayan de Oro properties are for 50 years each and commenced in October 2001 and December 2002, respectively. The leases for the Cainta, Pulilan and Cyber Sigma properties are for 25 years each and commenced in December 2003, January 2008 and August 2014, respectively. Renewal options for Cainta, Pulilan and Cyber Sigma are available to RLC with

an Option to Purchase the property and its improvements for Cyber Sigma. The lease for the Jaro, Iloilo property is for 30 years and commenced in March 2015.

CEB does not own any land. However, it owns an office building which serves as its corporate headquarters and training center located at the Domestic Road, Barangay 191, Zone 20, Pasay City. The land on which said office building stands is leased from the Manila International Airport Authority (MIAA). CEB also leases its hangar, aircraft parking and other operational space from MIAA.

JGSPC's PP and PE complex and JGSOC's naphtha cracker plant are both located in Barangay. Simlong, Batangas City.

### **Item 3. Legal Proceedings**

Certain consolidated subsidiaries are defendants to lawsuits or claims filed by third parties which have pending decisions by the courts or are under negotiation, the outcomes of which are not presently determinable. In the opinion of management, the eventual liability under these lawsuits or claims, if any, will not have a material effect on the Company's consolidated financial position. Refer to Note 43 of the Consolidated Financial Statements attached to this report for a detailed description.

### **Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the fourth quarter of the year covered by this report.

## **PART II - OPERATIONAL AND FINANCIAL INFORMATION**

### **Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

#### ***Principal Market or Markets where the Registrant's Common Equity is Traded***

The common stock of the Company is listed on the Philippine Stock Exchange. Sales prices of the common stock follow:

|                | <u>High</u> | <u>Low</u> |
|----------------|-------------|------------|
| <u>2017</u>    |             |            |
| First Quarter  | ₱82.90      | ₱69.95     |
| Second Quarter | 86.55       | 78.00      |
| Third Quarter  | 81.50       | 69.45      |
| Fourth Quarter | 79.00       | 66.55      |
| <u>2016</u>    |             |            |
| First Quarter  | ₱82.00      | ₱56.90     |
| Second Quarter | 95.00       | 77.80      |
| Third Quarter  | 86.90       | 72.40      |
| Fourth Quarter | 79.80       | 65.55      |

## 2015

|                |        |        |
|----------------|--------|--------|
| First Quarter  | ₱72.50 | ₱62.10 |
| Second Quarter | 74.85  | 65.00  |
| Third Quarter  | 74.00  | 64.95  |
| Fourth Quarter | 75.00  | 67.80  |

The stock price of the Company's shares as of April 2, 2018 is ₱64.80.

### ***Cash Dividends per Share***

On June 27, 2017, the Company declared a regular cash dividend of ₱0.23 per common share from the Unrestricted Retained Earnings as of December 31, 1997 and a special cash dividend of ₱0.05 per common share from the Unrestricted Retained Earnings as of March 31, 2017 to all stockholders of record as of July 17, 2017 and paid on August 10, 2017.

On June 9, 2016, the Company declared a regular cash dividend of ₱0.25 per common share from the Unrestricted Retained Earnings as of December 31, 1997 to all stockholders of record as of June 29, 2016 and paid on July 25, 2016.

On June 10, 2015, the Company declared a regular cash dividend of ₱0.22 per common share from the Unrestricted Retained Earnings as of December 31, 1997 to all stockholders of record as of June 25, 2015 and paid on July 21, 2015.

### ***Stock Dividends Declared***

No stock dividend was declared in 2017, 2016 and 2015.

### ***Restricted Retained Earnings***

The Parent Company's BOD approved the appropriation of retained earnings totaling ₱100.72 billion. The ₱100.72 billion total appropriations of the Parent Company's retained earnings are earmarked for the following: (a) additional capital infusion in investee companies; (b) support for the capital expenditure commitments; (c) settlement of various loan obligations including those guaranteed by the Parent Company; and (c) general corporate purposes.

### ***Recent Sales of Unregistered Securities***

Not Applicable. All shares of the Company are listed on the Philippine Stock Exchange.

The number of shareholders of record holding common shares as of December 31, 2017 was **1,033**. Total common shares outstanding as of December 31, 2017 were **7,162,841,657** common shares with a par value of ₱1.00.

**Top 20 stockholders as of December 31, 2017**

| <u>Name</u>   | <u>No. of<br/>Common<br/>Shares Held</u> | <u>% to Total<br/>Outstanding<br/>(Common)</u> |
|---|--|--|
| 1. Gokongwei Brothers Foundation, Inc               | 1,997,076,451                            | 27.88  |
| 2. PCD Nominee Corporation (Filipino).              | 1,573,053,374                            | 21.96  |
| 3. RSB-TIG No. 030-46-000001-9                      | 1,033,319,225                            | 14.43  |
| 4. PCD Nominee Corporation (Non-Filipino)           | 1,006,916,271                            | 14.06  |
| 5. Lance Yu Gokongwei                               | 306,324,720                              | 4.28   |
| 6. Ego Investments Holdings Limited                 | 267,568,000                              | 3.74   |
| 7. James L. Go                                      | 148,679,656                              | 2.08   |
| 8. Gosotto & Co., Inc.                              | 105,644,494                              | 1.47   |
| 9. Robina Yu Gokongwei                              | 105,314,722                              | 1.47   |
| 10. Lisa Yu Gokongwei                               | 82,930,000                               | 1.16   |
| 11. Robina G. Pe or Elizabeth Y. Gokongwei          | 74,145,277                               | 1.04   |
| 12. Faith Yu Gokongwei                              | 60,920,000                               | 0.85   |
| 12. Marcia Yu Gokongwei                             | 60,920,000                               | 0.85   |
| 13. Lisa Yu Gokongwei &/or Elizabeth Yu Gokongwei   | 54,200,000                               | 0.76   |
| 14. Faith Gokongwei &/or Elizabeth Yu Gokongwei     | 36,100,000                               | 0.50   |
| 14. Marcia Yu Gokongwei &/or Elizabeth Yu Gokongwei | 36,100,000                               | 0.50   |
| 14. Hope Gokongwei Tang &/or Elizabeth Yu Gokongwei | 36,100,000                               | 0.50   |
| 15. Nicris Development Corporation                  | 34,073,252                               | 0.48   |
| 16. Michael Seetekbeng                              | 13,400,327                               | 0.19   |
| 17. Emma G. See                                     | 11,552,125                               | 0.16   |
| 18. John Gokongwei, Jr.                             | 11,183,531                               | 0.16   |
| 19. Quality Investments & Securities Corp.          | 8,794,498                                | 0.12   |
| 20. Olympia T. Gotao                                | 8,767,730                                | 0.12   |
| Other stockholders                                  | 89,758,004                               | 1.25   |
|   | <u>7,162,841,657</u>                     | <u>100.00</u>                                  |

**Item 6. Management's Discussion and Analysis or Plan of Operation.**

The following discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and notes thereto as of and for the year ended December 31, 2017, 2016 and 2015, which form part of this Report. The consolidated financial statements and notes thereto have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS).

Management's Discussion of Results of Operations is presented in two parts: Consolidated Operations and Segment Operations.

## **RESULTS OF OPERATIONS**

### **2017 vs. 2016**

#### **I. Consolidated Operations**

JG Summit Holdings, Inc.'s consolidated net income from equity holders of the parent amounted to ₱29.37 billion in 2017, a 169% increase from ₱10.92 billion in 2016 due to the impairment losses recorded last year totaling ₱16.71 billion primarily from the decline in market value of the Group's investment in PLDT. The Group's consolidated core net income after taxes (excluding non-operating and nonrecurring items) amounted to ₱29.56 billion in 2017, relatively flat from ₱29.97 billion in 2016, mainly due to the lower net income of our airline business which was affected by the rise in fuel prices, offset by the double-digit income growth in our petrochemicals business and increase in our equity earnings from associates particularly from United Industrial Corporation Limited (UICL), Manila Electric Company (Meralco) and Global Business Power Corporation (GBPC). Consolidated EBITDA reached ₱70.67 billion in 2017 from ₱69.37 billion in 2016.

Consolidated revenues grew 13.7% from ₱240.50 billion in 2016 to ₱273.45 billion in 2017 due to the performance of the following core subsidiaries:

- URC's total revenues increased by 11.0% from ₱112.61 billion in 2016 to ₱125.01 billion in 2017 driven by the 30.1% increase in BCFG international sales and 33.6% sales growth of the sugar business.
- JG Petrochemicals Group revenues increased by 42.4% from ₱29.07 billion in 2016 to ₱41.41 billion in 2017 due to higher sales volume and average selling price of polymers and olefins.
- CEB's total revenues went up by 9.9% from ₱61.90 billion in 2016 to ₱68.03 billion in 2017 mainly due to 3.2% growth in passenger volume and 3.8% increase in average fares.
- RLC's total revenues slightly decreased from ₱22.75 billion in 2016 to ₱22.45 billion in 2017 due to lower real estate sales partially offset by the increase in rental revenues.
- The banking revenue increased 31.2% from ₱3.41 billion in 2016 to ₱4.48 billion this year due to increase in interest income recognized from finance receivables and trading gains.

Revenues from our core investments, however, declined this year as dividend income received by the Group dropped 28.5% from ₱2.03 billion last year to ₱1.45 billion this year mainly due to lower dividend income declared by PLDT from ₱106 per share in 2016 to ₱76 per share in 2017. Equity in net earnings of associates, primarily from our investments in UIC/Singapore Land and Meralco, increased by 21.2% from ₱8.18 billion in 2016 to ₱9.91 billion in 2017, including the ₱719.18 billion full-year equity earnings take-up from GBPC in 2017.

Consolidated cost of sales and services in 2017 increased by 19.1% from ₱144.09 billion last year to ₱171.55 billion this year driven by the rise in fuel prices affecting our airline business, and higher input costs of our food and petrochemicals businesses.

The Group's operating expenses increased by 13.6% from ₱44.14 billion last year to ₱50.16 billion this year due to higher selling, general and administrative expenses in the food

and airline business units. As a result, Operating Income or EBIT amounted to ₱51.73 billion in 2017 from ₱52.27 billion in 2016.

Market valuation gain on financial assets at FVPL amounted to ₱696.41 million in 2017 from a market valuation loss of ₱57.68 million in 2016 primarily due to the ₱628.50 million fair value gain recognized on the Group's investment in convertible notes of Sea Limited. Market valuation loss on derivative financial instruments amounted to ₱155.23 million in 2017, a significant swing of ₱1.89 billion from a market valuation gain of ₱1.73 billion in 2016. This is attributable mainly to the mark-to-market valuation losses on fuel hedging transactions of the airline business.

Market valuation loss on impaired available-for-sale investments recorded in 2016 pertains to the impairment loss recognized due to the significant drop in the market price of PLDT shares from an average acquisition cost of ₱2,331 per share to ₱1,365 per share as of end of 2016. As of end of 2017, PLDT's share price was ₱1,480, with the increase during the year recognized directly in equity under 'Net unrealized gains on AFS investments'.

The Group recognized a net foreign exchange loss of ₱902.72 million from ₱2.64 billion reported last year due to the combined effects of appreciation of URC international subsidiaries' local currencies against US dollar, particularly NZD, and lower depreciation of Philippine Peso against US Dollar this year compared to last year.

Other income (expense) - net account, which represents miscellaneous income and expenses, netted a gain of ₱241.87 million from last year's loss of ₱487.96 million mainly due to the loss on sale of CEB's aircraft last year.

## **II. Segment Operations**

**Foods** generated a consolidated sale of goods and services of ₱125.01 billion for the year ended December 31, 2016, an 11.0% growth over last year. Sale of goods and services performance by business segment follows: (1) URC's branded consumer foods (BCF) segment, excluding packaging division, increased 10.5%, to ₱101.82 billion in 2017 from ₱92.14 billion registered in 2016. BCF domestic operations' net sales slightly decline from ₱59.19 billion in 2016 to ₱58.95 billion in 2017 which was mainly driven by the lower volume and unfavorable mix in the coffee category that dragged down the sustained growth performance in snacks and recovery of RTD beverages. BCF international sales increased by 30.1% to ₱42.87 billion in 2017 against ₱32.95 billion in 2016. In constant U.S. dollar (US\$) term, sales improved by 21.2% to US\$851 million in 2017 against last year due to full year consolidation of SBA as well as growth from Thailand and Malaysia, partly offset by Vietnam's slower than expected recovery. Malaysia grew by 7.8% on the back of positive performances from snacks, wafer and chocolates while Thailand increased by 6.1% due to continuous growth with wafer and snack categories reaching their highest market shares to date. Vietnam's steady recovery was driven by renewed campaign of C2 brand plus growing snackfoods business. Sale of goods and services in URC's packaging division increased by 16.4% to ₱1.28 billion in 2017 from ₱1.10 billion recorded in 2016. (2) Agro-Industrial segment (AIG) amounted to ₱10.11 billion in 2017, a 9.9% increase from ₱9.20 billion recorded in 2016. Feeds business grew by 4.6% due to increase in sales volume while farms business increased by 16.4% due to higher volumes and average selling prices of value-added hogs. (3) Sale of goods and services in commodity foods segment amounted to ₱11.80 billion in 2017, up by 15.9% from ₱10.18 billion reported in 2016. Sugar and renewables businesses grew by 33.6% and 15.5%, respectively, on the account of higher volumes. On the other hand, flour business declined by 3.8% due to lower volume and average selling price.

URC's cost of sales consists primarily of raw and packaging materials costs, manufacturing costs and direct labor costs. Cost of sales increased by 12.2% to ₱85.69 billion in 2017 from ₱76.40 billion recorded in 2016 mainly coming from the effect of SBA full year consolidation.

URC's gross profit for 2017 amounted to ₱39.31 billion from ₱36.21 billion reported in 2016. Gross profit margin decreased by 70 basis points from 32.2% in 2016 to 31.5% in 2017. Selling and distribution costs, and general and administrative expenses rose by 19.1% to ₱24.36 billion in 2017 from ₱20.45 billion registered in 2016. This increase resulted primarily from the following factors: (a) 23.5% increase in compensation and benefits to ₱5.28 billion in 2017 from ₱4.28 billion in 2016 due to SBA full year consolidation, increase in headcount and annual salary adjustments; (b) 10.3% increase in advertising and promotion costs to ₱7.60 billion in 2017 from ₱6.89 billion in 2016 due to promotion programs with key accounts and wholesalers, and new product launches; (c) 49.4% increase in contracted services to ₱766 million in 2017 from ₱513 million in 2016 due to additional conso warehouses and increase in shared services charges. As a result, operating income (EBIT) decreased by 5.1% to ₱14.95 billion in 2017 from ₱15.76 billion in 2016.

URC's finance costs which consist mainly of interest expense increased by 54.0%, to ₱1.43 billion in 2017 from ₱927.12 million recorded in 2016 due to higher level of long-term debt, which was used to finance the acquisition of SBA.

URC's finance revenue consists of interest income from investments in financial instruments, money market placements, savings and dollar deposits and dividend income from investment in equity securities. Finance revenue increased to ₱225.58 million in 2017 from ₱182.34 million in 2015 due to higher level of financial assets during the year.

Equity in net losses of joint ventures amounted to ₱280.53 million in 2017 from ₱166.72 million in 2016 due to equity share in the net losses of newly created joint venture, Vitasoy-URC.

Net foreign exchange gain decreased to ₱154.19 million in 2017 from ₱1.31 billion reported in 2016 due to the combined effects of appreciation of international subsidiaries' local currencies against US dollar, particularly NZD, and depreciation of Philippine peso against US dollar.

Market valuation gain on financial instruments at fair value through profit or loss amounted to ₱71.02 million in 2017 from ₱107.38 million in 2016 due to unfavorable fair value changes of derivative instruments, partially offset by the increase in market values of equity investments.

Impairment losses decreased to ₱21.42 million in 2017 from ₱185.59 million in 2016 due to last year's higher inventory write-offs resulting from issues encountered in Vietnam.

Other income (expenses) - net consists of gain (loss) on sale of fixed assets, amortization of bond issue costs, rental income, and miscellaneous income and expenses. Other income - net increased to ₱276.74 million in 2017 from ₱220.63 million in 2016 due to higher gain on sale of fixed assets.

URC recognized provision for income tax of ₱2.80 billion in 2017, a 13.0% decrease from ₱3.22 billion in 2016 due to lower taxable income and utilization of deferred tax assets on realized foreign exchanges losses and tax credits.

URC's core earnings before tax (operating profit after equity earnings, net finance costs and other expenses - net) for 2017 amounted to ₱13.66 billion, a decline of 9.6% from ₱14.94 billion recorded in 2016.



Net income attributable to equity holders of the parent decreased by 13.1% to ₱10.89 billion in 2017 from ₱12.87 billion in 2016 as a result of the factors discussed above.

URC reported an EBITDA (operating income plus depreciation and amortization) of ₱21.06 billion for 2017, 1.6% lower than the ₱21.40 billion posted in 2016.

**Real estate and hotels** generated total gross revenues of ₱22.45 billion in 2017, a slight decrease of 1.3% from ₱22.75 billion in 2016. EBIT grew 3.4% to ₱8.56 billion while EBITDA posted a 3.5% growth to ₱12.48 billion. Net income attributable to equity holders of the parent stood at ₱5.88 billion, up by 2.3% compared to last year.

The Commercial Centers Division accounted for ₱10.79 billion of the real estate revenues for the year versus ₱10.14 billion last year or a 6.4% increase. Rental revenues increased due to opening of new malls in Iligan, Naga and North Tacloban and expansion of Robinsons Place Antique and Robinsons Butuan this year. Also, the full year impact of Robinsons Place General Trias, Robinsons Place Tagum, Robinsons Place Jaro and the expansion of Robinsons Ilocos Norte last year, contributed to the growth, despite renovation of Robinsons Galleria, one of our largest revenue contributors. Cinema revenues increased due to more blockbuster films released this year than last year and the operation of new cinemas in new malls. The Division's EBIT and EBITDA grew by 3.3% and 3.4%, respectively.

Revenues of Office Buildings Division grew by 8.8% to ₱3.27 billion from ₱3.00 billion over the same period last year. Revenue growth was mainly attributable to sustained occupancy rates, and escalation of rents in existing offices and contribution from the new offices namely Cyber Sigma, Galleria Cebu Office, Robinsons Lusitania Office and Cybergate Delta. The Division's EBIT and EBITDA showed positive variances of 10.3% and 7.9%, respectively.

The Residential Division realized revenues is at ₱6.57 billion this year, a decrease of 16.5% from last year, due to lower level of buyers meeting the equity requirement in recognizing sales based on percentage of construction completion. Both EBIT and EBITDA decreased by 5.4% and 3.8%, respectively.

The Hotels Division, a major contributor to the RLC's recurring revenues, registered gross revenues of ₱1.89 billion as against last year's ₱1.81 billion. The 4.8% increase in hotel revenues principally came from the new hotels Go Hotels Davao and Summit Galleria Cebu. The hotel average occupancy rate is 66% in 2017. Hotels Division EBIT and EBITDA grew by 9.0% and 7.5%, respectively.

Interest income increased to ₱36.81 million from ₱19.34 million last year due to higher average balance of cash and cash equivalents in 2017.

Real estate costs went down by 4.5% to ₱9.28 billion from ₱9.72 billion last year. The lower level of realized sales of residential units brought cost of real estate sales to decrease by ₱1.01 billion or 24.3%. Furthermore, cinema expense rose by 9.3% to ₱820.82 million as a result of increase in cinema revenues.

Gain from insurance is lower this year by 86% to ₱28.40 million from ₱208.71 million last year, which basically included insurance proceeds from Typhoon Yolanda. Finance charge amounting to ₱146.97 million in 2016 pertain to pre-termination of loans. Gain or loss from foreign exchange mainly pertains to foreign currency denominated transactions of RLC's foreign subsidiary.

**Air transportation** generated gross revenues of ₱68.03 billion for the year ended December 31, 2016, 9.9% higher than the ₱61.90 billion revenues earned last year mainly attributed to the increase in passenger revenues by 7.2% to ₱49.93 billion for the year ended December 31, 2017 from ₱46.59 billion registered in 2016. This increase was primarily due to the 3.2% growth in passenger volume to 19.7 million from last year's 19.1 million resulted from the increase in CEB's fleet from 57 aircraft as of December 31, 2016 to 61 aircraft as of December 31, 2017. The increase in average fares by 3.8% to ₱2,529 in 2016 from ₱2,436 in 2016 also contributed to the increase in revenues. Cargo revenues grew 29.2% to ₱4.60 billion for the year ended December 31, 2017 from ₱3.56 billion in the same period last year following the increase in the cargo volume and yield in 2017. Ancillary revenues went up by 14.9% to ₱13.49 billion for the year ended December 31, 2017 from ₱11.74 billion posted last year consequent to the 3.2% increase in passenger traffic and 11.3% increase in ancillary revenue per passenger. This was driven by improved online bookings, pricing adjustments and introduction of new ancillary revenue products and services.

Operating expenses for the year ended December 31, 2017 increased by 16.6% to ₱57.90 billion from ₱49.65 billion last year primarily due to the rise in fuel prices in 2017 coupled with the weakening of the Philippine peso against the U.S. dollar. The average published fuel MOPS price increased from U.S. \$65.31 per barrel for the year ended December 31, 2017 from U.S. \$52.83 per barrel in 2016. The growth in the airline's seat capacity from the acquisition of new aircraft also contributed to the increase in expenses. As a result, CEB finished with an operating income (EBIT) of ₱10.13 billion in 2017, 17.3% lower than the ₱12.25 billion earned in 2016. EBITDAR amounted to ₱22.82 billion from ₱23.62 billion last year.

CEB recognized higher interest income by 60.9% from ₱113.67 million last year to ₱182.95 million this year due to the increase in the balance of cash in bank and short-term placements year on year and higher interest rates in short term placements.

CEB incurred a hedging loss of ₱132.57 million for the year ended December 31, 2017, a decrease of ₱1.72 billion from a hedging gain of ₱1.59 billion incurred last year as a result of lower mark-to-market valuation on fuel hedging positions in 2017. Net foreign exchange losses of ₱797.98 million for the year ended December 31, 2017 resulted from the weakening of the Philippine Peso against the U.S. dollar. CEB's major exposure to foreign exchange rate fluctuations is in respect to U.S. dollar denominated long-term debt incurred in connection with aircraft acquisitions.

Equity in net income of joint venture amounted to ₱140.33 million for the year ended December 31, 2017 attributable to the net income from current operations earned by the joint ventures in 2017.

Interest expense increased by 21.5% to ₱1.42 billion for the year ended December 31, 2017 from ₱1.17 billion in 2016 due to the additional loans availed to finance the acquisition of additional aircraft delivered in 2017.

In 2017, CEB sold and delivered three Airbus A319 aircraft to a subsidiary of Allegiant Travel Company (Allegiant) and entered into lease amendment agreements which transferred economic ownership of six Airbus A320 aircraft to the counterparty which resulted to a gain of ₱102.57 million. In 2016, CEB sold and delivered four Airbus A319 aircraft to Allegiant which resulted to a loss of ₱962.61 million.

As a result of the foregoing, net income for the year ended December 31, 2017 decreased by 18.9% to ₱7.91 billion from ₱9.75 billion last year.

**Petrochemicals** (consist of JGSPC and JGSOC) combined gross revenues reached ₱41.41 billion in 2017, 42.4% increase from last year's ₱29.07 billion due to higher sales volume from 1.15 million MT in 2016 to 1.39 million MT in 2017. Costs and expenses also increased by 49.4% from ₱24.15 billion in 2016 to ₱36.08 billion in 2017 due to higher naphtha cost. Interest expense decreased by 20.0% to ₱109.51 million in 2017 from ₱136.90 million in 2016 due to lower level of trust receipts and short-term notes payable. A net foreign exchange gain of ₱61.90 million was also recognized in 2017 from last year's net foreign exchange loss of ₱272.38 million. All these factors contributed to the net income of ₱5.99 billion in 2017 from ₱5.13 billion in 2016, or an improvement of 16.9%.

**Banking Services**, generated banking revenue of ₱4.48 billion in 2017, a 31.2% increase from last year's ₱3.41 billion brought about by higher interest income and trading gains for the year. Cost and expenses also increased by 32.1% as the bank continued its expansion, including higher provision for impairment losses on receivables from ₱138.97 million in 2016 to ₱217.13 million in 2017. As a result, net income for the year ended December 31, 2017 amounted to ₱307.39 million, a 19.8% increase from last year's ₱256.65 million.

**Equity in net earnings of associate companies and joint ventures** amounted to ₱9.91 billion for the year ended December 31, 2017, a 21.2% increase from last year's ₱8.18 billion primarily attributable to the (a) 34.5% increase in equity earnings from UIC from ₱2.79 billion last year to ₱3.75 billion this year, (b) 12.5% increase in equity income from Meralco from ₱4.98 billion in 2016 to ₱5.60 billion in 2017 and (c) the full-year equity earnings take-up from GBP amounting to ₱719.18 million this year from ₱356.43 million last year since its acquisition in June 2016. **United Industrial Corporation, Limited** recorded a 22.7% growth in its net income from operations from S\$249.42 million in 2016 to S\$305.98 million in 2017 due to higher revenue recognition from trading properties mainly contributed by the higher sales in Alex Residences and Pollen & Bleu. Since the Group's policy for the valuation of property, plant and equipment is the cost basis method, the equity income taken up by the Group represents the adjusted amounts after reversal of the effect in the income statement of the revaluation of the said assets.

## **2016 vs. 2015**

### **I. Consolidated Operations**

JG Summit Holdings, Inc. posted a 6.9% increase in our consolidated core net income (excluding non-operating and nonrecurring items), earning a total of ₱29.97 billion in 2016 compared to ₱28.05 billion in 2015. The increase in core net income is due to the double-digit income growth in our airline and petrochemicals businesses, offset by the income decline in our branded consumer foods business and dividends received during the year. The Group's consolidated net income from equity holders of the parent amounted to ₱10.92 billion in 2016 from ₱22.61 billion last year mainly due to the recording of impairment losses totaling ₱16.71 billion primarily from the decline in market value of the Group's investment in PLDT where the Group has 8.0% stake. In accordance with the current Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*, if a decline in fair value of an AFS equity investment is significant or prolonged, the impairment is recognized one-time in net income rather than in equity. However, in 2018, upon effectivity of International Financial Reporting Standard (IFRS) 9, which will replace PAS 39, the Group's consolidated net income for the year ended 2016 will be restated with the market valuation losses on PLDT investment charged directly back to equity. Excluding

the effect of the said impairment loss, the Group's consolidated net income from equity holders of the parent amounted to ₱27.63 billion in 2016, a 22.2% increase from ₱22.61 billion last year. Consolidated EBITDA reached ₱69.27 billion in 2016 from ₱63.79 billion in 2015.

Consolidated revenues grew 4.9% from ₱229.27 billion in 2015 to ₱240.50 billion in 2016 due to the performance of the following core subsidiaries:

- CEB's total revenues went up by 9.6% from ₱56.50 billion in 2015 to ₱61.90 billion in 2016 mainly due to 4.1% growth in passenger volume and 4.9% increase in average fares.
- JG Petrochemicals Group revenues increased by 8.6% from ₱26.78 billion in 2015 to ₱29.07 billion in 2016 due to higher sales volume.
- RLC's total revenues also increased by 12.1% from ₱20.30 billion in 2015 to ₱22.75 billion in 2016 due to higher rental income and real estate sales.
- URC's total revenues slightly increased from ₱112.00 billion in 2015 to ₱112.61 billion in 2016 due to the revenue growth in the sugar, feeds and renewables businesses, offset by the decline in sales of branded consumer foods group.
- The banking revenue increased 14.9% from ₱2.97 billion in 2015 to ₱3.41 billion this year due to increase in interest income recognized from finance receivables and trading gains.

Revenues from our core investments, however, declined this year as dividend income received by the Group dropped 28.7% from ₱2.85 billion last year to ₱2.03 billion this year mainly due to lower dividend income declared by PLDT from ₱152 per share in 2015 to ₱106 per share in 2016. Equity in net earnings of associates, primarily from investments in UIC and Meralco, increased from ₱7.31 billion in 2015 to ₱8.18 billion in 2016. On June 28, 2016, the Parent Company purchased 30% stake in Global Business Power Corporation (GBPC) so a corresponding equity earnings take-up was recorded for the six months ended December 31, 2016.

The Group's operating expenses increased by 13.0% from ₱39.06 billion last year to ₱44.14 billion this year due to higher selling, general and administrative expenses in the food and airline business units. As a result, Operating Income or EBIT went up 6.0% from ₱49.35 billion in 2015 to ₱52.27 billion in 2016.

The Group's net interest carry (interest expense less interest income) increased by 14.3% to ₱6.30 billion this year from last year's ₱5.51 billion due to higher level of short-term and long-term borrowings.

Market valuation loss on financial assets at FVPL amounted to ₱57.68 million in 2016 from ₱336.99 million in 2015 due to lower decline in market values of equity investments. Market valuation gains on derivative financial instruments this year, primarily from CEB, amounted to ₱1.73 billion from last year's ₱2.35 billion loss due to the improvement of forward prices of fuel for 2016 and 2017, as compared to forward fuel prices as of end of 2015.

Market valuation loss on impaired available-for-sale investments pertains to the impairment loss recognized due to the significant drop in the market price of PLDT shares from an average acquisition cost of ₱2,331 per share to ₱1,365 per share as of end of 2016.

The Group recognized a net foreign exchange loss of ₱2.64 billion from ₱4.14 billion reported last year mainly due to the combined effects of appreciation of URC international subsidiaries' local currencies against US dollar, particularly IDR and NZD, and depreciation of Philippine Peso against US Dollar.

Other income (expense) - net account, which represents miscellaneous income and expenses, netted a loss of ₱487.96 million from last year's gain of ₱151.22 million mainly due to the loss on sale of CEB's aircraft during the year.

Provision for income tax increased by 21.1% to ₱5.44 billion in 2016 from ₱4.49 billion in 2015 mainly due to higher deferred tax liability, net of lower taxable income, of the food business.

## **II. Segment Operations**

**Foods** generated a consolidated sale of goods and services of ₱112.61 billion for the year ended December 31, 2016, a slight growth over last year. Sale of goods and services performance by business segment follows: (1) URC's branded consumer foods (BCF) segment, excluding packaging division, decreased 0.9%, to ₱92.14 billion in 2016 from ₱92.96 billion registered in 2015. BCF domestic operations posted a 1.2% increase in net sales from ₱58.46 billion in 2015 to ₱59.19 billion in 2016 which was mainly driven by RTD beverages with double-digit growths. Sales were muted in 2016 as an aftermath of the hiccups in its supply chain operations. In addition, major categories like coffee experienced intense price war and aggressive marketing from its key competitors while the snack foods category was flattish due to the aggressive low-priced players affecting corn chips and pelletized snacks. BCF international sales decreased by 4.5% to ₱32.95 billion in 2016 against ₱34.50 billion in 2015. In constant U.S. dollar (US\$) term, sales declined by 6.7% to US\$694 million in 2016 against last year due to regulatory issues encountered in Vietnam despite the growth from Indonesia, Thailand and Malaysia and sales contribution from Australia. Indonesia was up by 23.1% driven by the growth in modern trade and sustained sales momentum from favorable results in all categories. Malaysia grew by 7.7% on the back of positive performances from chocolates and wafers while Thailand increased by 7.6% as consumer confidence has started to recover in the country. Total Griffins results were also weaker than expected given the drag of the Australia business due to loss in private label contracts. Sale of goods and services in URC's packaging division went down by 4.7% to ₱1.10 billion in 2016 from ₱1.15 billion recorded in 2015 due to lower sales volume. (2) Agro-Industrial segment (AIG) amounted to ₱9.20 billion in 2016, a 2.6% increase from ₱8.97 billion recorded in 2015. Feeds business grew by 16.4% due to increase in sales volume as a result of aggressive sales and marketing strategies while farms business declined by 10.6% due to lower average selling price of live hogs. (3) Sale of goods and services in commodity foods segment amounted to ₱10.18 billion in 2016, up by 14.0% from ₱8.93 billion reported in 2015. Sugar business grew by 37.5% due to incremental sales from the recently acquired Balayan sugar mill and higher prices of raw and refined sugar while renewables increased by 17.7%. Flour business declined by 5.6% despite higher volume due to lower average selling price.

URC's cost of sales consists primarily of raw and packaging materials costs, manufacturing costs and direct labor costs. Cost of sales increased by 1.5% to ₱76.40 billion in 2016 from ₱75.29 billion recorded in 2015 due to increase in sales volume.

URC's gross profit for 2016 amounted to ₱36.21 billion from ₱36.72 billion reported in 2015. Gross profit margin decreased by 63 basis points from 32.8% in 2015 to 32.2% in 2016. Selling and distribution costs, and general and administrative expenses rose by 9.8% to ₱20.45 billion in 2016 from ₱18.62 billion registered in 2015. This increase resulted primarily

from the following factors: (a) 6.5% increase in compensation and benefits to ₱4.28 billion in 2016 from ₱4.01 billion in 2015 due to increase in headcount and annual salary adjustments; (b) 7.1% increase in advertising and promotion costs to ₱6.89 billion in 2016 from ₱6.43 billion in 2015 due to promotion programs with key accounts and wholesalers, and new product launches; (c) 12.0% increase in freight and delivery charges to ₱5.49 billion in 2016 from ₱4.90 billion in 2015 due to increase in trucking and shipping costs as a result of increased volume; (d) 33.0% increase in rent expense to ₱811.89 million in 2016 from ₱610.43 million in 2015 as a result of business expansion and acquisitions; and (e) 52.3% increase in depreciation expense to ₱572.23 million in 2016 from ₱375.78 million in 2015 as a result of business expansion and acquisitions.

Market valuation gain on financial instruments at fair value through profit or loss amounted to ₱107.38 million in 2016 from ₱541.83 million in 2015 due to fair value changes of derivative instruments and lower decline in market values of equity investments.

URC's finance revenue consists of interest income from investments in financial instruments, money market placements, savings and dollar deposits and dividend income from investment in equity securities. Finance revenue decreased to ₱182.34 million in 2016 from ₱286.81 million in 2015 due to decline in level of financial assets.

URC's finance costs which consist mainly of interest expense decreased by 31.5%, to ₱927.12 million in 2016 from ₱1.35 billion recorded in 2015 due to lower level of financial debt resulting from prepayment of a long-term debt.

Net foreign exchange gain amounted to ₱1.31 billion in 2016 from ₱44.74 million reported in 2015 due to the combined effects of appreciation of international subsidiaries' local currencies against US dollar, particularly IDR and NZD, and depreciation of Philippine peso against US dollar.

Impairment losses increased to ₱185.07 million in 2016 from ₱109.50 million in 2015 due to higher inventory write-offs resulting from issues encountered in Vietnam.

Equity in net losses of joint ventures amounted to ₱166.72 million in 2016 from ₱248.43 million in 2015 due to lower losses of Danone Universal Robina Beverages, Inc. (DURBI).

Other income (expenses) - net consists of gain (loss) on sale of fixed assets, amortization of bond issue costs, rental income, and miscellaneous income and expenses. Other income - net decreased to ₱220.10 million in 2016 from ₱287.32 million in 2015 due to higher insurance claims and gain from scrap sales last year.

URC recognized provision for income tax of ₱3.22 billion in 2016, a 9.5% decrease from ₱3.55 billion in 2015 due to lower taxable income.

URC's core earnings before tax (operating profit after equity earnings, net finance costs and other expenses - net) for 2016 amounted to ₱14.94 billion, a decline of 12.5% from ₱17.08 billion recorded in 2015.

Net income attributable to equity holders of the parent decreased by 7.1% to ₱12.87 billion in 2016 from ₱13.86 billion in 2015 as a result of the factors discussed above.

URC reported an EBITDA (operating income plus depreciation and amortization) of ₱21.40 billion for 2016, 7.2% lower than ₱23.06 billion posted in 2015.

**Real estate and hotels** exhibited a strong top-line performance of 12.1% to ₱22.75 billion for the year ended December 31, 2016 from ₱20.30 billion same period last year.

The Commercial Centers Division generated 45% of total RLC's revenues in 2016 amounting to ₱10.14 billion. Its revenue growth of 8.0% from ₱9.39 billion in the preceding year was attributed to the same mall rental revenue growth of approximately 6%; full-year contribution of lifestyle centers opened in 2015, and lease revenues from the three new malls and two mall expansions in 2016; tempered by the flattish growth in amusement revenues by 2.2% due to less blockbuster films released during the period despite of additional cinemas opened during the year. The lifestyle centers completed in 2016 are Robinsons Place Tagum in Davao, Robinsons General Trias in Cavite and Robinsons Place Jaro in Iloilo, while Robinsons Place Ilocos and Robinsons Place Tacloban were expanded, which together added approximately 11% or 167,000 sqm of retail space.

The Office Buildings Division posted the fastest revenue trajectory among all business segments by 23.6% to ₱3.00 billion from ₱2.43 billion over the same period last year. This was mainly due to escalation of rents and full-year contribution of Cyberscape Alpha, Cyberscape Beta and Tera Tower. The division's share of the total RLC revenues expanded to 13%. In 2016, two new office developments were completed within RLC's mixed-use properties, Robinsons Place Ilocos and Galleria Cebu Complex, boosting total net leasable area to 325,000sqm, while achieving virtually full occupancy in existing offices. RLC remains to be one of the leading office space providers in the country.

The Hotels and Resorts Division yielded 8% of total RLC revenues in 2016 at ₱1.81 billion from ₱1.80 billion in 2015. Revenue growth was flat mainly as a result of lower than expected occupancy rates of international branded hotels, Crowne Plaza and Holiday Inn, due to accounts affected by the traffic condition in the area, compensated by the growth of Summit Hotel and Go Hotels brands. The chain-wide occupancy rate across all of 15 hotel properties under the multi-branded hotel portfolio stood at 68% in 2016. In addition, Roxaco-Vanguard Hotels Corporation, a franchisee of Go Hotels, officially opened in September 2016 the Go Hotels Manila Airport Road, the first of five Go Hotels slated to open in Metro Manila under the franchise.

Realized revenues from the Residential Division surged by 17.1% year on year to ₱7.84 billion as higher level full equity sales were recognized in 2016 compared to 2015 accompanied by improvement in completion.

Other real estate costs and expenses and general and administrative expenses grew at a slower pace than revenues by 10.9% to ₱6.60 billion from ₱5.95 billion last year. The opening of new malls, offices and hotels in 2016 resulted to higher salaries and wages. Sales commissions and allowances increased as more projects were turned over in 2016; while advertising and promotions expense grew mainly due to new project launches.

EBITDA which was up by 8.5% to ₱12.05 billion grew faster than EBIT which jumped by 4.7% to ₱8.28 billion, mainly due to higher depreciation expense. Depreciation expense increased by 17.8% to ₱3.77 billion in 2016 from ₱3.20 billion last year due to the completion of new large format malls, several new offices and hotels.

RLC's investment portfolio consisting of the malls, offices and hotels business accounted for 85% of total EBITDA; while the balance of 15% came from development portfolio composed of four residential brands.

Interest expense amounting to ₱796.14 million arising from higher level of borrowings, and finance charges of ₱147.97 million arising from prepayment of long-term loans to avail of interest cost savings were tempered by an extraordinary gain amounting to ₱208.71 million from insurance claims on business interruption from previous events. As a result, the Net Income Attributable to Equity Holders ended at ₱5.75 billion in 2016 from ₱5.95 billion same period last year.

**Air transportation** generated gross revenues of ₱61.90 billion for the year ended December 31, 2016, 9.6% higher than the ₱56.50 billion revenues earned last year mainly attributed to the increase in passenger revenues by 9.2% to ₱46.59 billion for the year ended December 31, 2016 from ₱42.68 billion registered in 2015. This increase was primarily due to the 4.1% growth in passenger volume to 19.1 million from last year's 18.4 million resulted from the increase in CEB's fleet from 55 aircraft as of December 31, 2015 to 57 aircraft as of December 31, 2016 and the overall improvement in seat load factor from 82.6% to 86.0%. The increase in average fares by 4.9% to ₱2,436 in 2016 from ₱2,323 in 2015 also contributed to the increase in revenues. Cargo revenues grew 3.0% to ₱3.56 billion for the year ended December 31, 2016 from ₱3.46 billion in the same period last year following the increase in the cargo prices in 2016. Ancillary revenues went up by 13.4% to ₱11.74 billion for the year ended December 31, 2016 from ₱10.36 billion posted last year consequent to the 4.1% increase in passenger traffic and 8.9% increase in ancillary revenue per passenger. Improved online bookings, together with a wider range of ancillary revenue products and services, also contributed to the increase.

Operating expenses for the year ended December 31, 2016 increased by 6.1% to ₱49.65 billion from ₱46.80 billion last year attributable to higher aircraft maintenance and advertising and promotions costs, partially offset by the drop in fuel costs due to the decline in global jet fuel prices. Flying operations expenses decreased by 5.8% to ₱19.69 billion for the year ended December 31, 2016 from ₱20.92 billion incurred in 2015 primarily attributable to the 10.4% decline in aviation fuel expenses to ₱15.82 billion in 2016 from ₱17.66 billion in 2015 consequent to the significant drop in jet fuel prices, partially offset by the weakening of the Philippine peso against the U.S. dollar. Aircraft and traffic servicing expenses increased by 12.5% to ₱6.58 billion for the year ended December 31, 2016 from ₱5.85 billion registered in 2015 driven by the increase in the number of international flights by 6.1% in 2016 for which airport and ground handling charges were generally higher compared to domestic flights. International flights increased due to added frequencies on existing routes and the launch of new services to Fukuoka, Japan in December 2015 and Guam, the airline's first US destination, last March 2016. Depreciation and amortization expenses grew by 17.4% to ₱6.00 billion for the year ended December 31, 2016 from ₱5.11 billion for the year ended December 31, 2015 consequent to the arrival of three Airbus A320 aircraft and two ATR 72-600 aircraft during the year. Repairs and Maintenance expenses went up by 24.6% to ₱6.53 billion for the year ended December 31, 2016 from ₱5.24 billion posted last year driven by the increase in provisions for return cost to ₱1.12 billion in 2016 from ₱863.96 million in 2015 and the increase in CEB's fleet from 55 to 57 aircraft as well as direct costs from repairs incurred for older aircraft, in particular, the remaining A319 fleet, the ATR fleet, and the early deliveries of A320 aircraft.

As a result, CEB finished with an operating income (EBIT) of ₱12.25 billion in 2016, a 26.3% increase from ₱9.70 billion in 2015. EBITDAR amounted to ₱23.62 billion, a 19.9% increase from ₱19.70 billion last year.



CEB recognized higher interest income for the year from ₱83.01 million last year to ₱113.67 million this year due to the increase in the balance of cash in bank and short-term placements year on year and higher interest rates in short term placements.

CEB incurred a hedging gain of ₱1.59 billion for the year ended December 31, 2016, an increase of 154.2% from hedging loss of ₱2.93 billion incurred last year due to the improvement of forward prices of fuel for 2016 and 2017, as compared to forward fuel prices as of end of 2015. Net foreign exchange losses of ₱2.28 billion for the year ended December 31, 2016 resulted from the weakening of the Philippine Peso against the U.S. dollar. CEB's major exposure to foreign exchange rate fluctuations is in respect to U.S. dollar denominated long-term debt incurred in connection with aircraft acquisitions.

Equity in net income of joint venture increased by 403.4% to ₱178.31 million for the year ended December 31, 2016 attributable to the net income from current operations earned by the joint ventures in 2016.

Interest expense increased by 9.0% to ₱1.17 billion for the year ended December 31, 2016 from ₱1.07 billion in 2015 due to the additional loans availed to finance the acquisition of additional aircrafts delivered in 2016.

In 2016, CEB sold and delivered four Airbus A319 aircraft to a subsidiary of Allegiant Travel Company which resulted to a loss of ₱962.61 million. In 2015, CEB sold and delivered two Airbus A319 aircraft to Allegiant and incurred a loss of ₱80.27 million.

As a result of the foregoing, net income for the year ended December 31, 2016 increased by 122.3% to ₱9.75 billion from ₱4.39 billion last year.

**Petrochemicals** (consist of JGSPC and JGSOC) combined gross revenues reached ₱29.07 billion in 2016 as compared to last year's ₱26.78 billion due to higher sales volume from 0.96 million MT in 2015 to 1.15 million MT in 2016. On the other hand, costs and expenses slightly decreased from ₱24.55 billion in 2015 to ₱24.15 billion in 2016 mainly due to lower naphtha cost. Interest expense also reached ₱136.90 million for the year ended December 31, 2016 from last year's ₱84.78 million due to higher level of trust receipts and short-term notes payable to fund operating activities during the year. Net foreign exchange loss of ₱272.38 million was recorded in 2016 from last year's ₱307.03 million. All these factors contributed to the net income of ₱5.13 billion in 2016 from ₱3.16 billion in 2015, an improvement of 62.4% boosted mainly by higher capacity utilization that matched better market demand.

**Banking Services**, generated banking revenue of ₱3.41 billion in 2016, a 14.9% increase from last year's ₱2.97 billion brought about by higher interest income and trading gains for the year. Cost and expenses also increased by 10.2% as the bank continued its expansion, net of the decrease in provision for impairment losses on receivables from ₱244.70 million in 2015 to ₱138.97 million in 2016. As a result, net income for the year ended December 31, 2016 amounted to ₱256.65 million, a 140.6% increase from last year's ₱106.67 million.

**Equity in net earnings of associate companies and joint ventures** amounted to ₱8.18 billion for the year ended December 31, 2016, an 11.8% increase from last year's ₱7.31 billion primarily attributable to the 11.3% increase in equity earnings from United Industrial Corporation Limited (UICL) from ₱2.51 billion last year to ₱2.79 billion this year, and the equity earnings take-up from Global Business Power amounting to ₱356.43 million for six months since its acquisition in June 2016. Equity income from Meralco slightly increased by 0.4% to ₱4.98 billion. **United Industrial Corporation, Limited** recorded a

5.6% growth in its net income from operations from S\$236.28 million in 2015 to S\$249.42 million in 2016. The increase in net income is mainly due to higher residential properties sales and progressive revenue recognition for UIC's residential projects, particularly from V on Shenton and Alex Residences, partially offset by the lower contribution from Thomson Three and Archipelago joint venture residential projects. Since the Group's policy for the valuation of property, plant and equipment is the cost basis method, the equity income taken up by the Group represents the adjusted amounts after reversal of the effect in the income statement of the revaluation of the said assets.

## **2015 vs. 2014**

### **I. Consolidated Operations**

JG Summit Holdings, Inc. posted a 38.1% increase in our consolidated core net income (excluding non-recurring items), earning a total of ₱28.05 billion in 2015 compared to ₱20.30 billion in 2014. The increase in core net income is due to the double-digit income growth in our core operating businesses such as branded consumer foods, property development but more particularly in our airline business, Cebu Air, which benefited significantly from the substantial reduction in fuel prices and in our Petrochemicals group, where business has expanded significantly since resumption of its operations in November 2014. The Group's consolidated net income from equity holders of the parent amounted to ₱22.61 billion in 2015, a 23.9% increase from ₱18.25 billion last year. The increase is lower compared to the growth of core net income because of foreign exchange losses caused by the depreciation of Philippine Peso vs. U.S. Dollar by more than ₱2.00 by year-end 2015, as well as mark-to-market losses mainly from Cebu Air's fuel hedging losses in 2015. Consolidated EBITDA reached ₱63.79 billion, a 29.6% increase compared to last year.

Consolidated revenues grew 24.1% from ₱184.81 billion in 2014 to ₱229.27 billion in 2015 due to the strong performance of the following core subsidiaries:

- URC's total revenues increased by 15.9% from ₱96.65 billion in 2014 to ₱112.00 billion in 2015 mainly due to 16.3% growth of the branded consumer foods, both domestic and international, including sales contribution from Griffin's NZ which was consolidated starting mid-November of 2014.
- RLC's total revenues posted a 16.4% growth from ₱17.43 billion in 2014 to ₱20.30 billion in 2015 brought about by the additional revenue contribution of the nine new malls, three office buildings (Cyberscape Alpha, Cyberscape Beta and Tera Tower), and 4 new hotels (Go Hotel Iloilo, Go Hotel Ortigas, Go Hotel Butuan and Summit Hotel Magnolia).
- CEB's total revenues went up by 8.7% from ₱52.00 billion in 2014 to ₱56.50 billion in 2015 mainly due to 8.9% growth in passenger volume and 9.8% increase in ancillary revenue per passenger, partially offset by the decrease in average fares of 2.5%.
- JG Petrochem group-wide revenues increased substantially from ₱3.23 billion in 2014 to ₱26.78 billion in 2015 as they resumed commercial operations in November 2014.
- The banking revenue increased 9.3% from ₱2.72 billion in 2014 to ₱2.97 billion this year due to increase in interest income recognized from finance receivables.
- Revenue from other supplementary businesses recorded 21.0% increase due to higher commission income and outsource revenue for the year.

Revenues from our core investments, however, declined this year as dividend income received by the Group dropped 43.9% from ₱5.07 billion last year to ₱2.85 billion this year mainly due to ₱1.70 billion dividend income received from Jobstreet in 2014 with no equivalent in 2015 and lower dividend income declared by PLDT from ₱185 per share in 2014 to ₱152 per share in 2015.

Consolidated cost of sales and services increased by 22.5% from ₱115.01 billion last year to ₱140.86 billion this year, lower than the revenue growth mainly due to decline in aviation fuel expenses incurred by our airline business, consequent to the significant drop in jet fuel prices, despite increase in the number of flights flown in 2015.

The Group's operating expenses increased by 20.8% from ₱32.33 billion last year to ₱39.06 billion this year due to higher selling, general and administrative expenses in the food and airline business units.

As a result, Operating Income or EBIT went up 31.7% from ₱37.48 billion in 2014 to ₱49.35 billion in 2015.

The Group's net interest carry (interest expense less interest income) increased by 23.1% to ₱5.51 billion this year from last year's ₱4.48 billion because of the increase in long-term debt during the year relative to the acquisition of Griffin's NZ business by URC in late 2014.

Market valuation loss on financial assets at FVPL amounted to ₱336.99 million in 2015 from ₱1.27 billion in 2014 mainly due to the ₱1.46 billion mark-to-market loss on Jobstreet shares recognized in 2014.

The Group recognized a net foreign exchange loss of ₱4.14 billion from ₱358.83 million reported last year due to the depreciation of the Philippine Peso and other ASEAN regional currencies against the U.S. Dollar.

Other income (expense) - net account, which represents miscellaneous income and expenses, netted a gain of ₱151.22 million from last year's ₱1.22 billion attributable mainly to the recognition of ₱1.45 billion one-time gain on sale of Jobstreet in 2014.

Provision for income tax increased by 0.9% to ₱4.49 billion in 2015 from ₱4.45 billion in 2014 due to higher taxable income for the year, net of increase in deferred tax asset recognized.

## **II. Segment Operations**

**Foods** generated a consolidated sale of goods and services of ₱112.00 billion for the year ended December 31, 2015, 15.9% sales growth over last year's ₱96.65 billion. Sale of goods and services performance by business segment follows: (1) URC's branded consumer foods (BCF) segment, excluding packaging division, increased 16.3%, to ₱92.96 billion in 2015 from ₱79.90 billion registered in 2014. BCF domestic operations posted a 7.3% increase in net sales from ₱54.49 billion in 2014 to ₱58.46 billion in 2015. RTD tea continues to grow strongly with additional capacities while noodles continue to gain traction with Nissin Cup noodles. Sales growth was muted mainly due to aggressive competition across all categories, mostly coffee and snacks. BCF international sales increased by 35.8% to ₱34.50 billion in 2015 against ₱25.41 billion in 2014. In U.S. dollar (US\$) term, sales registered an increase of 32.5% from US\$571 million in 2014 to US\$758 million in 2015. Top-line growth came from Vietnam, Indonesia and Thailand with sales contribution from New Zealand. Vietnam continued to grow on the back of robust sales of Rong Do, energy drink brand and C2, which remains to be the number one brand in the RTD tea category in the market. Indonesia posted double digit growth with its number one potato chips brand,

Piattos, hitting all-time high sales and successful launch of another snack brand, Chiz King. Sales growth in Thailand was driven by core brands as it continues to be the market leader in biscuits and wafers. The Group started consolidating Griffin's sales into URC International starting mid-November 2014 upon closing of the acquisition. Sale of goods and services in URC's packaging division slightly went down to ₱1.15 billion in 2015 from ₱1.19 billion recorded in 2014 due to decline in volume. (2) Agro-Industrial segment (AIG) amounted to ₱8.97 billion in 2015, an increase from ₱8.41 billion recorded in 2014. Feeds business increased by 21.2% due to higher sales volume as a result of effective sales strategy while farms business declined by 4.4% due to lower selling price and volume. (3) Sale of goods and services in commodity foods segment amounted to ₱8.93 billion in 2015, up by 25.0% from ₱7.15 billion reported in 2014. Growth came from sales contribution of the renewable energy businesses, distillery and cogeneration, which amounted to ₱1.58 billion. Sugar business also reported a 6.9% sales growth due to higher sales volume while flour business remained flat.

URC's cost of sales consists primarily of raw and packaging materials costs, manufacturing costs and direct labor costs. Cost of sales went up by 13.8%, to ₱75.29 billion in 2015 from ₱66.17 billion recorded in 2014 due to increase in sales volume.

URC's gross profit for 2015 amounted to ₱36.72 billion from ₱30.49 billion reported in 2014. URC's gross profit as a percentage of net sales increased by 120 basis points from 31.5% in 2014 to 32.7% in 2015. Selling and distribution costs, and general and administrative expenses rose by 21.8% to ₱18.62 billion in 2015 from ₱15.28 billion registered in 2014. This increase resulted primarily from the following factors: (a) 33.2% increase in compensation and benefits to ₱4.01 billion in 2015 from ₱3.01 billion in 2014 due to annual salary adjustments including the effect of consolidating Griffin's accounts starting mid-November 2014; (b) 13.4% increase in advertising and promotion costs to ₱6.43 billion in 2015 from ₱5.67 billion in 2014 due to promotion programs with key accounts and wholesalers, and new product launches; (c) 11.5% increase in freight and delivery charges to ₱4.90 billion in 2015 from ₱4.40 billion in 2014 due to increase in trucking and shipping costs as a result of increased volume; (d) 244.4% increase in rent expense to ₱610 million in 2015 from ₱177 million in 2014 as a result of consolidating Griffin's accounts; and (e) 84.8% increase in contracted services to ₱453 million in 2015 from ₱245 million in 2014 as a result of consolidating Griffin's accounts.

Market valuation gain on financial instruments at fair value through profit or loss of ₱542 million was reported in 2015 against the ₱6 million market valuation loss in 2014 due to fair value changes from derivative instruments, net of decline in market values of equity investments.

URC's finance revenue consists of interest income from investments in financial instruments, money market placements, savings and dollar deposits and dividend income from investment in equity securities. Finance revenue increased to ₱287 million in 2015 from ₱235 million in 2014 due to increased level of financial assets and higher dividend income received.

URC's finance costs consist mainly of interest expense which increased by 291.1%, to ₱1.35 billion in 2015 from ₱346 million recorded in 2014 due to significant increase in level of financial debt in the last quarter of 2014 to finance the acquisition of NZSFHL.

Impairment losses decreased to ₱110 million in 2015 from ₱123 million in 2014 due to lower impairment losses on receivables.

Net foreign exchange gain amounted to ₱45 million in 2015 from ₱75 million net foreign exchange loss reported in 2014 due to the combined effects of appreciation of international

subsidiaries' local currencies vis-à-vis U.S. dollar, and depreciation of Philippine peso vis-à-vis U.S. dollar.

Equity in net losses of joint ventures increased to ₱248 million in 2015 from ₱75 million in 2014 due to losses of Danone Universal Robina Beverages, Inc. (DURBI) and Calbee-Universal Robina Corporation (CURC), which are still in pre-operating stages.

Other income (expenses) - net consists of gain (loss) on sale of fixed assets, amortization of bond issue costs, rental income, and miscellaneous income and expenses. Other income-net increased to ₱287 million in 2015 from ₱72 million other expense - net in 2014 due to claims from truckers, income from sale of poultry farm and insurance claims from losses resulting from typhoons.

URC recognized provision for income tax of ₱3.55 billion in 2015, a 31.9% increase from ₱2.69 billion in 2014 due to higher taxable income, net of increase in recognized deferred tax asset.

URC's core earnings before tax (operating profit after equity earnings, net finance costs and other expenses - net) for 2015 amounted to ₱17.08 billion, an increase of 14.3% from ₱14.94 billion recorded in 2014.

Net income attributable to equity holders of the parent increased by 16.0% to ₱13.86 billion in 2015 from ₱11.95 billion in 2014 as a result of the factors discussed above.

URC reported an EBITDA (operating income plus depreciation and amortization) of ₱23.06 billion for 2015, 18.7% higher than ₱19.43 billion posted in 2014.

**Real estate and hotels** generated total gross revenues of ₱20.30 billion for calendar year 2015, an increase of 16.4% from ₱17.43 billion total gross revenues for calendar year 2014. EBIT (Operating income) grew 24.3% to ₱7.92 billion while EBITDA (Operating income plus depreciation) posted a 20.5% growth to ₱11.13 billion. Net income stood at ₱5.95 billion, up by 24.7% compared to last year.

The Commercial Centers Division posted a 12.6% revenue growth to ₱9.40 billion in 2015 from ₱8.35 billion last year. This was driven by the steady same mall rental revenue growth of 7% as well as the contribution of the newly opened malls in 2015 and 2014 namely, Robinsons Place Antipolo, Robinsons Place Las Pinas, Robinsons Place Antique, Robinsons Novaliches expansion and Robinsons Galleria Cebu.

The Residential Division realized revenues stood at ₱6.70 billion in 2015 versus ₱5.88 billion last year, an increase of 14.0%.

The Office Buildings Division revenues grew by 47.3% to ₱2.42 billion in 2015 from ₱1.65 billion last year. RLC's newest office building, Tera Tower, as well as Cyberscape Alpha and Cyberscape Beta contributed to the strong growth of the division being 100% leased out as of December 31, 2015.

The Hotels Division registered gross revenues of ₱1.80 billion for the year, posting a 13.8% increase compared to last year with contribution from Summit Hotel Magnolia and Go Hotels Butuan which it opened in 2015.

Real estate cost and expenses went up by 12.1% to ₱8.05 billion from ₱7.19 billion last year. The opening of new malls raised the level of depreciation expense of Commercial Centers by

11.3% while opening of new office buildings increased depreciation expense of the Office Buildings Division by 14.0%. Furthermore, cinema expense rose by 23.8% due to higher level of cinema operations which in turn resulted to higher cinema revenues. Hotel expenses rose by 11.7% due substantially to higher level of cost of food and beverage, salaries and wages and contracted services among others, which were all due to higher level of operations brought about by the newly opened Summit Magnolia Hotel and Go Hotels branches.

Interest income increased to ₱40.63 million from ₱14.25 million last year due to higher average balance of cash and cash equivalents during the calendar year 2015.

General and administrative expenses went up by 11.7% due to higher salaries, advertising and promotions and insurance expense, among others.

**Air transportation** generated gross revenues of ₱56.50 billion for the year ended December 31, 2015, 8.7% higher than the ₱52.0 billion revenues earned last year mainly attributed to the increase in passenger revenues by 6.2% to ₱42.68 billion for the year ended December 31, 2015 from ₱40.19 billion registered in 2014. This increase was primarily due to the 8.9% growth in passenger volume to 18.4 million from last year's 16.9 million driven by the increased number of flights in 2015. Number of flights went up by 7.6% year on year as CEB added more aircraft to its fleet, particularly, its acquisition of wide-body Airbus A330 aircraft with a configuration of more than 400 all-economy class seats. The number of aircraft increased from 52 aircraft as of December 31, 2014 to 55 aircraft as of December 31, 2015. The decrease in average fares by 2.5% to ₱2,323 in 2015 from ₱2,382 in 2014 partially offset the increase in revenues. Cargo revenues grew 10.0% to ₱3.46 billion for the year ended December 31, 2015 from ₱3.15 billion in the same period last year following the increase in the volume of cargo transported in 2015. Ancillary revenues went up by 19.6% to ₱10.36 billion for the year ended December 31, 2015 from ₱8.67 billion posted last year consequent to the 8.9% increase in passenger traffic and 9.8% increase in ancillary revenue per passenger. Improved online bookings, together with a wider range of ancillary revenue products and services, also contributed to the increase.

Operating expenses for the year ended December 31, 2015 slightly dropped by 2.2% to ₱46.80 billion from ₱47.84 billion last year as a result of substantial reduction in fuel costs due to the sharp decline in global jet fuel prices. The drop in fuel costs, however, was offset by the increase in majority of CEB's operating expenses driven by its expanded long haul operations, growth in seat capacity from the acquisition of new aircraft and the weakening of the Philippine peso against the U.S. dollar. Flying operations expenses decreased by 20.0% to ₱20.92 billion for the year ended December 31, 2015 from ₱26.15 billion incurred in 2014 primarily attributable to the 23.9% decline in aviation fuel expenses amounting to ₱17.66 billion in 2015 from ₱23.21 billion in 2014 consequent to the significant drop in jet fuel prices, partially offset by the weakening of the Philippine peso against the U.S. dollar. Aircraft and traffic servicing expenses increased by 21.7% to ₱5.85 billion for the year ended December 31, 2015 from ₱4.81 billion registered in 2014 as a result of the overall increase in the number of flights flown in 2015. Higher expenses were particularly attributable to more international flights operated for which airport and ground handling charges were generally higher compared to domestic flights. International flights increased by 6.0% year on year with the launch of new destinations namely Doha, Qatar and Fukuoka, Japan, introduction of new routes like Cebu to Taipei and Davao to Singapore and increased frequencies of existing routes. Depreciation and amortization expenses increased 19.4% to ₱5.11 billion for the year ended December 31, 2015 from ₱4.28 billion for the year ended December 31, 2014 consequent to the arrival of four Airbus A320 aircraft during the year. Repairs and

Maintenance expenses went up by 18.2% to ₱5.24 billion for the year ended December 31, 2015 from ₱4.43 billion posted last year driven by the overall increase in the number of flights and the acquisition of four Airbus A320 aircraft and the delivery of one Airbus A330 aircraft in 2015. Aircraft and engine lease expenses went up by 14.9% to ₱4.03 billion for the year ended December 31, 2015 from ₱3.50 billion charged in 2014 due to the delivery of one Airbus A330 aircraft under operating lease in 2015.

CEB recognized higher interest income for the year from ₱79.93 million last year to ₱83.01 million this year due to the increase in the balance of cash in bank and short-term placements year on year and higher interest rates.

CEB incurred a hedging loss of ₱2.93 billion for the year ended December 31, 2015, an increase of 26.7% from hedging loss of ₱2.31 billion earned last year as a result of lower mark-to-market valuation on fuel hedging positions consequent to the material decline in fuel prices in 2015. Net foreign exchange losses of ₱2.21 billion for the year ended December 31, 2015 resulted from the weakening of the Philippine Peso against the U.S. dollar.

Equity in net income of joint venture dropped 63.2% to ₱35.42 million for the year ended December 31, 2015, primarily due to the net loss from current operations incurred by Philippine Academy for Aviation Training, Inc. (PAAT) and SIA Engineering (Philippines) Corporation (SIAEP) in 2015.

As a result of the foregoing, net income for the year ended December 31, 2015 increased by 414.0% to ₱4.39 billion from ₱853.50 million last year.

**Petrochemicals** (consist of JGSPC and JGSOC) combined gross revenues reached ₱26.78 billion in 2015 as compared to last year's ₱3.23 billion as JGSPC resumed its commercial operations after the completion of its polymer plant expansion and rehabilitation projects and the commencement of JGSOC's commercial operations in November 2014 resulting to increase in polymer volumes sold by JGSPC and increase in volume of exported olefins of JGSOC. Costs and expenses consequently increased from ₱4.50 billion in 2014 to ₱24.55 billion in 2015. Interest expense also reached ₱84.78 million for the year ended December 31, 2015 from last year's ₱23.24 million following the increase in trust receipts and availment of short-term notes payable to fund operating activities during the year for both Petrochem and Olefins. A net foreign exchange loss of ₱307.0 million was recorded in 2015 from ₱45.84 million last year due to the weakening of Philippine peso against U.S. dollar. All these factors contributed to the net income of ₱3.16 billion in 2015 versus the net loss of ₱759.45 million in 2014, an improvement of 516.5%.

**Banking Services**, generated banking revenue of ₱2.97 billion in 2015, a 9.3% increase from last year's ₱2.72 billion. This increase was brought about by higher interest and commission income for the year, net of lower trading gains in 2015. However, cost and expenses also increased, higher than the revenue growth as the bank continued its expansion. All these factors contributed to lower net earnings of ₱106.67 million for the year ended December 31, 2015, a 27.4% decline from last year's ₱146.91 million.

**Equity in net earnings of associate companies and joint ventures** amounted to ₱7.31 billion for the year ended December 31, 2015, a slight increase from last year's ₱7.25 billion mainly attributable to the 6.1% increase in equity earnings from Meralco from ₱4.68 billion last year to ₱4.96 billion this year, partially offset by the higher losses on equity investments in CURC and DURBI. Equity income from UIC remained flat at ₱2.51 billion. **United Industrial Corporation, Limited** recorded a 6.1% growth in its net income from operations from S\$222.79 million in 2014 to S\$236.28 million in 2015. The increase in net

income is mainly due to higher trading property sales with progressive sales recognition on percentage of completion basis for UIC's residential projects and increased share of Singapore Land's net profit partially offset by lower contribution from the Archipelago joint venture residential project. Since the Group's policy for the valuation of property, plant and equipment is the cost basis method, the equity income taken up by the Group represents the adjusted amounts after reversal of the effect in the income statement of the revaluation of the said assets.

**Other Supplementary Business, Summit Internet Investments** recognized net loss of ₱59.14 million in 2015, a significant decrease from last year's net income of ₱1.75 billion mainly due to ₱1.70 billion dividend income received from Jobstreet Malaysia in 2014.

## **FINANCIAL RESOURCES AND LIQUIDITY**

### **2017 vs 2016**

Cash and cash equivalents increased to ₱54.34 billion as of December 31, 2017, from ₱43.41 billion as of December 31, 2016. Cash provided by operating activities amounted to ₱38.30 billion. As of December 31, 2017, net cash used in investing activities amounted to ₱38.75 billion mainly for the Group's capital expenditure program. The Group's net cash provided by financing activities amounted to ₱11.37 billion mainly due to additional long-term loan availments of the Group, net of partial settlements of trust receipts payable of the petrochemicals business and short-term loans of an offshore company. Our financial assets, including those held at fair value through profit and loss (excluding derivative assets), available for sale investments and held to maturity amounted to ₱60.95 billion, a 7.2% increase from ₱56.85 billion as of December 31, 2016 due to higher market valuation during the year.

Receivables, including noncurrent portion increased by 29.5% from ₱69.72 billion as of December 31, 2016 to ₱90.26 billion as of December 31, 2017 mainly due to the significant increase in finance receivables of the banking business.

Inventories increased 5.7% from ₱49.70 billion as of December 31, 2016 to ₱52.54 billion as of December 31, 2017 due to higher level of raw materials and spare parts of the food and petrochemicals businesses.

Biological assets, including noncurrent portion, increased 21.3% due to increase in headcount and market prices of hogs.

Other current assets increased 16.9% from ₱13.01 billion as of December 31, 2016 to ₱15.21 billion as of December 31, 2017 mainly due to higher input value-added tax of the real estate and petrochemicals businesses.

Investment in associates and joint ventures increased 8.2% from ₱127.95 billion as of December 31, 2016 to ₱138.39 billion as of December 31, 2017 due to the additional investment in Meralco and equity earnings from UIC during the year.

Investment properties increased 18.3% from ₱75.42 billion as of December 31, 2016 to ₱89.24 billion as of December 31, 2017 due to acquisition of several land properties both for residential and commercial development, and ongoing constructions of the real estate business during the year.



Other noncurrent assets went up by 30.4% from ₱6.52 billion as of December 31, 2016 to ₱8.51 billion as of December 31, 2017 primarily due to the advance payments made for the Airbus A330 life limited engine parts of the airline business.

Consolidated total assets reached ₱739.31 billion as of end of December 2017.

Accounts payable and accrued expenses increased by 19.0% from ₱96.30 billion as of December 31, 2016 to ₱114.60 billion as of December 31, 2017 mainly due to the higher level of deposit liabilities of our banking business.

Short term debt decreased 25.9% to ₱45.85 billion as of December 31, 2017 from ₱61.88 billion as of December 31, 2016 due to partial settlement of JGSPL's short-term loans and Petrochemical's trust receipts during the year.

Income tax payable decreased 39.5% mainly due to lower level of tax payable of the food and real estate business units.

Other current liabilities increased 6.1% to ₱13.69 billion as of December 31, 2017 mainly due to higher unearned transportation revenue on sale of passenger travel services by the airline business.

Long-term debt, including current portion, increased 14.1% from ₱159.19 billion as of December 31, 2016 to ₱181.69 billion as of December 31, 2017 mainly due to additional term loans availed by the Parent Company and RLC during the period.

Other noncurrent liabilities increased to ₱28.04 billion as of December 31, 2017 from ₱13.21 billion as of December 31, 2016 due to higher level of deposit liabilities of the banking business.

Stockholders' equity, excluding minority interest, stood at ₱267.84 billion as of December 31, 2017 from ₱239.52 billion last year.

Book value per share amounted to ₱37.39 as of December 31, 2017 from ₱33.43 as of December 31, 2016.

### **2016 vs 2015**

Cash and cash equivalents slightly decreased to ₱43.41 billion as of December 31, 2016, from ₱45.27 billion as of December 31, 2015. Cash provided by operating activities amounted to ₱54.07 billion. As of December 31, 2016, net cash used in investing activities amounted to ₱67.86 billion mainly for the Group's capital expenditure program and acquisition of investment in Global Business Power Corporation. The Group's net cash provided by financing activities amounted to ₱11.93 billion mainly due to additional short-term loans availed by JG Parent and URC, net of various settlements made on the Group's long-term loans during the year. Our financial assets, including those held at fair value through profit and loss (excluding derivative assets), available for sale investments and held to maturity amounted to ₱56.85 billion, a 12.1% decrease from ₱64.67 billion as of December 31, 2015 due to lower market valuation during the year.

Derivative assets, including noncurrent portion decreased from ₱617.93 million as of December 31, 2015 to ₱505.76 million as of December 31, 2016 due to the foreign currency

forwards of the food business which was settled in April 2016, net of CEB's market valuation gain on its fuel derivative contracts.

Receivables, including noncurrent portion increased by 30.7% from ₱53.36 billion as of December 31, 2015 to ₱69.72 billion as of December 31, 2016 mainly due to the significant increase in finance receivables of the banking business.

Inventories increased 6.6% from ₱46.65 billion as of December 31, 2015 to ₱49.70 billion as of December 31, 2016 due to higher level of raw materials, spare parts and finished goods of the food business.

Investment in associates and joint ventures increased 11.5% from ₱114.78 billion as of December 31, 2015 to ₱127.95 billion as of December 31, 2016 mainly due to acquisition of 30% stake in Global Business Power Corporation in June 2016.

Investment properties increased 12.1% from ₱67.26 billion as of December 31, 2015 to ₱75.42 billion as of December 31, 2016 due to land acquisitions and ongoing constructions of the real estate business.

Property, plant and equipment increased 9.9% from ₱159.84 billion to ₱175.66 billion due to the several plant expansion projects and business acquisitions of our branded consumer foods and acquisition of three Airbus A320 aircraft, two ATR 72-600 aircraft and one A330 aircraft by our airline business, net of four Airbus A319 aircraft sold during the period.

Biological assets, including noncurrent portion, decreased 11.2% due to decline in headcount and market prices of hogs.

Goodwill significantly increased to ₱32.02 billion as of December 31, 2016 from ₱15.52 billion as of December 31, 2015 resulting from the URC acquisition of Consolidated Snacks Pty Ltd (CSPL) (which owns the brand 'Snack Brands Australia') in September 2016.

Intangible assets increased by 56.8% to ₱14.16 billion as of December 31, 2016 from ₱9.03 billion as of December 31, 2015 mainly due to additional trademark recognized from the acquisition of Snack Brands Australia by URC.

Other noncurrent assets went up by 24.6% from ₱5.23 billion as of December 31, 2015 to ₱6.52 billion as of December 31, 2016 due to increase in bills payments received by the banking business and advances to suppliers and contractors for mall and office buildings constructions.

Consolidated total assets reached ₱666.31 billion as of end of December 2016.

Accounts payable and accrued expenses increased by 33.9% from ₱71.94 billion as of December 31, 2015 to ₱96.30 billion as of December 31, 2016 due to higher level of deposit liabilities of our banking business and trade payables of our food and real estate business units.

Short term debt increased 77.4% to ₱61.88 billion as of December 31, 2016 from ₱34.88 billion as of December 31, 2015 due to additional short term loans availed by JG Parent, RLC and an offshore subsidiary.

Derivative liabilities, including noncurrent portion, decreased from ₱2.44 billion in 2015 to ₱5.95 million due to improved mark-to-market valuation of CEB's fuel derivative contracts resulting to a net derivative asset position as of December 31, 2016.

Income tax payable decreased 28.8% mainly due to lower level of tax payable of the food and real estate business units.

Other current liabilities increased 13.1% to ₱12.90 billion as of December 31, 2016 mainly due to higher unearned transportation revenue on sale of passenger travel services by the airline business.

Long-term debt, including current portion, declined 4.4% from ₱166.48 billion as of December 31, 2015 to ₱159.19 billion as of December 31, 2016 due to settlement of a total of ₱12.40 billion and US\$250 million term loans of the JG Parent and an offshore subsidiary, respectively, offset by the additional term loans availed by URC, CEB and RLC in 2016.

Deferred tax liabilities amounted to ₱7.05 billion as of December 31, 2016, a 37.6% increase from ₱5.13 billion as of December 31, 2015 mainly due to higher deferred tax liability recognized by the food business.

Other noncurrent liabilities increased 5.5% to ₱13.21 billion as of December 31, 2016 from ₱12.52 billion as of December 31, 2015 primarily due to provision for asset retirement obligation of the airline business.

Stockholders' equity, excluding minority interest, stood at ₱239.52 billion as of December 31, 2016 from ₱223.39 billion last year.

Book value per share amounted to ₱33.43 as of December 31, 2016 from ₱31.18 as of December 31, 2015.

#### **2015 vs 2014**

Cash and cash equivalents increased to ₱45.27 billion as of December 31, 2015, from ₱37.47 billion as of December 31, 2014. Cash provided by operating activities amounted to ₱34.23 billion. As of December 31, 2015, net cash used in investing activities amounted to ₱33.33 billion mainly for the Group's capital expenditure program. The Group's cash provided by financing activities amounted to ₱6.90 billion particularly from the ₱12 billion bond issuance of RLC during the year and the ₱8.74 billion proceeds from the issuance of new shares of the Parent Company offset by the net settlement of the Group's short term loans and prepayment of ₱5.60 billion term loan of the Parent Company. Financial assets at fair value through profit or loss (excluding derivative assets) amounted to ₱14.29 billion as of December 31, 2015.

Receivables, including noncurrent portion increased by 21.9% from ₱43.77 billion as of December 31, 2014 to ₱53.63 billion as of December 31, 2015 due to significant increase in finance receivables of the banking business. Higher level of installment contracts receivables of the real estate business and trade receivables of the food and petrochemicals businesses, consequent to the commencement of JGSOC's full operations in 2015, also contributed to the growth.

Inventories increased by 16.2% from ₱40.13 billion as of December 31, 2014 to ₱46.65 billion as of December 31, 2015 mainly due to the land rights acquired by the real estate business in Chengdu, China.

Available-for-sale investments, including noncurrent portion, dropped by 23.24% from ₱62.05 billion as of December 31, 2014 to ₱47.63 billion as of December 31, 2015 due to the significant drop in the market price of PLDT shares from ₱2,906 per share in 2014 to ₱2,060 per share in 2015

Derivative assets, including noncurrent portion increased 229.7% from ₱154.61 million as of December 31, 2014 to ₱617.93 million as of December 31, 2015 due to ₱578.14 million market valuation gain recognized from the foreign currency forwards of our food business, offset by the ₱88.8 million market valuation loss on interest rate swap transaction of an offshore company.

Held-to-maturity investments increased by 55.5% from ₱1.77 billion as of December 31, 2014 to ₱2.75 billion as of December 31, 2015 due to additional investments made by the banking business during the year.

Investment properties increased 18.0% from ₱56.98 billion as of December 31, 2014 to ₱67.26 billion as of December 31, 2015 due to acquisition of several land properties by the real estate business both for residential and commercial development. The completion of construction of Cyberscape Alpha, Cyberscape Beta, Tera Tower, Go Hotel Ortigas, Go Hotel Butuan, Summit Hotel Magnolia and ongoing constructions at Bonifacio Summit Center and Go Hotel Davao also contributed to the increase. Aside from these, there are ongoing constructions for the following malls: Robinsons Tagum, Cavite and Iloilo.

Property, plant and equipment increased 8.4% from ₱147.49 billion to ₱159.84 billion mainly due to acquisition of four Airbus A320 aircraft by our airline business and the completion of construction of the naphtha cracking facility and petrochemical's plant rehabilitation.

Biological assets, including noncurrent portion, decreased 9.0% due to decline in headcount and volume, net of increase in market value of hogs.

Other noncurrent assets increased 48.9% from ₱3.51 billion as of December 31, 2014 to ₱5.23 billion as of December 31, 2015 mainly due to recognition of deferred tax assets during the year by the airline, petrochemicals and food businesses.

Consolidated total assets reached ₱596.33 billion as of end of December 2015.

Accounts payable and accrued expenses increased by 6.7% from ₱67.40 billion as of December 31, 2014 to ₱71.94 billion as of December 31, 2015 mainly due to the recognition by the real estate business of ₱3.30 billion unpaid portion of the land use rights acquired in 2015.

Short term debt dropped 21.2% to ₱34.88 billion as of December 31, 2015 from ₱44.29 billion as of December 31, 2014 mainly due to settlement of Parent Company's short term loans and a portion of Petrochemical's trust receipts, net of the additional loans availed by the real estate and petrochemicals businesses during the year.

Derivative liabilities, including noncurrent portion, totaling ₱2.44 billion is mainly from fuel hedging of the airline business. Increase of 7.6% from last year's ₱2.27 billion is mainly due

to settlement of certain fuel derivative contracts with counterparties, net of market valuation loss recognized in 2015.

Income tax payable increased 81.9% due to higher level of tax payable of the food and real estate businesses.

Other current liabilities increased 19.1% to ₱11.41 billion as of December 31, 2015 mainly due to higher level of deposits from leases of newly opened malls and higher deposits from real estate buyers. Higher unearned transportation revenue of the airline business also contributed to the increase.

Long-term debt, including current portion, increased 5.7% from ₱157.55 billion as of December 31, 2014 to ₱166.48 billion as of December 31, 2015 due to bond issuance of RLC during the period, partially offset by prepayment of ₱5.60 billion term loan of the Parent Company.

Other noncurrent liabilities increased 36.4% to ₱12.52 billion as of December 31, 2015 due to higher level of deposit liabilities by the banking business.

Stockholders' equity, excluding minority interest, stood at ₱223.39 billion as of December 31, 2015 from ₱207.62 billion last year.

#### KEY FINANCIAL INDICATORS

The Company sets certain performance measures to gauge its operating performance periodically and to assess its overall state of corporate health. Listed below are the major performance measures, which the Company has identified as reliable performance indicators. Analyses are employed by comparisons and measurements on a consolidated basis based on the financial data as of and for the year ended December 31, 2017, 2016 and 2015.

| <b>Key Financial Indicators</b>                                 | <b>2017</b>     | <b>2016</b>     | <b>2015</b>     |
|---|-----------------|-----------------|-----------------|
| Revenues  | ₱273.45 Billion | ₱240.50 Billion | ₱229.27 Billion |
| EBIT  | ₱51.73 Billion  | ₱52.27 Billion  | ₱49.35 Billion  |
| EBITDA  | ₱70.67 Billion  | ₱69.37 Billion  | ₱63.90 Billion  |
| Core net income after taxes                                     | ₱29.56 Billion  | ₱29.97 Billion  | ₱28.05 Billion  |
| Net income attributable to equity holders of the Parent Company | ₱29.37 Billion  | ₱10.92 Billion  | ₱22.61 Billion  |
| Liquidity Ratio:  |                 |                 |                 |
| Current ratio   | 1.14            | 1.01            | 1.11            |
| Solvency ratios:  |                 |                 |                 |
| Gearing ratio   | 0.66            | 0.71            | 0.71            |
| Net debt to equity ratio  | 0.50            | 0.55            | 0.52            |
| Asset-to-equity ratio   | 2.13            | 2.13            | 2.08            |
| Interest rate coverage ratio                                    | 9.02            | 9.30            | 9.29            |
| Profitability ratio:  |                 |                 |                 |
| Operating margin  | 0.19            | 0.22            | 0.22            |
| Book value per share  | ₱37.39          | ₱33.43          | ₱31.18          |

The manner in which the Company calculates the above key performance indicators is as follows:

| <b>Key Financial Indicators</b> |   |   |
|---------------------------------|---|---|
| Revenues                        | = | Total of sales and services, income from banking business, dividend income and equity in net earnings   |
| EBIT                            | = | Operating income  |
| EBITDA                          | = | Operating income add back depreciation and amortization expense   |
| Core net income after taxes     | = | Net income attributable to equity holders of Parent Company as adjusted for the net effect of gains/losses on foreign exchange, market valuations and other nonrecurring items. |
| Current ratio                   | = | Total current assets over current liabilities   |
| Gearing ratio                   | = | Total Financial Debt over Total Equity  |
| Net debt to equity ratio        | = | Total Financial Debt less Cash including Financial Assets at FVPL and AFS investments (excluding RBC Cash, Financial assets at FVPL and AFS investments) over Total Equity      |
| Asset-to-equity ratio           | = | Total Assets over Total Equity  |
| Interest rate coverage ratio    | = | EBITDA over Interest Expense  |
| Operating Margin                | = | Operating Income over Revenue   |
| Book value per share            | = | Stockholders' Equity (Equity attributable to parent excluding preferred capital stock) over outstanding number of common shares   |

Current assets amounted to ₱206.72 billion while current liabilities reached ₱181.68 billion, for a current ratio of 1.14:1. Total financial debt amounted to ₱227.54 billion in 2017, higher than last year's ₱221.07 billion. The Company's indebtedness remains manageable with a gearing ratio of 0.66:1, well within the financial covenant of 2.0:1. Net debt stood at ₱171.74 billion, bringing our net debt to equity ratio to 0.50:1.

The Company, in the normal course of business, makes various commitments and has certain contingent liabilities that are not reflected in the accompanying consolidated financial statements. The commitments and contingent liabilities include various guarantees, commitments to extend credit, standby letters of credit for the purchase of equipment, tax assessments and bank guarantees through its subsidiary bank. The Company does not anticipate any material losses as a result of these transactions.

#### **DISCLOSURE OF EFFECTS OF PESO DEPRECIATION AND OTHER CURRENT EVENTS**

Refer to Management Discussion and Analysis on pages 44-68 of this report and Note 4 to the Consolidated Financial Statements.

#### **Item 7. Financial Statements**

The Consolidated Financial Statements and schedules listed in the accompanying Index to Consolidated Financial Statements and Supplementary Schedules (page 84) are filed as part of this report.

## Item 8. Information on Independent Accountant and other Related Matters

### A. External Audit Fees and Services

#### Audit and Audit - Related Fees

The following table sets out the aggregate fees billed to the Company for each of the last three (3) years for professional services rendered by SyCip Gorres Velayo & Co.,

|   | 2017              | 2016              | 2015              |
|---|-------------------|-------------------|-------------------|
| <b>Audit and Audit-Related Fees</b>   |                   |                   |                   |
| Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements | <b>₱3,180,000</b> | ₱3,528,793        | ₱2,716,318        |
| Professional Fees for due diligence review for bond offering  | <b>None</b>       | None              | None              |
| Tax Fees  | <b>None</b>       | None              | None              |
| All Other Fees  | <b>None</b>       | None              | None              |
| <b>Total</b>  | <b>₱3,180,000</b> | <b>₱2,716,318</b> | <b>₱2,915,215</b> |

No other service was provided by external auditors to the Company for the calendar years 2017, 2016 and 2015.

#### **The audit committee's approval policies and procedures for the services rendered by the external auditors**

The Corporate Governance Manual of the Company provides that the audit committee shall, among others:

1. Evaluate all significant issues reported by the external auditors relating to the adequacy, efficiency and effectiveness of policies, controls, processes and activities of the Company.
2. Ensure that other non-audit work provided by the external auditors is not in conflict with their functions as external auditors.
3. Ensure the compliance of the Company with acceptable auditing and accounting standards and regulations.

### **B. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

NONE.

## PART III - CONTROL AND COMPENSATION INFORMATION

### Item 9. Directors and Executive Officers of the Registrant

#### DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The names and ages of the directors, members of the advisory board and executive officers of the Company are as follows:

##### 1. DIRECTORS

| <u>Name</u>               | <u>Age</u> | <u>Position</u>                                 | <u>Citizenship</u> |
|---------------------------|------------|---|--------------------|
| John L. Gokongwei, Jr.    | 91         | Director, Chairman Emeritus                     | Filipino           |
| James L. Go               | 78         | Director, Chairman and Chief Executive Officer  | Filipino           |
| Lance Y. Gokongwei        | 51         | Director, President and Chief Operating Officer | Filipino           |
| Lily G. Ngochua           | 86         | Director  | Filipino           |
| Patrick Henry C. Go       | 47         | Director  | Filipino           |
| Johnson Robert G. Go, Jr. | 52         | Director  | Filipino           |
| Robina Y. Gokongwei-Pe    | 56         | Director  | Filipino           |
| Ricardo J. Romulo         | 84         | Director  | Filipino           |
| Cornelio T. Peralta       | 84         | Director (Independent)                          | Filipino           |
| Jose T. Pardo             | 78         | Director (Independent)                          | Filipino           |
| Renato T. De Guzman       | 67         | Director (Independent)                          | Filipino           |

##### 2. MEMBERS OF ADVISORY BOARD

| <u>Name</u>         | <u>Age</u> | <u>Position</u>          | <u>Citizenship</u> |
|---------------------|------------|--------------------------|--------------------|
| Aloysius B. Colayco | 67         | Member of Advisory Board | Filipino           |
| Jimmy T. Tang       | 82         | Member of Advisory Board | Filipino           |

##### 3. EXECUTIVE OFFICERS

| <u>Name</u>                        | <u>Age</u> | <u>Position</u>                            | <u>Citizenship</u> |
|------------------------------------|------------|--|--------------------|
| Bach Johann M. Sebastian           | 56         | Senior Vice President and Chief Strategist | Filipino           |
| Nicasio L. Lim                     | 61         | Senior Vice President                      | Filipino           |
| Maria Celia H. Fernandez-Estavillo | 46         | Senior Vice President and General Counsel  | Filipino           |
| Renato T. Salud                    | 54         | Senior Vice President                      | Filipino           |
| Aldrich T. Javellana               | 44         | Senior Vice President and Treasurer        | Filipino           |
| Francisco M. Del Mundo             | 47         | Chief Financial Officer                    | Filipino           |
| Michele F. Abellanosa              | 47         | Vice President – Corporate Controller      | Filipino           |
| Rosalinda F. Rivera                | 47         | Corporate Secretary                        | Filipino           |
| Chona R. Ferrer                    | 60         | Deputy Treasurer                           | Filipino           |
| Arlene S. Denzon                   | 50         | Compliance Officer                         | Filipino           |



All of the above directors, members of the advisory board and officers have served their respective offices since June 9, 2017.

Messrs. Cornelio T. Peralta, Jose T. Pardo and Renato T. De Guzman are the independent directors of the Company as defined under SRC Rule 38.1.

The directors of the Company are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified.

Officers and members of the advisory board are appointed or elected annually by the Board of Directors. Appointed or elected officers and advisory board members are to hold office until a successor shall have been elected, appointed or shall have qualified.

A brief description of the directors, advisory board members and executive officers' business experience and other directorships held in other reporting companies are provided as follows:

### **Directors**

1. **John L. Gokongwei, Jr.**, 91, is the founder and Chairman Emeritus of JG Summit Holdings, Inc. (JGSHI). He is a member of the Board of Directors of JGSHI and certain of its subsidiaries. He also continues to be a member of the Executive Committee of JGSHI and is Chairman Emeritus of certain of its subsidiaries. He is currently the Chairman of the Gokongwei Brothers Foundation, Inc., Deputy Chairman and Director of United Industrial Corporation Limited and a director of Cebu Air, Inc., Robinsons Retail Holdings, Inc. and Oriental Petroleum and Minerals Corporation. He was elected a director of Manila Electric Company on March 31, 2014. He is also a non-executive director of A. Soriano Corporation. Mr. Gokongwei received a Masters degree in Business Administration from the De La Salle University and attended the Advanced Management Program at Harvard Business School.
2. **James L. Go**, 78, is the Chairman and Chief Executive Officer of JGSHI and Oriental Petroleum and Minerals Corporation. He is the Chairman of Universal Robina Corporation, Robinsons Land Corporation, JG Summit Petrochemical Corporation and JG Summit Olefins Corporation. He is the Vice Chairman of Robinsons Retail Holdings, Inc. and a director of Cebu Air, Inc., Marina Center Holdings, Private Limited, United Industrial Corporation Limited, and Hotel Marina City Private Limited. He is also the President and Trustee of the Gokongwei Brothers Foundation, Inc. He has been a director of the Philippine Long Distance Telephone Company (PLDT) since November 3, 2011. He is a member of the Technology Strategy Committee and Advisor of the Audit Committee of the Board of Directors of PLDT. He was elected a director of Manila Electric Company on December 16, 2013. Mr. Go received his Bachelor of Science Degree and Master of Science Degree in Chemical Engineering from Massachusetts Institute of Technology, USA.
3. **Lance Y. Gokongwei**, 51, is the President and Chief Operating Officer of JGSHI. He is the Chairman and Chief Executive Officer of Robinsons Retail Holdings, Inc. He is also the President and Chief Executive Officer of Universal Robina Corporation, and Cebu Air, Inc. He is the Vice Chairman and Chief Executive Officer of Robinsons Land Corporation. He is the Chief Executive Officer of JG Summit Petrochemical Corporation and JG Summit Olefins Corporation. He is the Chairman of Robinsons Bank Corporation and a director of Oriental Petroleum and Minerals Corporation and United Industrial

Corporation Limited. He is a director and Vice Chairman of Manila Electric Company. He is a trustee and secretary of the Gokongwei Brothers Foundation, Inc. He received a Bachelor of Science degree in Finance and a Bachelor of Science degree in Applied Science from the University of Pennsylvania.

4. **Lily G. Ngochua**, 86, has been a director of JGSHI since its formation in 1990. She is responsible for overseeing the Company's hotel and agro-industrial business in Cebu. She also supervises the purchasing and treasury departments of the URC Biscuit and Noodle Plants in Cebu and handles the treasury functions of the mall business in Cebu. She received a Bachelor of Arts degree from Maryknoll College in Quezon City in 1957.
5. **Patrick Henry C. Go**, 47, has been a director of JGSHI since 2000. He is currently a director and Vice President of Universal Robina Corporation and is the President and Chief Operating Officer of JG Summit Petrochemical Corporation and JG Summit Olefins Corporation. He is also the Senior Managing Director of the URC Packaging (BOPP) Division and the Flexible Packaging Division. In addition, he is a director of Robinsons Land Corporation and Robinsons Bank Corporation. He is a trustee and treasurer of the Gokongwei Brothers Foundation, Inc. He received a Bachelor of Science degree in Management from the Ateneo De Manila University and attended the General Manager Program at Harvard Business School. Mr. Patrick Henry C. Go is a nephew of Mr. John L. Gokongwei, Jr.
6. **Johnson Robert G. Go, Jr.**, 52, has been a director of JGSHI since August 18, 2005. He is currently a director of Universal Robina Corporation, Robinsons Land Corporation, and Robinsons Bank Corporation. He is also a trustee of the Gokongwei Brothers Foundation, Inc. He received a Bachelor of Arts degree in Interdisciplinary Studies (Liberal Arts) from the Ateneo de Manila University. He is a nephew of Mr. John L. Gokongwei, Jr.
7. **Robina Y. Gokongwei-Pe**, 56, has been a director of JGSHI since April 15, 2009. She is also a director of Robinsons Land Corporation, Cebu Air, Inc., and Robinsons Bank Corporation. She is currently the President and Chief Operating Officer of Robinsons Retail Holdings, Inc. consisting of Robinsons Supermarket, Robinsons Department Store, Handyman, True Value, Robinsons Builders, Robinsons Specialty Stores, Robinsons Appliances, Toys R Us, Daiso Japan, Ministop, South Star Drug and The Generics Pharmacy. She is a Trustee of the Gokongwei Brothers Foundation, Inc. and the Immaculate Conception Academy Scholarship Fund. She was also a member of the University of the Philippines Centennial Commission and was a former Trustee of the Ramon Magsaysay Awards Foundation. She obtained her Bachelor of Arts degree in Journalism from the New York University. She is a daughter of Mr. John L. Gokongwei, Jr.
8. **Ricardo J. Romulo**, 84, has been a director of JGSHI since July 26, 2000. He is a Senior Partner of Romulo Mabanta Buenaventura Sayoc & De Los Angeles. He is the Chairman of Cebu Air, Inc., FPG Insurance Co., Inc., InterPhil Laboratories, Inc., Sime Darby Pilipinas, Inc. and Towers Watson Philippines, Inc. He is a director of BASF Philippines, Inc., Honda Philippines, Inc., Johnson & Johnson (Phils.), Inc., Maersk-Filipinas, Inc., MCC Transport Philippines, Inc., Mercantile Ocean Maritime Co. (Filipinas), Inc., Damco Philippines, Inc. and Zuellig Pharma Corporation. He received his Bachelor of Laws degree from Georgetown University and Doctor of Laws degree from Harvard Law School.

9. **Cornelio T. Peralta**, 84, has been an independent director of JGSHI since July 26, 2000. He is a director of the University of the East, UERM Medical Center, Inc., Makati Commercial Estate Association, Inc., and Wan Hai Lines, Inc. He was formerly the Chairman, CEO and President of Kimberly Clark Philippines, Inc. (1971-1998), former President of P.T. Kimsari Paper Indonesia (1985-1998), and former Chairman & CEO of University of the East (1982-1984). He finished his Bachelor of Arts degree, cum laude, and Bachelor of Laws degrees from the University of the Philippines and took up Advanced Management Program at Harvard Graduate School of Business.
  
10. **Jose T. Pardo**, 78, has been an independent director of JGSHI since August 6, 2003. He is presently the Chairman of the Philippine Stock Exchange, Securities Clearing Corporation of the Philippines, Philippine Savings Bank, Bank of Commerce, and Philippine Seven Corporation. He is also a director of the National Grid Corporation of the Philippines, ZNN Radio Veritas, Araneta Hotels, Inc., Monte Oro Grid Resources Corporation, and League One Finance and Leasing Corporation. He also held positions in government as former Secretary of the Department of Finance and former Secretary of the Department of Trade and Industry. He obtained his Bachelor of Science degree in Commerce, Major in Accounting and his Masters Degree in Business Administration from the De La Salle University in Manila. He has been conferred on February 10, 2018 an Honorary Doctorate in Finance by the De La Salle University.
  
11. **Renato T. de Guzman**, 67, has been an independent director of JGSHI since April 28, 2015. He was appointed Chairman of the Board of Trustees of the Government Service Insurance System in July 2015 under the previous administration and served as such until December 2016. He was a Senior Adviser of the Bank of Singapore until September 2017. He is also a Director of Maybank Philippines, Inc., Chairman of Nueva Ecija Good Samaritan Health System, Inc., and an independent director of Investment & Capital Corporation of the Philippines. He was formerly the Chief Executive Officer of the Bank of Singapore (January 2010-January 2015), and ING Asia Private Bank (May 2000-January 2010), Country Manager Philippines of ING Barings (1990-2000), and Deputy Branch Manager of BNP Philippines (1980-2000). He holds a Bachelor of Science in Management Engineering from the Ateneo de Manila University, Masters Degree in Business Administration with Distinction at the Katholieke Universiteit Leuven, Belgium and a Masters in Management from McGill University, Canada.

#### **Members of Advisory Board**

1. **Aloysius B. Colayco**, 67, has been a member of the advisory board of JGSHI since August 2001 and is presently the Country Chairman for the Jardine Matheson Group in the Philippines. He is also Co-Founder of Argosy Partners, a private equity firm. He is the Chairman of Colliers Philippines and a director of Maybank Philippines and Generali Life Assurance Philippines, Inc. Previously, Mr. Colayco was President of AIG Investment Corporation in New York, the AIG subsidiary responsible for managing the Group's investment portfolios outside the US (primarily Europe, Asia, Latin America, the Middle East and Africa).
  
2. **Jimmy Tang**, 82, has been a member of the advisory board of JGSHI since 2012. He is the President and Chairman of the Board of the Avesco Group of Companies. He is currently an Honorary President of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. (FFCCCII), and was FFCCCII President for two terms from 1993 to 1997. In addition, he is presently an Honorary Adviser of the Federation of Electrical & Electronics Suppliers & Manufacturers of the Philippines, Inc. (PESA) and PESA Foundation. He was the ninth President of PESA and the first Chairman of the

PESA Foundation, which he served for seven years. He obtained his Bachelor of Science degree in Electrical Engineering from the Mapua Institute of Technology which conferred him the “Top Outstanding Mapuan for Entrepreneurship” award in 1987.

### **Executive Officers**

1. **Bach Johann M. Sebastian**, 56, is the Senior Vice President - Chief Strategist of JGSHI. He is also the Senior Vice President - Chief Strategist of Universal Robina Corporation, Robinsons Land Corporation, Cebu Air, Inc. and Robinsons Retail Holdings, Inc., Universal Robina Corporation and Robinsons Land Corporation. Prior to joining JGSHI in 2002, he was Senior Vice President and Chief Corporate Strategist at PSI Technologies and RFM Corporation. He was also Chief Economist, Director of Policy and Planning Group at the Department of Trade and Industry. He received a Bachelor of Arts degree in Economics from the University of the Philippines and his Masters in Business Management degree from the Asian Institute of Management.
2. **Nicasio L. Lim**, 61, is the Senior Vice President of the Corporate Resources Group (CRG) of JGSHI. He is a top human resource (HR) executive with over 40 years of experience in human resources both here and abroad, 21 of those years in San Miguel Corporation (SMC), 5 in Kraft Foods International (KFI) and now with JGSHI. CRG integrates three units – Corporate Human Resources, Corporate Outsourcing Group and Corporate Safety and Security Department. Prior to this, he was Senior Vice President, Corporate Human Resources starting March 2008 and used to be the Human Resources Director of Universal Robina Corporation (URC) starting May 2004, where he managed HR functions for the whole URC group comprising of several businesses: Branded Consumer Foods, Agro-Industrial, Flour, Sugar, Packaging and CFC Flexible. He retired from SMC in 1999 as the Vice President for HR & Communications of the Beer Division. It was in his stint in SMC when he had his first crack at going international through his assignment as Vice President for Human Resources of San Miguel Brewing International based in Hong Kong in 1997. After SMC, he joined KFI in 2000 as Human Resources Director for Southeast Asia. He was able to forge a very strong HR organization which took care of managing the needed HR imperatives of KFI across 16 countries. He was conferred the People Manager of the Year Award, the highest award an HR practitioner can receive in his lifetime given by the People Management Association of the Philippines (PMAP) in 2007. He was a member of the PMAP Board of Directors from 2003 to 2004. In his capacity as Director, he headed the Committees on International Affairs and Industrial Relations. Moreover, he is among the esteemed HR professionals in the country who was bestowed the title Diplomate in People Management by PMAP. He graduated with a Bachelor's Degree in Business Administration at the De La Salle University and finished Human Resource Executive Program at the University of Michigan-USA.
3. **Maria Celia H. Fernandez-Estavillo**, 46, is the Senior Vice President and General Counsel of JGSHI. She was appointed on February 15, 2017 and assumed her functions on March 1, 2017. Prior to her appointment in JGSHI, Atty. Fernandez-Estavillo was the head of the Legal and Regulatory Affairs Group, Corporate Secretary and member of the Board of Directors of Rizal Commercial Banking Corporation. She was Assistant Vice President of Global Business Development of ABS-CBN. She also held positions in government as Head of the Presidential Management Staff, Assistant Secretary at the Department of Agriculture and Chief of Staff of Senator Edgardo J. Angara. She began her legal career in ACCRA. She graduated from the University of the Philippines with a Bachelor of Science degree in Business Economics (Summa Cum Laude) and a Bachelor of Laws degree (Cum Laude). She completed her Master of Laws (LLM) in Corporate Law (Cum Laude) from New York University School of Law. She received the

highest score in the Philippine Bar examinations of 1997.

4. **Renato T. Salud**, 54, is the Senior Vice President for Corporate Affairs of JGSHI. Prior to joining JGSHI in March 2016, he was the Corporate Relations Director, Asia for Diageo Asia Pacific based in Singapore. In this role, he had oversight on a number of Asian countries in the areas of regulation, communications and corporate social responsibility. He has extensive experience in working with governments in formulating best practice policy recommendations. He started his career as Legislative Liaison Officer for the Department of National Defense and speechwriter for Defense Secretary Fidel Ramos. In 1992, when Fidel Ramos became President of the Philippines, he continued to serve him at the Office of the Press Secretary until 1998. He moved into the private sector with Pfizer Philippines where he was Corporate Affairs Director for two years. From 2000 to 2006, he then joined Philip Morris, starting as Philip Morris Philippines Corporate Affairs Director before moving to Hong Kong to take on the role of Director for Communications for Asia Pacific. He later became Regional Corporate Affairs Director for Eastern Europe, Africa and Middle East based in Switzerland and by the time he left Philip Morris to join Diageo in 2006, he held the position of Regional Corporate Affairs Director for the European Union. He has degrees in business and law both from Ateneo de Manila University. He also obtained his Master's Degree in Public Administration at Harvard's John F. Kennedy School of Government.
5. **Aldrich T. Javellana**, 44, is the Senior Vice President of JGSHI. He was appointed Senior Vice President on October 2, 2017 and has been Vice President-Treasurer of JGSHI since January 2, 2012. Prior to joining JGSHI in 2003, he worked in Corporate Finance with CLSA Exchange Capital. He graduated from De La Salle University with a degree in BS Accountancy and is a Certified Public Accountant.
6. **Francisco M. Del Mundo**, 47, is the Chief Financial Officer (CFO) of JGSHI effective October 2, 2017. He is also the CFO of Universal Robina Corporation. He brings with him 24 years of experience in all aspects of the finance career. He has built his career from 17 years of rigorous training in Procter & Gamble (P&G) and 3 years in Coca-Cola prior to joining the JG Summit Group. He has worked in three different markets: Manila, Thailand and Singapore, and has held numerous CFO and Regional Finance Head positions, namely: CFO for ASEAN, Head of Accounting Shared Services for Central and Eastern Europe, Middle East and Africa, and Asia Hub Manager for Internal Controls for P&G. During his stint with Coca-Cola, he was the CFO for Coca-Cola Bottlers Philippines, Inc. and concurrently the CEO of Coca-Cola Bottlers Business Services, the company's global shared service handling Philippines, Singapore and Malaysia. In 2013, he joined JG Summit Holdings, Inc. as Vice President for JG Summit and Affiliates Shared Services. He was appointed as CFO of URC International the same year, concurrent with Shared Services role. In 2016, he was appointed CFO of URC and Head of JG Summit Enterprise Risk Management Group, and continues to lead Shared Services as its Vice President. He graduated cum laude from the University of the Philippines Diliman with a Bachelor of Science in Business Administration degree. He was recognized as the Most Distinguished Alumnus of the University's College of Business Administration in 2008. He is also a Certified Internal Auditor and has done several external talks on shared service and finance transformation in Manila, Malaysia and Dubai.
7. **Michele F. Abellanosa**, 47, is the Vice President for Corporate Controllershship of JGSHI. She concurrently heads the accounting groups of JGSHI, Express Holdings, Inc., JG Summit Capital Services Corporation, Unicon Insurance Brokers Corporation and Gokongwei Brothers Foundation, Inc. Prior to joining JGSHI, she practiced public accounting with SGV & Co. She received her Bachelor of Science degree in Commerce,

Major in Accounting, from the University of Santo Tomas and is a Certified Public Accountant.

8. **Rosalinda F. Rivera**, 47, is the Corporate Secretary of JGSHI. She was appointed as Corporate Secretary on August 6, 2003 and has been Assistant Corporate Secretary since May 2002. She is also the Corporate Secretary of Universal Robina Corporation, Robinsons Land Corporation, Cebu Air, Inc., Robinsons Retail Holdings, Inc. and JG Summit Petrochemical Corporation. Prior to joining the Company, she was a Senior Associate in Puno and Puno Law Offices. She received a degree of Juris Doctor from the Ateneo de Manila University School of Law and a Masters of Law in International Banking from the Boston University School of Law.
9. **Chona R. Ferrer**, 60, is the Deputy Treasurer of JGSHI. She is also the First Vice President of Universal Robina Corporation. Prior to joining JGSHI in 1983, she was Assistant Treasurer of Guevent Industrial Development Corporation. She received a Bachelor of Science degree in Business Administration from the University of the Philippines.
10. **Arlene S. Denzon**, 50, is the Compliance Officer and Vice President of the Corporate Governance and Management Systems (CGMS) of JGSHI. She is also the Compliance Officer of Universal Robina Corporation and Robinsons Land Corporation. Prior to rejoining JGSHI in February 2013, she was the Senior Vice President in charge of the Enterprise-wide Risk Management Group of Digitel Mobile Philippines, Inc. (DMPI, more popularly known as Sun Cellular) until December, 2012. Ms. Denzon started her career in the Gokongwei Group in 1991 and performed various roles including Accounting Manager of JGSHI until 1997, Assistant Vice President - Special Assistant to the Chairman until 2001, Vice President – Treasurer and Acting Chief Financial Officer of URC International until 2003 before she was seconded to DMPI in 2004. Prior to JGSHI, Ms. Denzon had three years working experience as external auditor in Sycip, Gorres, Velayo & Co. She was a Certified Public Accountant Board topnotcher and obtained her Bachelor of Accountancy degree, Magna Cum Laude, from the Polytechnic University of the Philippines.

#### **SIGNIFICANT EMPLOYEE**

There are no persons who are not executive officers of the Company who are expected to make a significant contribution to the business.

#### **INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS WHICH OCCURRED DURING THE PAST FIVE YEARS.**

None.

#### **FAMILY RELATIONSHIPS**

1. Mr. James L. Go is the brother of Mr. John L. Gokongwei, Jr.
2. Ms. Lily G. Ngochua is the sister of Mr. John L. Gokongwei, Jr.
3. Mr. Lance Y. Gokongwei is the son of Mr. John L. Gokongwei, Jr.
4. Mr. Patrick Henry C. Go is the nephew of Mr. John L. Gokongwei, Jr.
5. Mr. Johnson Robert G. Go, Jr. is the nephew of Mr. John L. Gokongwei, Jr.
6. Ms. Robina Y. Gokongwei-Pe is the daughter of Mr. John L. Gokongwei, Jr.

## Item 10. Executive Compensation

The aggregate compensation of executive officers and directors of the Company for the last 2 years and projected for the ensuing year (2018) are as follows:

|  | ACTUAL       |            |          |              |              |
|--|--------------|------------|----------|--------------|--------------|
|  | 2017         |            |          |              | 2016         |
|  | Salary       | Bonus      | Others   | Total        | Total        |
| CEO and Four (4) most highly compensated Executive officer | ₱151,546,907 | ₱3,500,000 | ₱555,000 | ₱155,601,907 | ₱141,274,480 |
| All directors and executive officers as a group unnamed    | ₱220,119,047 | ₱6,500,000 | ₱802,500 | ₱227,421,547 | ₱210,213,012 |

|  | PROJECTED 2018 |            |            |              |
|--|----------------|------------|------------|--------------|
|  | Salary         | Bonus      | Others     | Total        |
| CEO and Four (4) most highly compensated Executive officer | ₱160,348,643   | ₱3,500,000 | ₱1,065,000 | ₱164,913,643 |
| All directors and executive officers as a group unnamed    | ₱231,728,852   | ₱6,500,000 | ₱1,702,500 | ₱239,931,352 |

The following are the five (5) highest compensated directors and executive officers of the Company: 1. Chairman Emeritus - Mr. John L. Gokongwei, Jr.; 2. Director, Chairman and CEO - Mr. James L. Go; 3. Director, President and COO - Mr. Lance Y. Gokongwei; 4. Director - Mr. Patrick Henry C. Go; and 5. Director - Ms. Robina Y. Gokongwei-Pe.

### Standard Arrangements

Other than payment of reasonable per diem, there are no standard arrangements pursuant to which directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services rendered provided as a director for the last completed year and the ensuing year.

### Other Arrangements

There are no other arrangements pursuant to which any director of the Company was compensated, or is to be compensated, directly or indirectly, during the Company's last completed year, and the ensuing year, for any service provided as a director.

### Terms and Conditions of any Employment Contract or any Compensatory Plan or Arrangement between the Company and the Executive Officers.

None.

Outstanding Warrants or Options Held by the Company's CEO, the Executive Officers and Directors.

None.

**Item 11. Security Ownership of Certain Record and Beneficial Owners and Management**

As of December 31, 2017, the Company is not aware of anyone who beneficially owns in excess of 5% of the Company's common stock except as set forth in the table below:

**(1) SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS**

| Title of class | Names and addresses of record owners and relationship with the Corporation  | Names of beneficial owner and relationship with record owner | Citizenship  | No. of shares held         | % to total outstanding |
|----------------|---|--|--------------|----------------------------|------------------------|
| Common         | Gokongwei Brothers Foundation, Inc.<br>43/F Robinsons-Equitable Tower ADB Ave. cor. Poveda St. Ortigas Center, Pasig City (stockholder)       | Same as record owner (see note 1)                            | Filipino     | 1,997,076,451              | 27.88%                 |
| Common         | PCD Nominee Corporation (Filipino)<br>37/F Tower I, The Enterprise Center, 6766 Ayala Ave. cor. Paseo de Roxas, Makati City (stockholder)     | PCD Participants and their clients (see note 2)              | Filipino     | 1,573,053,374 (see note 3) | 21.96%                 |
| Common         | RSB-TIG No. 030-46-000001-9<br>17/F Galleria Corporate Center Edsa cor. Ortigas Ave., Quezon City (stockholder)                               | Trustee's designated officers (see note 4)                   | Filipino     | 1,033,319,225              | 14.43%                 |
| Common         | PCD Nominee Corporation (Non-Filipino)<br>37/F Tower I, The Enterprise Center, 6766 Ayala Ave. Cor. Paseo de Roxas, Makati City (stockholder) | PCD Participants and their clients (see note 2)              | Non-Filipino | 1,006,916,271 (see note 3) | 14.06%                 |

**Notes:**

- Gokongwei Brothers Foundation, Inc. (the "Foundation") is a non-stock, non-profit corporation organized by the irrevocable donation by the incorporators, who are also Trustees of the Foundation, of shares of JG Summit Holdings, Inc. Under the Articles of Incorporation and By-Laws of the Foundation, except for salaries of employees and honoraria of consultants and similar expenses for actual services rendered to the Foundation or its projects, no part of the corpus or its income and increments shall benefit or be used for the private gain of any member, trustee, officer or any juridical or natural person whatsoever. The Chairman of the Board of Trustees shall exercise exclusive power and authority to represent and vote for any shares of stock owned by the Foundation in other corporate entities. The incumbent Chairman of the Board of Trustees of the Foundation is Mr. John L. Gokongwei, Jr.
- PCD Nominee Corporation is the registered owner of the shares in the books of the Corporation's transfer agent. PCD Nominee Corporation is a corporation wholly owned by the Philippine Depository and Trust Corporation, Inc. (formerly the Philippine Central Depository) ("PDTTC"), whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged in the PDTTC. PDTTC is a private corporation organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. Under the current system of the



PDTC, only participants (brokers and custodians) are recognized by PDTC as the beneficial owners of the lodged shares. Each beneficial owner of shares through his participant is the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee.

3. Out of the PCD Nominee Corporation account, "BPI Securities Corporation", "Maybank ATR Kim Eng Securities, Inc." and "Citibank N.A." hold for various trust accounts the following shares of the Corporation as of December 31, 2017:

|                                      | <u>No. of shares held</u> | <u>% to total outstanding</u> |
|--------------------------------------|---------------------------|-------------------------------|
| BPI Securities Corporation           | 509,653,981               | 7.12%                         |
| Maybank ATR Kim Eng Securities, Inc. | 506,012,117               | 7.06%                         |
| Citibank N.A.                        | 415,648,842               | 5.80%                         |

Voting instructions may be provided by the beneficial owners of the shares.

4. Robisons Bank - Trust & Investment Group (RSB-TIG) is the trustee of this trust account. The shares are voted by the trustee's designated officers.

## (2) SECURITY OWNERSHIP OF MANAGEMENT

| Title of class                                   | Names of beneficial owner              | Position  | Amount and nature of beneficial ownership | Citizenship | % to total outstanding |
|--|--|---|---|-------------|------------------------|
| <i>A. Named Executive Officers<sup>1</sup></i>   |  |   |   |             |                        |
| Common   | 1. John L. Gokongwei, Jr.              | Director, Chairman Emeritus                     | 58,007,718(D)                             | Filipino    | 0.81%                  |
| Common   | 2. James L. Go                         | Director, Chairman and Chief Executive Officer  | 148,679,656(D)                            | Filipino    | 2.08%                  |
| Common   | 3. Lance Y. Gokongwei                  | Director, President and Chief Operating Officer | 541,838,575(D)                            | Filipino    | 7.56%                  |
| Common   | 4. Patrick Henry C. Go                 | Director  | 93,500(D)                                 | Filipino    | *                      |
| Common   | 5. Robina Y. Gokongwei-Pe              | Director  | <u>179,460,000(D)</u>                     | Filipino    | <u>2.51%</u>           |
|  |  |   | <u>928,079,449</u>                        |             | <u>12.96%</u>          |
| <i>B. Other Directors and Executive Officers</i> |  |   |   |             |                        |
| Common   | 6. Lily G. Ngochua                     | Director  | 388,018(D)                                | Filipino    | *                      |
| Common   | 7. Johnson Robert G. Go, Jr.           | Director  | 1(D)                                      | Filipino    | *                      |
| Common   | 8. Ricardo J. Romulo                   | Director  | 1(D)                                      | Filipino    | *                      |
| Common   | 9. Cornelio T. Peralta                 | Director<br>(Independent)                       | 11,000(D)                                 | Filipino    | *                      |
| Common   | 10. Jose T. Pardo                      | Director<br>(Independent)                       | 1(D)                                      | Filipino    | *                      |
| Common   | 11. Renato T. De Guzman                | Director<br>(Independent)                       | 1(D)                                      | Filipino    | *                      |
| Common   | 12. Maria Celia H. Fernandez-Estavillo | Senior Vice President and General Counsel       | 5000(D)                                   | Filipino    | *                      |
| Common   | 13. Michelle F. Abellanosa             | Vice-President - Corporate Controller           | 6,000(D)                                  | Filipino    | *                      |
|  |  |   | <u>410,022</u>                            |             | <u>0.01%</u>           |
|  |  |   | <u>928,489,471</u>                        |             | <u>12.97%</u>          |

**Notes:**

D - Direct

1. As defined under Part IV (B)(1)(b) of Annex "C" of SRC Rule 12, the "named executive officers" to be listed refer to the Chief Executive Officer and those that are the four (4) most highly compensated executive officers as of December 31, 2017.
- \* less than 0.01%.

The other Executive Officers of the Company have no beneficial ownership over any shares of the Company as of December 31, 2017, namely:

|                             |   |  |
|-----------------------------|---|--|
| 1. Bach Johann M. Sebastian | - | Senior Vice President and Chief Strategist |
| 2. Nicasio L. Lim           | - | Senior Vice President                      |
| 3. Renato T. Salud          | - | Senior Vice President                      |
| 4. Aldrich T. Javellana     | - | Senior Vice President and Treasurer        |
| 5. Francisco M. Del Mundo   | - | Chief Financial Officer                    |
| 6. Rosalinda F. Rivera      | - | Corporate Secretary                        |
| 7. Chona R. Ferrer          | - | Deputy Treasurer                           |
| 8. Arlene S. Denzon         | - | Compliance Officer                         |

**(3) VOTING TRUST HOLDERS OF 5% OR MORE**

As of December 31, 2017, there are no persons holding more than 5% of a class under a voting trust or similar agreement.

**(4) CHANGES IN CONTROL**

None

**Item 12. Certain Relationships and Related Transactions**

See Note 40 (Related Party Transactions Disclosures) of the Notes to Consolidated Financial Statements filed as part of this Form 17-A.

The Company and its subsidiaries and affiliates, in their regular conduct of business, have engaged in transactions with each other and with other affiliated companies, consisting principally of sales and purchases at market prices and advances made and obtained.

**PART IV - CORPORATE GOVERNANCE**

**Item 13. Corporate Governance**

The Group adheres to the principles and practices of good corporate governance, as embodied in its Corporate Governance Manual, Code of Ethics and related SEC Circulars. Continuous improvement and monitoring of governance and management policies have been undertaken to ensure that the Group observes good governance and management practices. This is to assure the shareholders that the Group conducts its business with the highest level of integrity, transparency and accountability.

The Group likewise consistently strives to raise its financial reporting standards by adopting and implementing prescribed Philippine Financial Reporting Standards (PFRSs).

## PART V - EXHIBITS AND SCHEDULES

### Item 14. Exhibits and Reports on SEC Form 17-C

**(a) Exhibits** - See accompanying Index to Exhibits (page 84)

The other exhibits, as indicated in the Index to Exhibits are either not applicable to the Company or require no answer.

**(b) Reports on SEC Form 17-C (Current Report)**

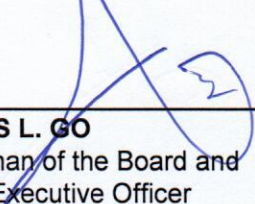
Following is a list of disclosures filed by JGSHI under SEC Form 17-C for the six month period from July 1, 2017 to December 31, 2017:

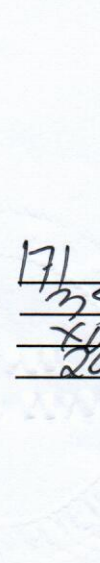
| Date of Disclosure | Subject Matter   |
|--------------------|--|
| August 2, 2017     | Press Release "Oriente - Express create joint venture to address financial inclusion through fintech".                                   |
| August 4, 2017     | Joint Venture between ORT Company (Singapore) Private Limited and Express Holdings, Inc.   |
| August 14, 2017    | Disclosure Statement "JG Summit Posted Core Net Income of ₱15.95 Billion for the First Half of 2017".                                    |
| September 4, 2017  | Disclosure of a subsidiary.  |
| October 3, 2017    | Change in designation, promotion and appointment of officers.  |
| November 10, 2017  | Clarification of news report "JG Summit eyes ₱18-billion project in Cebu City".  |
| November 16, 2017  | Disclosure Statement "JG Summit Posted Core Net Income of ₱22.69 Billion for Nine Months of 2017".                                       |
| November 16, 2017  | Clarification of news report "Gotianun, Gokongwei offer to spend ₱839B to develop Clark".  |
| December 7, 2017   | Clarification of news report "Big consortium to rebuild NAIA".   |
| December 21, 2017  | Press release on the agreement to form a consortium to rehabilitate, operate and maintain the Ninoy Aquino International Airport (NAIA). |


**SIGNATURES**


Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of PASAY CITY on APR 11 2018 2018.

By:

  
**JAMES L. GO**  
 Chairman of the Board and  
 Chief Executive Officer

  
**LANCE Y. GOKONGWEI**  
 President and  
 Chief Operating Officer

  
**FRANCISCO M. DEL MUNDO**  
 Chief Financial Officer

  
**ROSALINDA F. RIVERA**  
 Corporate Secretary


**APR 11 2018**

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_ day of April 2018 affiant(s) exhibiting to me his/their Residence Certificates, as follows:

| NAMES                  | CTC NO./TIN                        | DATE OF ISSUE     | PLACE OF ISSUE |
|------------------------|------------------------------------|-------------------|----------------|
| James L. Go            | 7809719/124-294-200                | January 16, 2018  | Pasig City     |
| Lance Y. Gokongwei     | 7809720/116-312-586                | January 16, 2018  | Pasig City     |
| Francisco M. Del Mundo | Passport No: EC6738704             | February 15, 2016 | DFA Manila     |
| Rosalinda F. Rivera    | Drivers License No.<br>N0194172453 | June 12, 2018     | Pasig City     |

Doc. No. 171  
 Book No. 35  
 Page No. 5126  
 Series of 2018

**Notary Public**

  
**Atty. Jovino R. Angel**  
 Notary Public and in Pasay City  
 Notarial Commission 17-08  
 Until December 31, 2018  
 PTR No. 5826093 / IBP No. 1062667  
 Both issued in Pasay City on Jan. 03, 2018  
 MCLE Compliance No. V-0024151/10-25 18  
 Roll of Attorney's No. 28761

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY SCHEDULES**

**CONSOLIDATED COMPANY FINANCIAL STATEMENTS**

|  |     |
|--|-----|
| Statement of Management’s Responsibility for Financial Statements.....                                       | 85  |
| Report of Independent Auditors.....  | 87  |
| Consolidated Statements of Financial Position as of December 31, 2017 and 2016.....                          | 95  |
| Consolidated Statements of Comprehensive Income for the Years Ended<br>December 31, 2017, 2016 and 2015..... | 97  |
| Consolidated Statements of Changes in Equity for the Years Ended<br>December 31, 2017, 2016 and 2015.....    | 99  |
| Consolidated Statements of Cash Flows for the Years Ended<br>December 31, 2017, 2016 and 2015.....           | 101 |
| Notes to Consolidated Financial Statements.....  | 103 |

**SUPPLEMENTARY SCHEDULES**

|  |     |
|--|-----|
| Report of Independent Auditors on Supplementary Schedules..... | 276 |
|--|-----|

Part I

|  |     |
|--|-----|
| I. Reconciliation of Retained Earnings Available for Dividend Declaration<br>(Part 1, 4C; Annex 68-C)..... | 277 |
| II. Schedule of all the effective standards and interpretations (Part 1, 4J).....                          | 278 |
| III. Map of the relationships of the companies within the group (Part 1, 4H).....                          | 283 |

Part II - Supplementary Schedules Required by Annex 68-E

|  |     |
|--|-----|
| A. Financial Assets.....   | 293 |
| B. Amounts Receivable from Directors, Officers, Employees, Related Parties<br>and Principal Stockholders (Other than Related Parties)..... | 294 |
| C. Amounts Receivable from Related Parties which are Eliminated During<br>the Consolidation of Financial Statements.....                   | 295 |
| D. Intangible Assets - Other Assets.....   | 296 |
| E. Long-term Debt.....   | 297 |
| F. Indebtedness to Related Parties (Long-Term Loans from Related Companies).....   | 298 |
| G. Guarantees of Securities of Other Issuers.....  | 299 |
| H. Capital Stock.....  | 300 |

**OTHER SCHEDULE**

|                                    |     |
|------------------------------------|-----|
| Financial Soundness Indicator..... | 301 |
|------------------------------------|-----|



# JG SUMMIT HOLDINGS, INC.

43rd FLOOR ROBINSONS EQUITABLE TOWER ADB AVE. COR. POVEDA RD. ORTIGAS CENTER, PASIG CITY  
TEL. NO.: 633-76-31,637-1670, 240-8801 FAX NO.: 633-9387 OR 633-9207

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

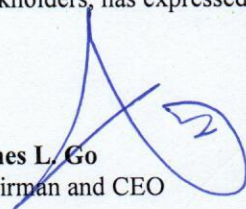
The management of JG Summit Holdings, Inc. and Subsidiaries is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the year(s) ended December 31, 2017, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

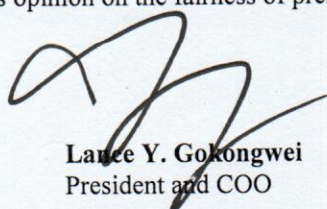
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or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

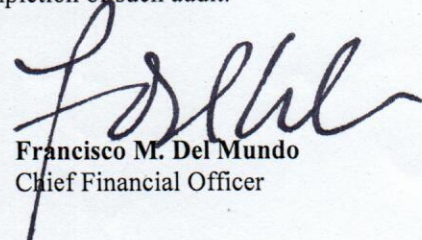
The Board of Directors (BOD) is responsible for overseeing the Company's financial reporting process.

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

SyCip Gorres Velayo & Co. (SGV), the independent auditors, appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

  
**James L. Go**  
Chairman and CEO

  
**Lance Y. Gokongwei**  
President and COO

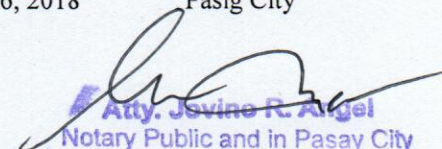
  
**Francisco M. Del Mundo**  
Chief Financial Officer

APR 11 2018

Subscribed and Sworn to before me this April \_\_, 2018 affiants(s) exhibiting to me his/her Residence Certificates, as follows:

| <u>Names</u>           | <u>CTC No.</u>         | <u>Date of Issue</u> | <u>Place of Issue</u> |
|------------------------|------------------------|----------------------|-----------------------|
| James L. Go            | 7809719                | January 16, 2018     | Pasig City            |
| Lance Y. Gokongwei     | 7809720                | January 16, 2018     | Pasig City            |
| Francisco M. Del Mundo | Passport No. EC6738704 |                      |                       |

Doc. No. 170  
Book No. 274  
Page No. 25  
Series of 2018

  
**Atty. Jovino R. Argel**  
Notary Public and in Pasay City  
Notarial Commission 17-08  
Until December 31, 2018  
PTR No. 5626093 / IBP No. 1062667  
Both issued in Pasay City on Jan. 03, 2018  
MCLE Compliance No. V-0024151/10-25 18  
Roll of Attorney's No. 28761



# JG SUMMIT HOLDINGS, INC.

43rd FLOOR ROBINSONS EQUITABLE TOWER ADB AVE. COR. POVEDA RD. ORTIGAS CENTER, PASIG CITY  
TEL. NO.: 633-76-31,637-1670, 240-8801 FAX NO.: 633-9387 OR 633-9207

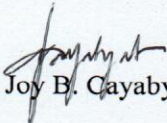
## CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

I hereby certify that I am the Certified Public Accountant (CPA) who performed the compilation services related to the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and reports as required by accounting and auditing standards for JG Summit Holdings, Inc. and Subsidiaries for the period ended December 31, 2017.

In discharging this responsibility, I hereby declare that I am the Accounting Manager of JG Summit Holdings, Inc.

Furthermore, in my compilation services for the preparation of the Financial Statements and Notes to the Financial Statements, I was not assisted by or did not avail of the services of Sycip Gorres Velayo & Co. who is the external auditor who rendered the audit opinion for the said Financial Statements and Notes to the Financial Statements.

I hereby declare, under penalties of perjury and violation of Republic Act No. 9298, that my statements are true and correct.

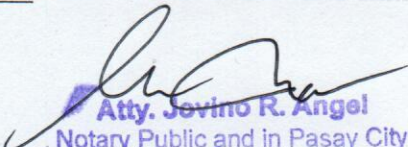
  
Mizpha Joy B. Cayabyab

Professional Identification Card No. 0128940  
Valid Until: November 13, 2020

Accreditation Number: 0930  
Valid Until: November 13, 2020

APR 11 2018

SUBSCRIBED AND SWORN to before me this \_\_\_ day of \_\_\_ 2018 affiant exhibiting to me her PRC ID No. \_\_\_\_\_ issued on \_\_\_\_\_ issued at Manila and valid until \_\_\_\_\_.

  
Atty. Jovino R. Angel  
Notary Public and in Pasay City  
Notarial Commission 17-08  
Until December 31, 2018  
PTR No. 5826093 / BFP No. 1062667  
Both issued in Pasay City on Jan. 03, 2018  
MCLE Compliance No. V-0024151/10-25-18  
Roll of Attorney's No. 28761

DOC # 172  
PAGE # 35  
BOOK # XV  
SERIES OF 2018

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
JG Summit Holdings, Inc.

### Opinion

We have audited the accompanying consolidated financial statements of JG Summit Holdings, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.





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.

### **Revenue Recognition**

The Group derives part of its core income from real estate sales and air transportation services.

The Group applies the percentage of completion (POC) method in determining real estate revenue and costs. The POC is based on the proportion of cost incurred to date over total estimated cost of the real estate project. The cost of sales is determined on the basis of the total estimated costs applied with the POC of the project. The Group's real estate revenue and costs accounts for 8% of total consolidated revenue and 6% of the total consolidated cost of sales of the Group, respectively. The estimation of the total cost of the real estate project requires technical inputs by project development engineers. In addition, the Group requires a certain percentage of buyer's payments of the total selling price (buyer's equity), to be collected as one of the criteria in order to initiate revenue recognition. It is the reaching of this level of collection that management has assessed that it is probable that economic benefits will flow to the Group because of the buyer's continuing commitment with the sales agreement. The buyer's commitment on the sale is ascertained by the Group based on the significance of the buyer's equity. This matter is significant to our audit because the assessment of the stage of completion, total estimated costs, and level of buyer's equity involve significant management judgment.

Refer to Notes 2 and 3 to the consolidated financial statements for the disclosures on revenue recognition of real estate sales.

Passenger service revenue is earned when the service has been rendered to the passengers according to flight schedule. The amount of passenger bookings for which the related transportation service has not yet been rendered at the end of the reporting period is recorded as unearned transportation revenue in the consolidated statement of financial position. Baggage fees and other ancillary fees are non-refundable fees which are recognized when the services are provided.

We considered the recognition of passenger service revenue, baggage fees and other ancillary fees as a key audit matter because of the materiality of these accounts to the consolidated financial statements and the high volume of transactions being processed and captured from various distribution channels and locations. In addition, the determination of the earned and unearned passenger service revenue is highly dependent on the Group's information technology (IT) systems.

Refer to Note 2 to the consolidated financial statements for the disclosures on revenue recognition of air transportation services.



*Audit response*

For real estate sales, we obtained an understanding of the Group's processes for determining the POC, including the cost accumulation process, and for determining and updating of total estimated costs, and performed tests of the relevant controls on these processes. We assessed the competence and objectivity of the project development engineers by reference to their qualifications, experience and reporting responsibilities. For selected projects, we traced costs accumulated to the supporting documents such as purchase orders, billings, and invoices of contractors. We visited selected project sites and made relevant inquiries with project engineers. We performed test computation of the percentage of completion calculation of management. For selected projects, we obtained the approved total estimated costs and any revisions thereto and the supporting details such as capital fulfillment plan, capital expenditure requests and related executive committee approvals. We likewise performed inquiries with the project development engineers for the revisions. We evaluated management's basis of the buyer's equity by comparing this to the historical analysis of sales collections from buyers with accumulated payments above the collection threshold. We traced the analysis to supporting documents such as official receipts and buyers' ledger.

For air transportation services, we included internal specialist in our team to assist us in understanding and testing the controls over the Group's IT systems and revenue recognition process which includes passenger service revenue, baggage fees and other ancillary fees. This includes testing the controls over the capture and recording of revenue transactions, authorization of rate changes and the input of these information to the revenue system, and mapping of bookings from unearned to earned passenger service revenue when passengers are flown. We assessed the information produced by the Group's IT systems and tested the reports generated by these systems that are used to defer or recognize passenger service revenue, baggage fees and other ancillary fees. Also, on a sample basis, we tested journal entries related to these accounts through inspection of underlying source documentation.

**Impairment Testing of Goodwill and Intangible Assets**

Under PFRSs, the Group is required to annually test the amount of goodwill and intangible assets with indefinite useful lives for impairment. As of December 31, 2017, the Group's goodwill attributable to Consolidated Snacks, Pty. Ltd. and Griffin's Food Limited amounted to ₱30.4 billion, and goodwill attributable to other acquired entities amounted to ₱0.8 billion. As of December 31, 2017, the Group's intangible assets with indefinite useful lives pertaining to trademarks amounted to ₱9.4 billion, and intangible assets pertaining to product formulation with indefinite useful life amounted to ₱0.4 billion. These items are significant to the consolidated financial statements. In addition, management's impairment assessment process requires significant judgment and is based on assumptions, specifically revenue growth rate, operating margin, discount rates and long-term growth rates.

The Group's disclosure about goodwill and intangible assets are included in Notes 3, 18 and 19 to the consolidated financial statements.

*Audit response*

We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include future cash flows, discount rates and the long-term growth rates. We compared the key assumptions used (revenue growth rate, operating margin, and long-term growth rates) against the historical performance of the CGUs, industry/market outlook and other relevant external data. We tested the parameters used in the determination of the discount rates against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on the determination of the recoverable amount of goodwill and intangible assets.



### **Accounting for Investment in an Associate**

The Group has investment in Manila Electric Company (Meralco) that is accounted for under the equity method. For the year ended December 31, 2017, the Group's share in the net income of Meralco amounted to ₱5.6 billion and accounts for 14% of the Group's consolidated net income.

The Group's share in Meralco's net income is significantly affected by Meralco's revenues from the sale of electricity which arise from its service contracts with a large number of customers that are classified as either commercial, industrial or residential, located within Meralco's franchise area. The revenue recognized depends on (a) the complete capture of electric consumption based on the meter readings over the franchise area taken on various dates; (b) the propriety of rates computed and applied across customer classes; and (c) the reliability of the IT systems involved in processing the billing transactions. Meralco is also involved in certain proceedings for which Meralco has recognized provisions for probable costs and/or expense and/or has disclosed relevant information about such contingencies. This matter is important to our audit because the assessment of the potential outcome or liability involves significant management judgment and estimation of its impact could have a material effect on the Group's share in Meralco's net income.

The Group's share in Meralco's other comprehensive income is significantly affected by Meralco's defined benefit retirement plan for all regular employees. We consider this as a key audit matter because the valuation of the benefits obligation involves a significant level of management judgment. The valuation also requires the assistance of an actuary whose calculations involve the use of certain assumptions, such as future salary increases, discount rates, and employee turnover rates that could have significant impact on the calculation of the benefits expense and liability.

The disclosure in relation to investment in associates are included in Note 14 to the consolidated financial statements.

#### *Audit response*

We obtained an understanding and evaluated the design of, as well as tested the controls over, the customer master file maintenance, accumulation and processing of meter data, and interface of data from the billing system to the financial reporting system. In addition, we performed a test recalculation of the bill amounts using the Energy Regulatory Commission-approved rates and formula, as well as actual costs incurred, and compared them with the amounts reflected in the billing statements. We involved our internal specialist in understanding the IT processes and in understanding and testing the IT general controls over the IT system supporting the revenue process.

We examined the bases of management's assessment of the possible outcomes and the related estimates of the probable costs and/or expenses that are recognized. In addition we evaluated the input data supporting the assumptions used, such as tariffs, tax rates, historical experience, regulatory ruling and other developments, against Meralco's internal and external data and performed recalculations and inspection of relevant supporting documents.



We obtained an understanding of Meralco's defined benefit retirement and other long-term post-employment benefits plans as well as the processes included in estimating the amounts of the related liability and expense. We also involved an internal specialist to assist us with our review of the scope, bases of assumptions, methodology and results of the work by Meralco's actuary, whose professional qualifications and objectivity were also evaluated. We compared the key inputs used, such as the attrition rates, discount rate, and future salary increase rate against the Group's internal data and external references. We also inquired about the basis of the salary rate increase and compared it against Meralco's forecast.

We obtained the financial information of Meralco for the year ended December 31, 2017 and recomputed the Group's share in total comprehensive income for the year ended December 31, 2017.

### **Estimation of Asset Retirement Obligation**

As of December 31, 2017, the Group operates nineteen (19) aircraft under operating leases. Under the terms of the operating lease arrangements, the Group is contractually required under various lease contracts to either restore certain leased aircraft to its original condition at its own cost or to bear a proportionate cost of restoration at the end of the contract period.

Management estimates the overhaul, restoration and redelivery costs and accrues such costs over the lease term. The calculation of such costs includes management assumptions and estimates in respect of the anticipated rate of aircraft utilization which includes flying hours and flying cycles and calendar months of the asset as used. These aircraft utilization and calendar months affect the extent of the restoration work that will be required and the expected costs of such overhaul, restoration and redelivery at the end of the lease term. Given the significant amounts of these provisions and the extent of management judgment and estimates required, we considered this area as a key audit matter.

The disclosures in relation to asset retirement obligation are included in Notes 3, 24, and 43 to the consolidated financial statements.

### *Audit response*

We obtained an understanding of management's process over estimating asset retirement obligation for aircraft held under operating leases and tested the relevant controls. We recalculated the asset retirement obligation and evaluated the key assumptions adopted by management in estimating the asset retirement obligation for each aircraft by discussing with the Group's relevant fleet maintenance engineers the aircraft utilization statistics. In addition, we obtained an understanding of the redelivery terms of operating leases by comparing the estimated costs and comparable actual costs incurred by the Group from previous similar restorations.

### **Adequacy of Allowance for Impairment Losses on Finance Receivables from the Banking Segment**

The appropriateness of the provision for impairment losses on the finance receivables from the banking segment is a key area of judgment for the management. The Group determines the provision for impairment losses on an individual basis for individually significant finance receivables, and collectively for finance receivables that are not individually significant. The identification of impairment and the determination of the recoverable amount involve various assumptions and factors. This includes the financial condition of the counterparty, estimated future cash flows, estimated net realizable value of the collateral, historical loss rates, and net flow rates. The use of assumptions could produce significantly different estimates of provision for impairment losses.



The disclosures in relation to impairment losses are included in Notes 3, 11, and 34 to the consolidated financial statements.

#### *Audit Response*

For provision for impairment losses calculated on an individual basis, we selected a sample of impaired loans and obtained an understanding of the borrower's business and financial capacity. We also tested the assumptions underlying the impairment identification and quantification of the provision for impairment losses. This was done by assessing whether the forecasted cash flows are based on the borrower's current financial condition, checking the payment history of the borrower including payments made subsequent to year end, agreeing the value of the collateral to the appraisal reports, checking whether the discount rate represents the original effective interest rate (EIR) or the current EIR of the loan, and re-performing the impairment calculation.

For provision for impairment losses calculated on a collective basis, we tested the underlying models and the inputs to those models, such as historical loss rates and net flow rates. This was done by agreeing the details of the loan information used in the calculation of loss rates and net flow rates to the Group's records and subsidiary ledgers, validating the delinquency age buckets of the loans and loan groupings and re-performing the calculation of the provision for impairment losses.

#### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20 IS (Definitive Information Statement), SEC Form 17 A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20 IS (Definitive Information Statement), SEC Form 17 A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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



Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.



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

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

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 Aris C. Malantic.

SYCIP GORRES VELAYO & CO.



Aris C. Malantic

Partner

CPA Certificate No. 90190

SEC Accreditation No. 0326-AR-3 (Group A),

May 1, 2015, valid until April 30, 2018

Tax Identification No. 152-884-691

BIR Accreditation No. 08-001998-54-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 6621284, January 9, 2018, Makati City

April 10, 2018



**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

|  | December 31             |                         |
|--|-------------------------|-------------------------|
|  | 2017                    | 2016                    |
| <b>ASSETS</b>  |                         |                         |
| <b>Current Assets</b>  |                         |                         |
| Cash and cash equivalents (Note 7)                             | ₱54,336,295,189         | ₱43,410,141,967         |
| Financial assets at fair value through profit or loss (Note 9) | 14,357,132,341          | 14,700,149,294          |
| Available-for-sale investments (Note 10)                       | 21,468,095,579          | 15,467,624,372          |
| Receivables (Note 11)  | 47,614,193,567          | 44,870,238,034          |
| Inventories (Note 12)  | 52,536,364,842          | 49,702,679,594          |
| Biological assets (Note 17)                                    | 1,180,266,509           | 920,226,312             |
| Other current assets (Note 13)                                 | 15,223,341,503          | 13,035,305,201          |
| Total Current Assets   | <b>206,715,689,530</b>  | <b>182,106,364,774</b>  |
| <b>Noncurrent Assets</b>                                       |                         |                         |
| Available-for-sale investments (Note 10)                       | 25,597,305,960          | 23,608,326,105          |
| Receivables (Note 11)  | 42,649,712,079          | 24,847,785,195          |
| Held-to-maturity investment (Note 10)                          | -                       | 3,549,900,604           |
| Investments in associates and joint ventures (Note 14)         | 138,538,902,953         | 127,952,235,708         |
| Property, plant and equipment (Note 16)                        | 181,660,164,319         | 175,662,713,462         |
| Investment properties (Note 15)                                | 89,244,835,261          | 75,416,372,370          |
| Goodwill (Note 19)   | 32,023,183,943          | 32,023,183,943          |
| Intangible assets (Note 18)                                    | 14,021,031,196          | 14,159,003,493          |
| Biological assets (Note 17)                                    | 498,309,880             | 463,152,936             |
| Other noncurrent assets (Note 20)                              | 8,505,377,396           | 6,522,278,296           |
| Total Noncurrent Assets  | <b>532,738,822,987</b>  | <b>484,204,952,112</b>  |
|  | <b>₱739,454,512,517</b> | <b>₱666,311,316,886</b> |
| <b>LIABILITIES AND EQUITY</b>                                  |                         |                         |
| <b>Current Liabilities</b>                                     |                         |                         |
| Accounts payable and accrued expenses (Note 21)                | ₱114,599,037,827        | ₱96,298,902,214         |
| Short-term debts (Note 23)                                     | 45,847,813,461          | 61,884,514,577          |
| Current portion of long-term debts (Note 23)                   | 5,728,469,720           | 6,826,230,309           |
| Income tax payable   | 1,809,511,201           | 2,988,268,108           |
| Other current liabilities (Note 22)                            | 13,695,140,209          | 12,910,439,195          |
| Total Current Liabilities                                      | <b>181,679,972,418</b>  | <b>180,908,354,403</b>  |
| <b>Noncurrent Liabilities</b>                                  |                         |                         |
| Long-term debts - net of current portion (Note 23)             | 175,958,344,946         | 152,361,525,291         |
| Deferred tax liabilities (Note 38)                             | 7,205,880,096           | 7,051,282,285           |
| Other noncurrent liabilities (Note 24)                         | 28,190,767,056          | 13,206,299,706          |
| Total Noncurrent Liabilities                                   | <b>211,354,992,098</b>  | <b>172,619,107,282</b>  |
| Total Liabilities  | <b>₱393,034,964,516</b> | <b>₱353,527,461,685</b> |

(Forward)





|  | <b>December 31</b>      |                  |
|--|-------------------------|------------------|
|  | <b>2017</b>             | <b>2016</b>      |
| <b>Equity</b>  |                         |                  |
| Equity attributable to equity holders of the Parent Company: |                         |                  |
| Paid-up capital (Note 25)                                    | <b>₱30,755,866,814</b>  | ₱30,755,866,814  |
| Retained earnings (Note 25)                                  | <b>207,722,156,987</b>  | 180,369,415,195  |
| Equity reserve (Note 25)                                     | <b>29,638,831,336</b>   | 29,638,831,336   |
| Other comprehensive losses (Note 36)                         | <b>(279,499,751)</b>    | (1,248,591,500)  |
|  | <b>267,837,355,386</b>  | 239,515,521,845  |
| Non-controlling interests (Note 25)                          | <b>78,582,192,615</b>   | 73,268,333,356   |
| Total Equity   | <b>346,419,548,001</b>  | 312,783,855,201  |
|  | <b>₱739,454,512,517</b> | ₱666,311,316,886 |

*See accompanying Notes to Consolidated Financial Statements.*



**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

|   | Years Ended December 31 |                        |                        |
|---|-------------------------|------------------------|------------------------|
|   | 2017                    | 2016                   | 2015                   |
| <b>REVENUE</b>  |                         |                        |                        |
| Sale of goods and services:   |                         |                        |                        |
| Foods   | ₱125,007,824,013        | ₱112,611,969,799       | ₱112,004,706,553       |
| Air transportation  | 68,029,131,426          | 61,899,278,892         | 56,501,654,516         |
| Petrochemicals  | 41,406,489,496          | 29,070,077,332         | 26,780,296,575         |
| Real estate and hotels (Notes 11 and 15)  | 22,448,257,224          | 22,750,417,221         | 20,298,039,549         |
| Banking (Note 26)   | 4,475,828,582           | 3,412,187,119          | 2,968,940,306          |
| Equity in net earnings of associates and joint ventures (Note 14)                                       | 9,908,717,906           | 8,176,526,116          | 7,311,563,176          |
| Dividend income (Note 28)   | 1,451,837,755           | 2,031,580,194          | 2,848,193,719          |
| Supplementary businesses  | 717,368,505             | 551,082,564            | 558,258,619            |
|   | <b>273,445,454,907</b>  | <b>240,503,119,237</b> | <b>229,271,653,013</b> |
| <b>COST OF SALES AND SERVICES</b>   |                         |                        |                        |
| Cost of sales (Note 30)   | 119,176,312,217         | 98,124,103,023         | 97,621,663,241         |
| Cost of services (Note 30)  | 52,378,128,769          | 45,970,133,223         | 43,241,983,101         |
|   | <b>171,554,440,986</b>  | <b>144,094,236,246</b> | <b>140,863,646,342</b> |
| <b>GROSS INCOME</b>   | <b>101,891,013,921</b>  | <b>96,408,882,991</b>  | <b>88,408,006,671</b>  |
| <b>OPERATING EXPENSES</b>   |                         |                        |                        |
| General and administrative expenses (Note 31)   | 49,910,047,737          | 43,498,208,309         | 38,677,396,939         |
| Impairment losses and others (Note 34)  | 248,080,372             | 640,717,050            | 378,065,854            |
|   | <b>50,158,128,109</b>   | <b>44,138,925,359</b>  | <b>39,055,462,793</b>  |
| <b>OPERATING INCOME</b>   | <b>51,732,885,812</b>   | <b>52,269,957,632</b>  | <b>49,352,543,878</b>  |
| <b>OTHER INCOME (LOSSES)</b>  |                         |                        |                        |
| Financing costs and other charges (Note 35)   | (7,836,137,934)         | (7,461,996,870)        | (6,879,818,419)        |
| Foreign exchange losses   | (902,717,961)           | (2,643,312,806)        | (4,136,883,267)        |
| Market valuation gains (losses) on derivative financial instruments - net (Note 8)                      | (155,230,460)           | 1,738,886,004          | (2,353,076,578)        |
| Finance income (Note 27)  | 1,243,424,967           | 1,161,245,053          | 1,367,392,486          |
| Market valuation gains (losses) on financial assets at fair value through profit or loss - net (Note 9) | 696,406,991             | (57,676,177)           | (336,987,727)          |
| Market valuation losses on impaired available-for-sale investments (Note 10)                            | -                       | (16,713,629,844)       | -                      |
| Others (Note 29)  | 241,871,584             | (487,955,842)          | 151,214,790            |
| <b>INCOME BEFORE INCOME TAX</b>   | <b>45,020,502,999</b>   | <b>27,805,517,150</b>  | <b>37,164,385,163</b>  |
| <b>PROVISION FOR INCOME TAX</b> (Note 38)   | <b>5,501,468,891</b>    | <b>5,437,906,633</b>   | <b>4,488,982,473</b>   |
| <b>NET INCOME</b>   | <b>39,519,034,108</b>   | <b>22,367,610,517</b>  | <b>32,675,402,690</b>  |

(Forward)



|  | <b>Years Ended December 31</b> |                        |                         |
|--|--------------------------------|------------------------|-------------------------|
|  | 2017                           | 2016                   | 2015                    |
| <b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX (Note 36)</b>                                     |                                |                        |                         |
| Items that may be reclassified subsequently to profit or loss:                                     |                                |                        |                         |
| Net gains (losses) on available-for-sale investments (Note 10)                                     | ₱1,759,433,181                 | ₱4,377,880,289         | (₱14,932,125,338)       |
| Cumulative translation adjustments   | (1,183,796,363)                | (121,183,868)          | 1,771,511,627           |
| Share in net unrealized losses on available-for-sale investments of an associate (Notes 10 and 14) | 24,394,385                     | (104,703,835)          | (1,730,644)             |
| Net losses from cash flow hedges (Note 8)  | (11,359,660)                   | (18,062,625)           | (91,909,256)            |
| Items that will not be reclassified to profit or loss:   |                                |                        |                         |
| Remeasurements of the net defined benefit liability (Note 37)                                      | 116,814,170                    | 52,474,724             | (123,037,866)           |
| Share in remeasurements of the net defined benefit liability of associates (Note 14)               | (326,973,548)                  | 524,522,485            | -                       |
|  | <b>378,512,165</b>             | <b>4,710,927,170</b>   | <b>(13,377,291,477)</b> |
| <b>TOTAL COMPREHENSIVE INCOME</b>  | <b>₱39,897,546,273</b>         | <b>₱27,078,537,687</b> | <b>₱19,298,111,213</b>  |
| <b>NET INCOME ATTRIBUTABLE TO</b>  |                                |                        |                         |
| Equity holders of the Parent Company   | ₱29,369,537,456                | ₱10,917,978,925        | ₱22,610,016,306         |
| Non-controlling interests (Note 25)  | 10,149,496,652                 | 11,449,631,592         | 10,065,386,384          |
|  | <b>₱39,519,034,108</b>         | <b>₱22,367,610,517</b> | <b>₱32,675,402,690</b>  |
| <b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>  |                                |                        |                         |
| Equity holders of the Parent Company   | ₱30,338,629,205                | ₱15,861,889,256        | ₱8,589,518,427          |
| Non-controlling interests (Note 25)  | 9,558,917,068                  | 11,216,648,431         | 10,708,592,786          |
|  | <b>₱39,897,546,273</b>         | <b>₱27,078,537,687</b> | <b>₱19,298,111,213</b>  |
| <b>Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 39)</b>           |                                |                        |                         |
| Basic/diluted earnings per share   | <b>₱4.10</b>                   | <b>₱1.52</b>           | <b>₱3.16</b>            |

*See accompanying Notes to Consolidated Financial Statements.*



**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

For the Years Ended December 31, 2017, 2016 and 2015

ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

|  | Paid-up Capital (Note 25) |                            | Retained Earnings (Note 25) |                                |                              | Other Comprehensive Income (Note 36) |                          |  |   |   |   | Total                   | NON-CONTROLLING INTERESTS (Note 25) | TOTAL EQUITY           |   |
|--|---------------------------|----------------------------|-----------------------------|--------------------------------|------------------------------|--------------------------------------|--------------------------|--|---|---|---|-------------------------|-------------------------------------|------------------------|---|
|  | Capital Stock             | Additional Paid-in Capital | Total Paid-up Capital       | Unrestricted Retained Earnings | Restricted Retained Earnings | Total Retained Earnings              | Equity Reserve (Note 25) | Cumulative Translation Adjustments (Note 25) | Net Unrealized Gains (Losses) on Available-for-Sale Investments (Note 10) | Net Unrealized Losses on Cash Flow Hedge (Note 8) | Remeasurements of the Net Defined Benefit Liability (Note 37) |                         |                                     |                        | Total Other Comprehensive Income (Loss) |
| Balance at January 1, 2017                   | ₱7,202,841,657            | ₱23,553,025,157            | ₱30,755,866,814             | ₱66,285,085,796                | ₱114,084,329,399             | ₱180,369,415,195                     | ₱29,638,831,336          | ₱(673,326,887)                               | ₱(596,224,679)  | ₱10,661,590                                       | ₱10,298,476   | ₱(1,248,591,500)        | ₱239,515,521,845                    | ₱73,268,333,356        | ₱312,783,855,201                        |
| Total comprehensive income                   | -                         | -                          | -                           | 29,369,537,456                 | -                            | 29,369,537,456                       | -                        | (629,187,834)                                | 1,864,779,180   | (6,276,428)                                       | (260,223,169)   | 969,091,749             | 30,338,629,205                      | 9,558,917,068          | 39,897,546,273                          |
| Appropriation of retained earnings           | -                         | -                          | -                           | (3,700,000,000)                | 3,700,000,000                | -                                    | -                        | -  | -   | -   | -   | -                       | -                                   | -                      | -                                       |
| Cash dividends (Note 25)                     | -                         | -                          | -                           | (2,016,795,664)                | -                            | (2,016,795,664)                      | -                        | -  | -   | -   | -   | -                       | (2,016,795,664)                     | (4,245,057,809)        | (6,261,853,473)                         |
| <b>Balance at December 31, 2017</b>          | <b>₱7,202,841,657</b>     | <b>₱23,553,025,157</b>     | <b>₱30,755,866,814</b>      | <b>₱89,937,827,588</b>         | <b>₱117,784,329,399</b>      | <b>₱207,722,156,987</b>              | <b>₱29,638,831,336</b>   | <b>₱(1,302,514,721)</b>                      | <b>₱1,268,554,501</b>   | <b>₱4,385,162</b>                                 | <b>₱(249,924,693)</b>   | <b>₱(279,499,751)</b>   | <b>₱267,837,355,386</b>             | <b>₱78,582,192,615</b> | <b>₱346,419,548,001</b>                 |
| Balance at January 1, 2016                   | ₱7,202,841,657            | ₱23,553,025,157            | ₱30,755,866,814             | ₱67,567,817,285                | ₱103,684,329,399             | ₱171,252,146,684                     | ₱27,575,017,926          | ₱(702,845,286)                               | ₱(4,984,560,896)  | ₱37,358,957                                       | ₱(542,454,606)  | ₱(6,192,501,831)        | ₱223,390,529,593                    | ₱63,935,131,765        | ₱287,325,661,358                        |
| Total comprehensive income                   | -                         | -                          | -                           | 10,917,978,925                 | -                            | 10,917,978,925                       | -                        | 29,518,399                                   | 4,388,336,217   | (26,697,367)                                      | 552,753,082   | 4,943,910,331           | 15,861,889,256                      | 11,216,648,431         | 27,078,537,687                          |
| Appropriation of retained earnings           | -                         | -                          | -                           | (10,400,000,000)               | 10,400,000,000               | -                                    | -                        | -  | -   | -   | -   | -                       | -                                   | -                      | -                                       |
| Cash dividends (Note 25)                     | -                         | -                          | -                           | (1,800,710,414)                | -                            | (1,800,710,414)                      | -                        | -  | -   | -   | -   | -                       | (1,800,710,414)                     | (4,175,979,077)        | (5,976,689,491)                         |
| Reissuance of a subsidiary's treasury shares | -                         | -                          | -                           | -                              | -                            | -                                    | 2,063,813,410            | -  | -   | -   | -   | -                       | 2,063,813,410                       | 2,292,532,237          | 4,356,345,647                           |
| <b>Balance at December 31, 2016</b>          | <b>₱7,202,841,657</b>     | <b>₱23,553,025,157</b>     | <b>₱30,755,866,814</b>      | <b>₱66,285,085,796</b>         | <b>₱114,084,329,399</b>      | <b>₱180,369,415,195</b>              | <b>₱29,638,831,336</b>   | <b>₱(673,326,887)</b>                        | <b>₱(596,224,679)</b>   | <b>₱10,661,590</b>                                | <b>₱10,298,476</b>  | <b>₱(1,248,591,500)</b> | <b>₱239,515,521,845</b>             | <b>₱73,268,333,356</b> | <b>₱312,783,855,201</b>                 |

See accompanying Notes to Consolidated Financial Statements.



For the Years Ended December 31, 2017, 2016 and 2015

ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

|  | Paid-up Capital (Note 25) |                            |                        | Retained Earnings (Note 25)    |                              |                         | Equity Reserve (Note 25) | Other Comprehensive Income (Note 36)         |  |   |   |   |                         |                        | NON-CONTROLLING INTERESTS (Note 25) | TOTAL EQUITY |
|--|---------------------------|----------------------------|------------------------|--------------------------------|------------------------------|-------------------------|--------------------------|--|--|---|---|---|-------------------------|------------------------|-------------------------------------|--------------|
|  | Capital Stock             | Additional Paid-in Capital | Total Paid-up Capital  | Unrestricted Retained Earnings | Restricted Retained Earnings | Total Retained Earnings |                          | Cumulative Translation Adjustments (Note 25) | Net Unrealized Gains on Available-for-Sale Investments (Note 10) | Net Unrealized Losses on Cash Flow Hedge (Note 8) | Remeasurements of the Net Defined Benefit Liability (Note 37) | Total Other Comprehensive Income (Loss) | Total                   |                        |                                     |              |
| Balance at January 1, 2015   | ₱7,057,191,657            | ₱14,958,145,993            | ₱22,015,337,650        | ₱52,166,426,144                | ₱98,060,329,399              | ₱150,226,755,543        | ₱27,546,248,095          | (₱1,708,290,084)                             | ₱9,855,437,008   | ₱127,905,653                                      | (₱447,056,529)  | ₱7,827,996,048                          | ₱207,616,337,336        | ₱53,994,117,270        | ₱261,610,454,606                    |              |
| Total comprehensive income   | -                         | -                          | -                      | 22,610,016,306                 | -                            | 22,610,016,306          | -                        | 1,005,444,798                                | (14,839,997,904)   | (90,546,696)                                      | (95,398,077)  | (14,020,497,879)                        | 8,589,518,427           | 10,708,592,786         | 19,298,111,213                      |              |
| Reversal of appropriation  | -                         | -                          | -                      | 41,376,000,000                 | (41,376,000,000)             | -                       | -                        | -  | -  | -   | -   | -                                       | -                       | -                      | -                                   |              |
| Appropriation of retained earnings                                 | -                         | -                          | -                      | (47,000,000,000)               | 47,000,000,000               | -                       | -                        | -  | -  | -   | -   | -                                       | -                       | -                      | -                                   |              |
| Cash dividends (Note 25)   | -                         | -                          | -                      | (1,584,625,165)                | -                            | (1,584,625,165)         | 28,769,831               | -  | -  | -   | -   | -                                       | (1,555,855,334)         | (3,922,800,371)        | (5,478,655,705)                     |              |
| Deposit for future subscription by non-controlling in a subsidiary | -                         | -                          | -                      | -                              | -                            | -                       | -                        | -  | -  | -   | -   | -                                       | -                       | 3,155,222,080          | 3,155,222,080                       |              |
| Issuance of new shares through top-up transaction                  | 145,650,000               | 8,594,879,164              | 8,740,529,164          | -                              | -                            | -                       | -                        | -  | -  | -   | -   | -                                       | 8,740,529,164           | -                      | 8,740,529,164                       |              |
| <b>Balance at December 31, 2015</b>                                | <b>₱7,202,841,657</b>     | <b>₱23,553,025,157</b>     | <b>₱30,755,866,814</b> | <b>₱67,567,817,285</b>         | <b>₱103,684,329,399</b>      | <b>₱171,252,146,684</b> | <b>₱27,575,017,926</b>   | <b>(₱702,845,286)</b>                        | <b>(₱4,984,560,896)</b>  | <b>₱37,358,957</b>                                | <b>(₱542,454,606)</b>   | <b>(₱6,192,501,831)</b>                 | <b>₱223,390,529,593</b> | <b>₱63,935,131,765</b> | <b>₱287,325,661,358</b>             |              |



**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | Years Ended December 31 |                  |                  |
|---|-------------------------|------------------|------------------|
|   | 2017                    | 2016             | 2015             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                         |                  |                  |
| Income before income tax  | <b>₱45,020,502,999</b>  | ₱27,805,517,150  | ₱37,164,385,163  |
| Adjustments for:  |                         |                  |                  |
| Depreciation and amortization (Notes 15,16, 18 and 46)  | <b>18,936,739,260</b>   | 17,097,541,131   | 14,548,178,993   |
| Equity in net earnings of associates and joint ventures (Note 14)                                     | <b>(9,908,717,906)</b>  | (8,176,526,116)  | (7,311,563,176)  |
| Interest expense (Note 35)  | <b>7,635,388,645</b>    | 7,298,442,812    | 6,682,291,317    |
| Unrealized foreign exchange losses  | <b>902,717,961</b>      | 2,638,787,064    | 4,136,883,267    |
| Dividend income (Note 28)   | <b>(1,451,837,755)</b>  | (2,031,580,194)  | (2,848,193,719)  |
| Market valuation losses (gains) losses on derivative financial instruments - net (Note 8)             | <b>155,230,460</b>      | (1,734,360,262)  | 2,353,076,578    |
| Interest income (Note 27)   | <b>(1,243,424,967)</b>  | (1,161,245,053)  | (1,367,392,486)  |
| Provision for impairment losses (Note 34)   | <b>245,210,325</b>      | 465,267,131      | 273,862,988      |
| Inventory obsolescence and market decline (Note 34)   | <b>2,870,047</b>        | 175,449,919      | 104,202,866      |
| Loss (gain) arising from changes in fair value less estimated costs to sell of swine stocks (Note 17) | <b>(118,841,072)</b>    | 95,596,818       | 56,958,991       |
| Market valuation losses on financial assets at fair value through profit or loss (Note 9)             | <b>(696,406,991)</b>    | 57,676,177       | 336,987,727      |
| Loss on sale of available-for-sale investments (Note 29)  | <b>(14,747,467)</b>     | (452,510)        | (898,183)        |
| Gain on retirement and disposal of investment properties (Note 15)                                    | <b>(5,323,947)</b>      | (7,281,855)      | -                |
| Loss (gain) on sale and retirement of property, plant and equipment (Note 16)                         | <b>(357,609,567)</b>    | 361,736,125      | 19,535,061       |
| Market valuation loss on impaired AFS investments (Note 10)   | <b>-</b>                | 16,713,629,844   | -                |
| Operating income before changes in working capital accounts   | <b>59,101,750,025</b>   | 59,598,198,181   | 54,148,315,387   |
| Changes in operating assets and liabilities:  |                         |                  |                  |
| Decrease (increase) in the amounts of:  |                         |                  |                  |
| Receivables   | <b>(20,539,411,718)</b> | (13,115,882,483) | (9,251,528,725)  |
| Inventories   | <b>(4,420,618,310)</b>  | (2,691,296,655)  | (3,250,107,168)  |
| Other current assets  | <b>(2,917,451,126)</b>  | (2,049,042,735)  | (252,800,726)    |
| Financial assets at fair value through profit or loss   | <b>1,083,366,574</b>    | 795,718,122      | 756,867,119      |
| Derivative assets   | <b>(139,646,082)</b>    | (598,570,188)    | (1,734,020,356)  |
| Biological assets   | <b>(262,992,645)</b>    | (16,952,605)     | (12,153,630)     |
| Increase (decrease) in the amounts of:  |                         |                  |                  |
| Accounts payable and accrued expenses   | <b>18,070,891,006</b>   | 22,756,800,392   | 1,087,455,571    |
| Unearned revenue  | <b>908,598,728</b>      | 1,169,998,030    | 598,009,957      |
| Other current liabilities   | <b>(123,854,705)</b>    | 324,910,308      | 1,234,297,685    |
| Net cash generated from operations  | <b>50,760,631,747</b>   | 66,173,880,367   | 43,324,335,114   |
| Interest paid   | <b>(7,484,610,422)</b>  | (7,220,832,524)  | (6,502,237,413)  |
| Income taxes paid   | <b>(6,091,437,965)</b>  | (5,946,033,406)  | (3,884,619,696)  |
| Interest received   | <b>1,118,435,799</b>    | 1,064,803,275    | 1,289,340,637    |
| Net cash provided by operating activities   | <b>38,303,019,159</b>   | 54,071,817,712   | 34,226,818,642   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                         |                  |                  |
| Acquisitions of:  |                         |                  |                  |
| Property, plant and equipment (Notes 16 and 46)   | <b>(28,120,671,763)</b> | (29,440,474,778) | (25,776,311,061) |
| Investment properties (Notes 15 and 46)   | <b>(15,399,228,857)</b> | (11,088,963,635) | (13,252,323,663) |
| Available-for-sale investments (Note 10)  | <b>(15,996,196,225)</b> | (15,080,087,313) | (6,941,384,431)  |
| Investments in associates and joint ventures (Note 14)  | <b>(7,402,986,821)</b>  | (12,152,533,446) | (129,000,000)    |
| Intangible assets (Note 18)   | <b>(282,472,977)</b>    | (599,648,596)    | (44,928,168)     |
| Held-to-maturity investments (Note 10)  | <b>(14,828,885)</b>     | (800,605,001)    | (980,692,134)    |
| Subsidiaries, net of cash acquired (Note 44)  | <b>-</b>                | (21,159,258,285) | -                |
| Assets that qualified as a business (Note 44)   | <b>-</b>                | (1,600,000,000)  | -                |
| Dividends received on investments in associates and joint ventures (Note 14)                          | <b>6,604,286,345</b>    | 7,807,440,452    | 4,803,897,297    |

(Forward)



|   | <b>Years Ended December 31</b> |                  |                  |
|---|--------------------------------|------------------|------------------|
|   | <b>2017</b>                    | <b>2016</b>      | <b>2015</b>      |
| Dividends received (Note 28)  | <b>₱1,451,837,755</b>          | ₱2,031,580,194   | ₱2,848,193,719   |
| Decrease (increase) in the amounts of other noncurrent assets (Note 20)   | <b>(2,011,128,916)</b>         | (625,863,649)    | (1,643,557,430)  |
| Proceeds from sale of:  |                                |                  |                  |
| Investment property   | <b>22,529,110</b>              | 33,610,500       | —                |
| Property, plant and equipment (Note 16)   | <b>8,948,396,503</b>           | 3,214,497,371    | 1,082,315,799    |
| Available-for-sale investments  | <b>13,145,035,547</b>          | 11,600,295,195   | 6,695,561,770    |
| Held-to-maturity investments (Note 10)  | <b>308,928,275</b>             | —                | —                |
| Return of investment from an associate (Note 14)  | —                              | —                | 5,000,000        |
| <b>Net cash used in investing activities</b>  | <b>(38,746,500,909)</b>        | (67,860,010,991) | (33,333,228,302) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                                |                  |                  |
| Proceeds from issuance of:  |                                |                  |                  |
| Short-term debts  | <b>91,848,238,085</b>          | 91,462,362,171   | 67,004,746,707   |
| Long-term debts   | <b>31,243,531,210</b>          | 38,600,364,183   | 18,466,895,200   |
| Dividends paid to non-controlling interests (Note 25)   | <b>(4,245,057,809)</b>         | (4,175,979,077)  | (3,922,800,371)  |
| Increase (decrease) in other noncurrent liabilities (Note 24)   | <b>10,326,258,863</b>          | 318,729,350      | 4,034,036,837    |
| Settlements of:   |                                |                  |                  |
| Short-term debts  | <b>(108,257,955,312)</b>       | (65,536,414,360) | (76,793,118,937) |
| Long-term debts (Note 23)   | <b>(11,710,904,401)</b>        | (51,298,471,026) | (12,197,009,305) |
| Dividends paid on:  |                                |                  |                  |
| Common shares (Note 25)   | <b>(2,005,595,664)</b>         | (1,790,710,414)  | (1,575,825,165)  |
| Preferred shares (Note 25)  | <b>(11,200,000)</b>            | (10,000,000)     | (8,800,000)      |
| Issuance of long-term negotiable certificate of deposit   | <b>4,182,320,000</b>           | —                | —                |
| Proceeds from reissuance of a subsidiary's treasury shares, net of transaction costs (Note 25)                        | —                              | 4,356,345,647    | —                |
| Proceeds from issuance of new shares and reissuance of treasury shares through top-up placement transaction (Note 25) | —                              | —                | 8,740,529,164    |
| Cash received from non-controlling interest for issuance of shares by a subsidiary                                    | —                              | —                | 3,155,222,080    |
| <b>Net cash provided by financing activities</b>  | <b>11,369,634,972</b>          | 11,926,226,474   | 6,903,876,210    |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>   | <b>10,926,153,222</b>          | (1,861,966,805)  | 7,797,466,550    |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>   | <b>43,410,141,967</b>          | 45,272,108,772   | 37,474,642,222   |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)</b>  | <b>₱54,336,295,189</b>         | ₱43,410,141,967  | ₱45,272,108,772  |

*See accompanying Notes to Consolidated Financial Statements.*



# JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 1. Corporate Information

JG Summit Holdings, Inc. (the Parent Company) was incorporated in the Philippines on November 23, 1990 with a corporate term of 50 years from the date of incorporation. On May 8, 2014, the Board of Directors (BOD) of the Parent Company approved its amendment of Article Third of the Amended Articles of Incorporation to change the principal office address of the Parent Company from “Metro Manila, Philippines” to “43rd Floor, Robinsons-Equitable Tower, ADB Avenue corner Poveda Road, Pasig City” in accordance with Security and Exchange Commission Memorandum Circular No.6, Series of 2014.

The Parent Company, a holding company, is the ultimate parent of the JG Summit Group (the Group). The Group has business interests in branded consumer foods, agro-industrial and commodity food products, real property development, hotels, banking and financial services, telecommunications, petrochemicals, air transportation and power distribution.

The Group conducts business throughout the Philippines, but primarily in and around Metro Manila where it is based. The Group also has branded food businesses in the People’s Republic of China, in the Association of Southeast Asian Nations region, New Zealand and Australia and an interest in a property development business in Singapore.

The principal activities of the Group are further described in Note 6, *Segment Information*, to the consolidated financial statements.

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### 2. 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) investments and derivative financial instruments that are measured at fair value, and certain biological assets and agricultural produce that are measured at fair value less estimated costs to sell.

The consolidated financial statements of the Group are presented in Philippine peso (₱), the functional currency of the Parent Company. All values are rounded to the nearest peso except when otherwise stated.





A summary of the functional currencies of certain foreign subsidiaries within the Group follows:

| Subsidiaries  | Country of Incorporation | Functional Currency |
|---|--------------------------|---------------------|
| <b>Parent Company</b>                                   |                          |                     |
| JG Summit Cayman Limited                                | Cayman Islands           | Philippine Peso     |
| JG Summit Philippines, Ltd. and Subsidiaries            |                          |                     |
| JG Summit Philippines, Ltd.                             | -do-                     | -do-                |
| JGSH Philippines, Limited                               | British Virgin Islands   | -do-                |
| Telegraph Development, Ltd.                             | -do-                     | -do-                |
| Summit Top Investment, Ltd.                             | -do-                     | -do-                |
| JG Summit Capital Markets Corporation. and a Subsidiary |                          |                     |
| Multinational Finance Group, Ltd.                       | -do-                     | -do-                |
| <b>URC Group</b>  |                          |                     |
| Universal Robina (Cayman), Limited                      | Cayman Islands           | -do-                |
| URC Philippines, Limited                                | British Virgin Islands   | -do-                |
| URC Asean Brands Co. Ltd.                               | -do-                     | US Dollar           |
| Hong Kong China Foods Co. Ltd.                          | -do-                     | -do-                |
| URC International Co., Ltd.                             | -do-                     | -do-                |
| URC China Commercial Co. Ltd.                           | China                    | Chinese Renminbi    |
| Xiamen Tongan Pacific Food Co., Ltd.                    | -do-                     | -do-                |
| Shanghai Peggy Foods Co., Ltd.                          | -do-                     | -do-                |
| Guangzhou Peggy Foods Co., Ltd.                         | -do-                     | -do-                |
| Jiangsu Acesfood Industrial Co.                         | -do-                     | -do-                |
| Shantou SEZ Shanfu Foods Co., Ltd.                      | -do-                     | -do-                |
| URC (Thailand) Co., Ltd.                                | Thailand                 | Thai Baht           |
| Siam Pattanasin Co., Ltd.                               | -do-                     | -do-                |
| URC Foods (Singapore) Pte. Ltd.                         | Singapore                | Singapore Dollar    |
| Advanson International Pte. Ltd.                        | -do-                     | -do-                |
| Acesfood Network Pte. Ltd.                              | -do-                     | -do-                |
| Acesfood Holdings Pte. Ltd.                             | -do-                     | -do-                |
| Acesfood Distributors Pte. Ltd.                         | -do-                     | -do-                |
| PT URC Indonesia  | Indonesia                | Indonesian Rupiah   |
| URC (Myanmar) Co. Ltd.                                  | Myanmar                  | Myanmar Kyats       |
| URC Hong Kong Company Limited                           | Hong Kong                | Hong Kong Dollar    |
| URC Vietnam Co., Ltd.                                   | Vietnam                  | Vietnam Dong        |
| URC Hanoi Company Limited                               | -do-                     | -do-                |
| URC Central Co. Ltd.                                    | -do-                     | -do-                |
| Ricellent Sdn. Bhd.                                     | Malaysia                 | Malaysian Ringgit   |
| URC Snack Foods (Malaysia) Sdn. Bhd.                    | -do-                     | -do-                |
| URC Oceania Company Ltd.                                | British Virgin Islands   | US Dollar           |
| URC New Zealand Holding Company Ltd.                    | New Zealand              | New Zealand Dollar  |
| URC New Zealand Finance Company Ltd.                    | -do-                     | -do-                |
| Griffin's Foods Limited                                 | -do-                     | -do-                |
| Nice & Natural Limited                                  | -do-                     | -do-                |
| URC Australia Holding Company Ltd.                      | Australia                | Australian Dollar   |
| URC Australia Finance Company Ltd.                      | -do-                     | -do-                |
| Consolidated Snacks Pty Ltd                             | -do-                     | -do-                |
| Snack Brands Australia Partnership                      | -do-                     | -do-                |
| <b>RLC Group</b>  |                          |                     |
| Robinsons (Cayman) Limited                              | Cayman Islands           | US Dollar           |
| RLC Resources Ltd                                       | British Virgin Islands   | -do-                |
| Land Century Holdings, Ltd.                             | Hong Kong                | Hong Kong Dollar    |
| World Century Enterprise Ltd.                           | -do-                     | -do-                |
| First Capital Development, Ltd                          | -do-                     | -do-                |
| Chengdu Xin Yao Real Estate Development, Co. Ltd        | China                    | Chinese Renminbi    |

#### Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).



**Basis of Consolidation**

The consolidated financial statements include the financial statements of the Parent Company and the following wholly and majority owned subsidiaries:

| Subsidiaries  | Country of Incorporation | Principal place of business  | Effective Percentage of Ownership |         |
|---|--------------------------|--|-----------------------------------|---------|
|   |                          |  | 2017                              | 2016    |
| <b>Food</b>   |                          |  |                                   |         |
| Universal Robina Corporation (URC) and Subsidiaries       | Philippines*             | 8 <sup>th</sup> floor Tera Tower Bridgetowne E. Rodriguez Jr., Ave (C5 Road) Ugong Norte, Quezon City                    | 55.25                             | 55.25   |
| CFC Clubhouse Property, Inc. (CCPI)                       | -do-                     | CFC Bldg., E. Rodriguez Jr. Ave., Bagong Ilog, Pasig City  | 55.25                             | 55.25   |
| CFC Corporation   | -do-                     | -do-   | 55.25                             | 55.25   |
| Bio-Resource Power Generation Corporation                 | -do-                     | Manjuyod, Negros Oriental  | 55.25                             | 55.25   |
| Nissin-URC  | -do-                     | CFC Bldg., E. Rodriguez Jr. Ave., Bagong Ilog, Pasig City  | 28.17**                           | 28.17** |
| URC Philippines, Limited (URCPL)                          | British Virgin Islands   | Offshore Incorporations Limited, P.O. Box 957 Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands | 55.25                             | 55.25   |
| URC International Co. Ltd. (URCICL) and Subsidiaries      | -do-                     | -do-   | 55.25                             | 55.25   |
| Universal Robina (Cayman), Ltd. (URCL)                    | Cayman Islands           | Maples and Calder, P.O. Box 309, Ugland House, South Church Street, Grand Cayman, Cayman Islands, British West Indies    | 55.25                             | 55.25   |
| URC China Commercial Co., Ltd.                            | China                    | 318 Shangcheng Road, Room 1417 Lian You Bldg., Pudong, Shanghai, China   | 55.25                             | 55.25   |
| <b>Air Transportation</b>                                 |                          |  |                                   |         |
| CP Air Holdings, Inc. (CPAHI) and Subsidiaries            | Philippines              | 2nd Floor, Doña Juanita Marquez Lim Building, Osmeña Boulevard, Cebu City  | 100.00                            | 100.00  |
| Cebu Air, Inc. (CAI) and Subsidiaries                     | -do-                     | -do-   | 67.23                             | 67.23   |
| <b>Real Estate and Hotels</b>                             |                          |  |                                   |         |
| Robinsons Land Corporation (RLC) and Subsidiaries         | Philippines              | 43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City  | 60.97                             | 60.97   |
| Robinson's Inn, Inc.                                      | -do-                     | -do-   | 60.97                             | 60.97   |
| Robinsons Realty and Management Corporation               | -do-                     | 43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City  | 60.97                             | 60.97   |
| Robinsons (Cayman) Limited                                | Cayman Islands           | Maples and Calder, P.O. Box 309, Ugland House, South Church Street, Grand Cayman, Cayman Islands                         | 60.97                             | 60.97   |
| Robinsons Properties Marketing and Management Corporation | Philippines              | 43rd Floor, Robinsons Equitable Tower, ADB Avenue, Artigas Center, Pasig City  | 60.97                             | 60.97   |
| Manhattan Buildings and Management Corp                   | -do-                     | 43rd Floor, Robinsons Equitable Tower, ADB Avenue, Artigas Center, Pasig City  | 60.97                             | 60.97   |
| Altus Angeles, Inc.                                       | -do-                     | McArthur Highway, Balisage, Angeles City, Pampanga   | 31.09**                           | 31.09** |
| Altus San Nicolas Corporation                             | -do-                     | Bogy. 1 San Francisco, San Nicolas, Ilocos Norte   | 60.97                             | 60.97   |
| Go Hotels Davao, Inc.                                     | -do-                     | Lanang, Davao City   | 31.09**                           | 31.09** |
| Lingkod Pinoy Bus Liner, Inc.                             | -do-                     |  | 48.78                             | 48.78   |
| RLC Resources Ltd   | British Virgin Islands   | British Virgin Islands   | 60.97                             | 60.97   |

(Forward)



| Subsidiaries   | Country of Incorporation | Principal place of business  | Effective Percentage of Ownership |        |
|--|--------------------------|--|-----------------------------------|--------|
|  |                          |  | 2017                              | 2016   |
| Land Century Holdings, Ltd.                                | Hong Kong                | Hong Kong  | 60.97                             | 60.97  |
| World Century Enterprise Ltd.                              | Hong Kong                | Hong Kong  | 60.97                             | 60.97  |
| Kingdom Pacific Ltd. (Kingdom Pacific)                     | Hong Kong                | Hong Kong  | -                                 | -      |
| Crown Harbour Holdings Ltd. (Crown Harbour)                | Hong Kong                | Hong Kong  | -                                 | -      |
| First Capital Development, Ltd                             | Hong Kong                | Hong Kong  | 60.97                             | 60.97  |
| Chengdu Xin Yao Real Estate Development Co. Ltd.           | China                    | China  | 60.97                             | 60.97  |
| <b>Petrochemicals</b>                                      |                          |  |                                   |        |
| JG Summit Petrochemical Corporation (JGSPC)                | Philippines              | Ground Floor, Cybergate Tower 1, EDSA corner, Pioneer Street, Mandaluyong City   | 100.00                            | 100.00 |
| JG Summit Olefins Corporation (JGSOC)                      | -do-                     | 43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City  | 100.00                            | 100.00 |
| <b>Banking</b>   |                          |  |                                   |        |
| Robinsons Bank Corporation (RBC) and a Subsidiary          | -do-                     | 17th floor, Galleria Corporate Center EDSA corner Ortigas Avenue, Quezon City  | 60.00                             | 60.00  |
| Legazpi Savings Bank, Inc. (LSB)                           | -do-                     | Rizal Street, Barangay Sagpon, Albay, Legazpi City   | 60.00                             | 60.00  |
| <b>Supplementary Businesses</b>                            |                          |  |                                   |        |
| Express Holdings, Inc. (EHI) and a Subsidiary              | -do-                     | 29th Floor, Galleria Corporate Center, EDSA, Quezon City   | 100.00                            | 100.00 |
| Summit Forex Brokers Corporation                           | -do-                     | 41st Floor, Robinsons-Equitable Tower, ADB Avenue, Corner Poveda Road, Pasig City  | 100.00                            | 100.00 |
| JG Summit Capital Services Corp. (JGSCSC) and Subsidiaries | -do-                     | 40th Floor, Robinsons-Equitable Tower, ADB Avenue corner Poveda Road, Ortigas Center, Pasig City                         | 100.00                            | 100.00 |
| JG Summit Capital Markets Corporation (JGSMC)              | -do-                     | -do-   | 100.00                            | 100.00 |
| Summit Point Services Ltd.                                 | -do-                     | -do-   | 100.00                            | 100.00 |
| Summit Internet Investments, Inc.                          | -do-                     | -do-   | 100.00                            | 100.00 |
| JG Summit Cayman, Ltd. (JGSCL)                             | Cayman Islands           | Maples and Calder, P.O. Box 309, Uglan House, South Church Street, Grand Cayman, Cayman Islands                          | 100.00                            | 100.00 |
| JG Summit Philippines Ltd. (JGSPL) and Subsidiaries        | -do-                     | -do-   | 100.00                            | 100.00 |
| JGSH Philippines, Limited                                  | British Virgin Islands   | Offshore Incorporations Limited, P.O. Box 957 Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands | 100.00                            | 100.00 |
| Multinational Finance Group, Ltd.                          | -do-                     | -do-   | 100.00                            | 100.00 |
| Telegraph Development, Ltd.                                | -do-                     | -do-   | 100.00                            | 100.00 |
| Summit Top Investment, Ltd.                                | -do-                     | -do-   | 100.00                            | 100.00 |
| JG Summit Limited (JGSL)                                   | -do-                     | -do-   | -                                 | -      |
| Unicon Insurance Brokers Corporation (UIBC)                | Philippines              | CFC Bldg., E. Rodriguez Avenue, Bagong Ilog, Pasig City  | 100.00                            | 100.00 |
| JG Summit Infrastructure Holdings Corporation              | -do-                     | 43 <sup>rd</sup> Floor Robinsons Equitable Tower, ADB avenue, Corner Poveda Road, Pasig City                             | 100.00                            | -      |
| Merbau Corporation   | -do-                     | Ground floor Cybergate Tower 1 Edsa cor Pioneer St. Mandaluyong City   | 100.00                            | -      |

(Forward)



| Subsidiaries   | Country of<br>Incorporation | Principal place of business             | Effective Percentage<br>of Ownership |        |
|--|-----------------------------|---|--------------------------------------|--------|
|  |                             |   | 2017                                 | 2016   |
| Batangas Agro-Industrial Development Corporation (BAID) and Subsidiaries | -do-                        | 5th Floor Citibank Center, Makati       | <b>100.00</b>                        | 100.00 |
| Fruits of the East, Inc.   | -do-                        | Citibank Center, Paseo de Roxas, Makati | <b>100.00</b>                        | 100.00 |
| Hometel Integrated Management Corporation                                | -do-                        | -do-                                    | <b>100.00</b>                        | 100.00 |
| King Leader Philippines, Inc.  | -do-                        | 5th Floor Citibank Center, Makati       | <b>100.00</b>                        | 100.00 |
| Tropical Aqua Resources  | -do-                        | -do-                                    | <b>100.00</b>                        | 100.00 |
| United Philippines Oil Trading, Inc.                                     | -do-                        | -do-                                    | <b>100.00</b>                        | 100.00 |

\* Certain subsidiaries are located in other countries, such as China, Malaysia, Singapore, Thailand, Vietnam, etc.

\*\* These are majority-owned subsidiaries of the Parent Company's directly-owned subsidiaries.



The Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- 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 in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

PFRS 10, prescribes guidance on the consolidation of SPE. Under PFRS 10, special purpose entities (SPE) should be consolidated when the substance of the relationship between the company and the SPE indicates that the SPE is controlled by the company. Control over an entity may exist when one entity is exposed, or has the rights to variable returns from its involvement with the SPE and has the ability to affect those returns through its power over the SPE. In accordance with PFRS 10, the Group's consolidated financial statements include the accounts of SPEs namely: Surigao Leasing Limited (SLL), Cebu Aircraft Leasing Limited (CALL), Boracay Leasing Limited (BLL), Vector Aircraft Leasing Limited (VALL), Panatag One Aircraft Leasing Limited (POALL), Panatag Two Aircraft Leasing Limited (PTALL), Panatag Three Aircraft Leasing Limited (PTHALL), Summit A Aircraft Leasing Limited (SAALL), Summit B Aircraft Leasing Limited (SBALL), and Summit C Aircraft Leasing Limited (SCALL). SLL, CALL, BLL, VALL, POALL, PTALL, and PTHALL are SPEs in which the Group does not have equity interest. SLL, CALL, BLL, VALL, POALL, PTALL, PTHALL, SAALL, SBALL, and SCALL acquired the passenger aircrafts for lease to CAI under finance lease arrangements and funded the acquisitions through long-term debt.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

All intragroup transactions, balances, income and expenses are eliminated in the consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the combination.



Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. 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 and attributed to the Group.

If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interest;
- derecognizes the related other comprehensive income recorded in equity and recycles the same to profit or loss or retained earnings;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained; and
- recognizes any surplus or deficit in profit or loss in the consolidated statement of comprehensive income.

#### Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss in the consolidated statement of comprehensive income as incurred.

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant PFRS. Changes in the fair value of contingent consideration classified as equity are not recognized.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that if known, would have effected the amounts recognized as of that date. The measurement period is the period from the date of acquisition to the date the Group receives complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum period of one year.

If the business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date (the date the Group attains control) and the resulting gain or loss, if any, is recognized in profit or loss in the consolidated statement of comprehensive income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss in the consolidated statement of comprehensive income, where such treatment would be appropriate if that interest were disposed of.

#### Goodwill

Goodwill arising on the acquisition of a subsidiary is recognized as an asset at the date the control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's



previously-held interest, if any, in the entity over the net fair value of the identifiable net assets recognized.

If after reassessment, the Group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest, if any, the excess is recognized immediately in profit or loss in the consolidated statement of comprehensive income as a bargain purchase gain.

Goodwill is not amortized, but is reviewed for impairment at least annually. Any impairment loss is recognized immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### Changes in Accounting Policies and Disclosures

The Group applied for the first-time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2017. Adoption of these pronouncements did not have a significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

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

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The Company has provided the required information in Note 46 to the financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

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



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

## **Significant Accounting Policies**

### Fair Value Measurement

For measurement and disclosure purposes, the Group determines the fair value of an asset or liability at initial measurement or at each statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- 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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

### Foreign Currency Translation

The Group's consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

### *Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities in their respective functional currencies at the foreign exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated using the closing foreign exchange rate prevailing at the reporting date. All differences are charged to profit or loss in the consolidated statement of comprehensive income. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in statement of income.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.





#### *Group companies*

As of reporting date, the assets and liabilities of foreign subsidiaries, with functional currencies other than the functional currency of the Parent Company, are translated into the presentation currency of the Group using the closing foreign exchange rate prevailing at the reporting date, and their respective income and expenses are translated at the monthly weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation shall be recognized in profit or loss.

#### Cash and Cash Equivalents

Cash represents 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 the dates of placement, and that are subject to an insignificant risk of changes in value.

#### Recognition of Financial Instruments

##### *Date of recognition*

Financial instruments within the scope of PAS 39 are recognized in the consolidated statement of financial position when the Group 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. Derivatives are recognized on a trade date basis.

##### *Initial recognition of financial instruments*

Financial instruments are recognized initially at fair value. Except for financial instruments designated as at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments, loans and receivables, or as derivatives designated as a hedging instrument, in an effective hedge. The Group 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. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

##### *'Day 1' difference*

Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where variables used are made of data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss 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 financial assets and financial liabilities held for trading purposes, derivative financial instruments or those designated upon initial recognition at FVPL.

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



Derivatives are also classified under financial assets or liabilities at FVPL, unless they are designated as hedging instruments in an effective hedge.

Financial assets or liabilities may be designated by management on initial recognition as at FVPL when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis;
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are reflected in profit or loss under 'Market valuation gain (loss) on financial assets at FVPL.' Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded in other operating income according to the terms of the contract, or when the right to receive payment has been established.

#### *Derivatives classified as FVPL*

The Parent Company and certain subsidiaries are counterparties to derivative contracts, such as interest rate swaps, currency forwards, cross currency swaps, currency options, commodity swaps and zero cost collar. These derivatives are entered into as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments (including bifurcated embedded derivatives) are initially recorded at fair value on the date at which the derivative contract is entered into or bifurcated and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly in profit or loss as 'Market valuation gain (loss) on derivative financial instruments.' Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair values of the Group's derivative instruments are calculated by using certain standard valuation methodologies and quotes obtained from third parties.

#### *Derivatives designated as accounting hedges*

For the purpose of hedge accounting, hedges are classified primarily as either: (a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); (b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge); or (c) a hedge of a net investment in a foreign operation (net investment hedge). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria are met.

#### *Hedge accounting*

At the inception of a hedging relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly



effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis that they actually have been highly effective throughout the financial reporting periods for which they were designated.

#### *Cash flow hedge*

Cash flow hedges are hedges of the exposure to variability in cash flows that are attributable to a particular risk associated with a recognized asset, liability or a highly probable forecast transaction and could affect the profit or loss. The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized as 'Net gains (losses) on cash flow hedges' in other comprehensive income. Any gain or loss in fair value relating to an ineffective portion is recognized immediately in profit or loss.

Amounts accumulated in other comprehensive income are recycled to profit or loss in the periods in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognized in other comprehensive income is eventually recycled in profit or loss.

#### *Hedge effectiveness testing*

To qualify for hedge accounting, the Group is required that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method that the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. The Group applies the dollar-offset method using hypothetical derivatives in performing hedge effectiveness testing. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80 to 125 percent. Any hedge ineffectiveness is recognized in profit or loss.

#### *Embedded derivatives*

Embedded derivatives are bifurcated from their host contracts, when the following conditions are met: (a) the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets at FVPL; (b) when their economic risks and characteristics are not closely related to those of their respective host contracts; and (c) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

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 would otherwise be required.



*Current versus noncurrent classification*

Derivative instruments that are not designated as effective hedging instruments are classified as current or noncurrent or separated into a current and noncurrent portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as noncurrent (or separated into current and noncurrent portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cashflows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a noncurrent portion only if a reliable allocation can be made.

*HTM investments*

HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments before their maturity, the entire category would be tainted and reclassified as AFS investments. Once tainted, the Group is not permitted to classify any of its financial assets as HTM investments for the next two fiscal years after the year of reclassification.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). Gains and losses are recognized in profit or loss when the HTM investments are derecognized and impaired, as well as through the amortization process. The effects of restatement of foreign currency-denominated HTM investments are recognized in profit or loss.

*Loans and receivables*

Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS investments or financial assets at FVPL. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees that are an integral part of the EIR and transaction costs. The amortization is included under 'Interest income' in profit or loss in the consolidated statement of comprehensive income. Gains and losses are recognized in profit or loss in the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are classified as current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.



#### *AFS investments*

AFS investments are those nonderivative investments which are designated as such or do not qualify to be classified as designated financial assets at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in profit or loss. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from profit or loss in the consolidated statement of comprehensive income and are reported under 'Net unrealized gain (loss) on available-for-sale investments' under other comprehensive income in the consolidated statement of comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized in profit or loss in the consolidated statement of comprehensive income. Interest earned on holding AFS investments are reported as interest income using the effective interest method. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. Dividends earned on holding AFS investments are recognized in profit or loss in the consolidated statement of comprehensive income when the right to receive payment has been established.

The losses arising from impairment of such investments are recognized under 'Impairment losses and others' in the consolidated statement of comprehensive income.

#### *Other financial liabilities*

Issued financial instruments or their components, which are not designated as 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 exchange of a fixed amount of cash or another financial asset for a fixed number of 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 with 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 method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees and debt issue costs that are an integral part of the EIR. Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

This accounting policy applies primarily to the Group's short-term and long-term debt, accounts payable and accrued expenses and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and pension liabilities).

#### Debt Issuance Cost

Debt issuance costs are amortized using the effective interest method and unamortized debt issuance costs are included in the measurement of the carrying value of the related loan in the consolidated statement of financial position. When a loan is repaid, the related unamortized debt issuance costs at the date of repayment are charged against profit or loss.



### Customers' Deposits

#### *Deposits from lessees*

Deposits from lessees are measured initially at fair value. After initial recognition, customers' deposits are subsequently measured at amortized cost using the effective interest method.

The difference between the cash received and its fair value is deferred (included in 'Other current or noncurrent liabilities' in the consolidated statement of financial position) and amortized using the straight-line method.

#### *Deposits from real estate buyers*

Deposits from real estate buyers represent mainly reservation fees and advance payments. These deposits will be recognized as revenue in the consolidated statement of comprehensive income as the related obligations are fulfilled to the real estate buyers. The deposits are recorded as 'Deposits from real estate buyers' and reported under the 'Other current or noncurrent liabilities' account in the consolidated statement of financial position.

### Reclassification of Financial Assets

A financial asset is reclassified out of the financial assets at FVPL category when the following conditions are met:

- the financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and
- there is a rare circumstance.

The Group evaluates its AFS investments whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the ability and intention to hold these assets for the foreseeable future or until maturity. Reclassification to the HTM category is permitted only when the entity has the ability and intention to hold the financial asset to maturity.

For a financial asset reclassified out of the AFS category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

### Classification of Financial Instruments Between Debt and Equity

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

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

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



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

#### 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 a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortized cost*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on a financial asset carried at amortized cost (i.e., receivables or HTM investments) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR. The carrying amount of the asset is reduced through the use of an allowance account. The loss is recognized in the consolidated statement of comprehensive income as 'Impairment losses and others'. The asset, together with the associated allowance account, is written-off when there is no realistic prospect of future recovery.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's 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 of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

The Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment loss.

The review is accomplished using a combination of specific and collective assessment approaches, with the impairment loss being determined for each risk grouping identified by the Group.

#### *AFS investments*

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.



In the case of equity investments classified as AFS investments, objective evidence 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. The Group treats ‘significant’ generally as 20% and ‘prolonged’ as greater than 12 months for quoted equity securities. Where there is evidence of impairment, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit and loss, is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss in the consolidated statement of comprehensive income. Increases in fair value after impairment are recognized as part of other comprehensive income.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss. Such accrual is recorded as part of ‘Interest income’ in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the profit or loss.

#### Derecognition of Financial Instruments

##### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset 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 rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of ownership and retained control of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the 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 original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

##### *Financial liabilities*

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 profit or loss.

#### 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. The Group assesses that it has a currently enforceable right of offset if the





right is not contingent on a future event, and is legally enforceable in the normal course of business of default, and event of solvency or bankruptcy of the Group and all of the counterparties.

#### Inventories

Inventories, including work-in-process, are valued at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. NRV for materials, spare parts and other supplies represents the related replacement costs. In determining the NRV, the Group deducts from cost 100.0% of the carrying value of slow-moving items and nonmoving items for more than one year.

When inventories are sold, the carrying amounts of those inventories are recognized under 'Cost of sales and services' in profit or loss in the period when the related revenue is recognized.

Some inventories may be allocated to other asset accounts, for example, inventory used as a component of a self-constructed property, plant or equipment. Inventories allocated to another asset in this way are recognized as an expense during the useful life of that asset.

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

#### *Finished goods, work-in-process, raw materials and packaging materials*

##### a. *Petrochemicals*

In 2015, JGSPC and JGSOC changed its inventory costing method for its raw materials, work-in-process and finished goods from weighted average costing method to FIFO costing method. Under the FIFO costing method, items that are purchased first or are produced first are sold first and items remaining at the end of the period are those most recently purchased or produced. Cost of finished goods and work-in-process includes direct materials and labor and a proportion of manufacturing overhead costs based on actual goods processed and produced. The effect of the change in the accounting policy is not significant.

##### b. *Branded consumer foods, agro-industrial and commodity food products*

Cost is determined using the weighted average method. Under the weighted average costing method, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. Cost of finished goods and work-in-process include direct materials and labor and a proportion of manufacturing overhead costs based on actual goods processed and produced, but excluding borrowing costs.

#### *Subdivision land and condominium and residential units for sale*

Subdivision land, condominium and residential units for sale are carried at the lower of cost and NRV. Cost includes costs incurred for development and improvement of the properties and borrowing costs on loans directly attributable to the projects which were capitalized during construction.

#### *Factory supplies and spare parts*

Cost is determined using the weighted average method.

#### Investments in Associates and Joint Ventures

Associates pertain to all entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting.



The Group also has interests in joint ventures. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

The Group's investments in its associates and joint ventures are accounted for using the equity method of accounting. Under the equity method, the investments in associates and joint ventures are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the associates and joint ventures. The consolidated statement of comprehensive income reflects the share of the results of operations of the associates and joint ventures. Where there has been a change recognized in the investees' other comprehensive income, the Group recognizes its share of any changes and discloses this, when applicable, in the other comprehensive income. Profits and losses arising from transactions between the Group and the associate are eliminated to the extent of the interest in the associates and joint ventures.

The Group's investments in certain associates and joint ventures include goodwill on acquisition, less any impairment in value. Goodwill relating to an associate or joint venture is included in the carrying amount of the investment and is not amortized.

Where necessary, adjustments are made to the financial statements of associates to bring the accounting policies used in line with those used by the Group.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

#### Investment Properties

Investment properties consist of properties that are held to earn rentals or for capital appreciation or both, and those which are not occupied by entities in the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and impairment loss, if any. Land is carried at cost less impairment loss, if any. Investment properties are measured initially at cost, including transaction costs. Transaction costs represent nonrefundable taxes such as capital gains tax and documentary stamp tax that are for the account of the Group. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such an asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under investment properties upon: a) entry of judgment in case of judicial foreclosure; b) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or c) notarization of the Deed of Dacion in case of dacion in payment (dacion en pago).

The Group's investment properties are depreciated using the straight-line method over their estimated useful lives (EUL) as follows:

|                            |                |
|----------------------------|----------------|
| Land improvements          | 5 to 10 years  |
| Buildings and improvements | 10 to 30 years |



The depreciation and amortization method and useful life are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of investment properties.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in profit or loss in the consolidated statement of comprehensive income in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of 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 that property for measurement or disclosure purposes. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under 'Property, plant and equipment' up to the date of change in use.

Construction in-progress is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of investment properties are capitalized during the construction period. Construction in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

#### Property, Plant and Equipment

Property, plant and equipment, except land which is stated at cost less any impairment in value, are carried at cost less accumulated depreciation, amortization and impairment loss, if any.

The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost also includes: (a) interest and other financing charges on borrowed funds used to finance the acquisition of property, plant and equipment to the extent incurred during the period of installation and construction; and (b) asset retirement obligation (ARO) relating to property, plant and equipment installed/constructed on leased properties or leased aircraft.

Subsequent replacement costs of parts of property, plant and equipment are capitalized when the recognition criteria are met. Significant refurbishments and improvements are capitalized when it can be clearly demonstrated that the expenditures have resulted in an increase in future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond the originally assessed standard of performance. Costs of repairs and maintenance are charged as expense when incurred.

Foreign exchange differentials arising from the acquisition of property, plant and equipment are charged against profit or loss in the consolidated statement of comprehensive income and are no longer capitalized.

Depreciation and amortization of property, plant and equipment commences once the property, plant and equipment are available for use, and are computed using the straight-line method over the EUL of the assets, regardless of utilization.



The EUL of property, plant and equipment of the Group follow:

|  | <u>EUL</u>     |
|--|----------------|
| Land and improvements                          | 10 to 40 years |
| Buildings and improvements                     | 10 to 30 years |
| Machinery and equipment                        | 4 to 50 years  |
| Leasehold improvements                         | 15 years       |
| Passenger aircraft                             | 15 years       |
| Other flight equipment                         | 5 years        |
| Transportation, furnishing and other equipment | 3 to 5 years   |

Leasehold improvements are amortized over the shorter of their EULs or the corresponding lease terms.

The assets' residual values, useful lives and methods of depreciation and amortization are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment. Any change in the expected residual values, useful lives and methods of depreciation are adjusted prospectively from the time the change was determined necessary.

Construction in-progress is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalized during the construction period. Construction in-progress is not depreciated until such time as the relevant assets are completed and put into operational use. Assets under construction are reclassified to a specific category of property, plant and equipment when the construction and other related activities necessary to prepare the properties for their intended use are completed and the properties are available for use.

Major spare parts and stand-by equipment items that the Group expects to use over more than one period and can be used only in connection with an item of property, plant and equipment are accounted for as property, plant and equipment. Depreciation and amortization on these major spare parts and stand-by equipment commence once these have become available for use (i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Group).

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the consolidated statement of comprehensive income, in the year the item is derecognized.

#### ARO

The Group is contractually required under various lease contracts to either restore certain leased aircraft to its original condition at its own cost or to bear a proportionate cost of restoration at the end of the contract period. The event that gives rise to the obligation is the actual flying hours, flying cycles or calendar months of the asset as used, as the usage determines the timing and nature of the overhaul and restoration work required or the amount to be contributed at the end of the lease term. For certain lease agreements, the Group provides for these costs over the terms of the leases through contribution to a maintenance reserve fund (MRF) which is recorded as outright expense. If the estimated cost of restoration is expected to exceed the cumulative MRF, an additional obligation is accounted on an accrual basis. Regular aircraft maintenance is accounted for as expense when incurred.



If there is a commitment related to maintenance of aircraft held under operating lease arrangements, a provision is made during the lease term for the lease return obligations specified within those lease agreements. The provision is made based on historical experience, manufacturers' advice and if relevant, contractual obligations, to determine the present value of the estimated future major airframe inspections cost and engine overhauls.

Advance payment for materials for the restoration of the aircraft is initially recorded under 'Advances to supplier' account in the consolidated statement of financial position. This is recouped when the expenses for restoration of aircraft have been incurred.

The Group regularly assesses the provision for ARO and adjusts the related liability.

#### Borrowing Costs

Interest and other finance costs incurred during the construction period on borrowings used to finance property development are capitalized to the appropriate asset accounts. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress, and expenditures and borrowing costs are being incurred. The capitalization of these borrowing costs ceases when substantially all the activities necessary to prepare the asset for sale or its intended use are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on the applicable weighted average borrowing rate for general borrowings. For specific borrowings, all borrowing costs are eligible for capitalization.

Borrowing costs which do not qualify for capitalization are expensed as incurred.

Interest expense on loans is recognized using the effective interest method over the term of the loans.

#### Biological Assets

The biological assets of the Group are divided into two major categories with sub-categories as follows:

- |                   |  |
|-------------------|--|
| Swine livestock   | <ul style="list-style-type: none"><li>- Breeders (livestock bearer)</li><li>- Sucklings (breeders' offspring)</li><li>- Weanlings (comes from sucklings intended to be breeders or to be sold as fatteners)</li><li>- Fatteners/finishers (comes from weanlings unfit to become breeders; intended for the production of meat)</li></ul> |
| Poultry livestock | <ul style="list-style-type: none"><li>- Breeders (livestock bearer)</li><li>- Chicks (breeders' offspring intended to be sold as breeders)</li></ul>   |

Biological assets are measured on initial recognition and at each reporting date at its fair value less estimated costs to sell, except for a biological asset where fair value is not clearly determinable. The fair values are determined based on current market prices of livestock of similar age, breed and genetic merit. Costs to sell include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Costs to sell exclude transport and other costs necessary to get the biological assets to the market.

Agricultural produce is the harvested product of the Group's biological assets. A harvest occurs when agricultural produce is either detached from the bearer biological asset or when a biological asset's life processes cease. A gain or loss arising on initial recognition of agricultural produce at fair value less estimated costs to sell is recognized in the consolidated statement of income in the period in which it arises. The agricultural produce in swine livestock is the suckling that transforms into weanling then into fatteners/finishers, while the agricultural produce in poultry livestock is the hatched chick and table eggs.



A gain or loss on initial recognition of a biological asset at fair value less estimated costs to sell and from a change in fair value less estimated costs to sell of a biological asset are included in the consolidated statement of income in the period in which it arises.

#### Goodwill

Goodwill acquired in a business combination from the acquisition date is allocated to each of the Group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Group's operating segments as determined in accordance with PFRS 8, *Operating Segments*.

Following 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 (see Impairment of Nonfinancial Assets).

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### Bank Licenses

Bank licenses arise from the acquisition of branches of a local bank by the Group and commercial bank license. The Group's bank licenses have indefinite useful lives and are subject to annual individual impairment testing.

#### Intangible Assets

Intangible assets (other than goodwill) acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the acquisition date. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment loss, if any.

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

The useful lives of intangible assets with finite lives are assessed at the individual asset level. Intangible assets with finite lives are amortized on a straight-line basis over their useful lives.

The period and the method of amortization of an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the EUL 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 useful lives is recognized under 'Cost of sales and services' and 'General and administrative expenses' in profit or loss in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible asset. Intangible assets with finite lives are assessed for impairment, whenever there is an indication that the intangible assets may be impaired.



Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level (see further discussion under Impairment of Nonfinancial Assets). Such intangibles are not amortized. The intangible asset with an indefinite useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If the indefinite useful life is no longer appropriate, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Costs incurred to acquire computer software (which are not an integral part of its related hardware) and costs to bring it to its intended use are capitalized as intangible assets. Costs directly associated with the development of identifiable computer software that generate expected future benefits to the Group are also recognized as intangible assets. All other costs of developing and maintaining computer software programs are recognized as expense when incurred.

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 asset and is recognized in profit or loss in the consolidated statement of comprehensive income when the asset is derecognized.

A summary of the policies applied to the Group’s intangible assets follows:

|                                  | Technology Licenses  | Licenses        | Product Formulation and Brands | Software Costs   | Land Use Rights   | Customer Relationship      | Trademarks      |
|----------------------------------|--|-----------------|--------------------------------|--|---|----------------------------|-----------------|
| EUL                              | Finite (12 to 13.75 years)                                     | Indefinite      | Indefinite                     | Finite (5 years)   | Finite (40 years for commercial and 70 years for residential) | Finite (35 years)          | Indefinite      |
| Amortization method used         | Amortized on a straight-line basis over the EUL of the license | No amortization | No amortization                | Amortized on a straight-line basis over the EUL of the software cost | Straight line amortization                                    | Straight line amortization | No amortization |
| Internally generated or acquired | Acquired   | Acquired        | Acquired                       | Acquired   | Acquired  | Acquired                   | Acquired        |

**Impairment of Nonfinancial Assets**

This accounting policy applies primarily to the Group’s ‘Investments in associates and joint ventures’, ‘Investment properties’, ‘Property, plant and equipment’, ‘Biological assets at cost’, ‘Intangible assets’, ‘Goodwill’ and ‘Deferred subscriber acquisition and retention costs’.

Except for goodwill and intangible assets with indefinite lives which are tested for impairment annually, the Group assesses at each reporting date whether there is an indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset’s (or cash-generating unit’s) fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written-down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).



Impairment losses from continuing operations are recognized under 'Impairment losses and others' in profit or loss.

The following criteria are also applied in assessing impairment of specific assets:

*Property, plant and equipment, investment properties, intangible assets with definite useful lives and costs*

For property, plant and equipment, investment properties, intangible assets with definite useful lives, 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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss in the consolidated statement of comprehensive income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

*Goodwill*

Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

The Group performs its impairment test of goodwill every reporting date.

*Investments in associates and joint ventures*

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investments in associates and joint ventures. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount under 'Impairment losses and others' in profit or loss.

*Intangible assets with indefinite useful lives*

Intangible assets with indefinite useful lives are tested for impairment annually as of year-end either individually or at the cash-generating unit level, as appropriate.

Equity

Common and preferred stocks are classified as equity and are recorded at par. Proceeds in excess of par value are recorded as 'Additional paid-in capital' in the consolidated statement of changes in equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Retained earnings represent the cumulative balance of periodic net income/loss, dividend distributions, prior period adjustments and effect of changes in accounting policy and capital adjustments.





### Treasury Shares

Treasury shares are recorded at cost and are presented as a deduction from equity. When the shares are retired, the capital stock account is reduced by its par value. The excess of cost over par value upon retirement is debited to the following accounts in the order given: (a) additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued, and (b) retained earnings. No gain or loss is recognized in profit or on the purchase, sale, issue or cancellation of the Group's own equity instruments.

### 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. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duties. The Parent Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Parent Company has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

#### *Sale of goods*

Revenue from sale of goods is recognized upon delivery, 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 or receivable, net of any trade discounts, prompt payment discounts and volume rebates.

#### *Rendering of tolling services*

Revenue derived from tolling activities, whereby raw sugar from traders and planters is converted into refined sugar, is recognized as revenue when the related services have been rendered.

#### *Sale of air transportation services*

Passenger ticket and cargo waybill sales, excluding portion relating to awards under Lifestyle Rewards Program, are initially recorded under 'Unearned revenue' account in the consolidated statement of financial position until recognized as 'Revenue' in the consolidated statement of comprehensive income when carriage is provided or when the flight is uplifted.

#### *Ancillary revenue*

Revenue from services incidental to the transportation of passengers, cargo, mail and merchandise are recognized when transactions are carried out.

#### *Real estate sales*

Revenue from sales of real estate and cost from completed projects is accounted for using the full accrual method. The percentage of completion 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. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion by reference to the actual costs incurred to date over the estimated total costs of project.

If any of the criteria under the 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 'Deposits from real estate buyers' which is shown as part of the 'Other current or noncurrent liabilities' in the consolidated statement of financial position.

#### *Revenue from hotel operations*

Revenue from hotel operations is recognized when services are rendered. Revenue from banquets and other special events are recognized when the events take place. Rental income on leased areas of the



hotel is recognized on a straight-line basis over the lease term. Revenue from food and beverage are recognized when these are served. Other income from transport, laundry, valet and other related hotel services are recognized when services are rendered.

*Interest income*

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as interest income.

Unearned discount is recognized as income over the terms of the receivables using the effective interest method and is shown as a deduction from loans.

*Service fees and commission income*

The Group earns fees and commission income from the diverse range of services it provides to its customers. Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, portfolio fees, credit-related fees and other service and management fees. Fees on deposit-related accounts are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collection.

*Trading and securities gain (loss)*

This represents results arising from disposal of AFS and HTM investments and trading activities including all gains and losses from changes in fair value of financial assets at FVPL of the Group's Banking segment.

*Dividend income*

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

*Rent income*

The Group leases certain commercial real estate properties to third parties under an operating lease arrangement. Rental income on leased properties is recognized on a straight-line basis over the lease term, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract. Contingent rents are recognized as revenue in the period in which they are earned.

*Amusement income*

Revenue is recognized upon receipt of cash from the customer which coincides with the rendering of services.

*Gain from sale of properties, investments and other assets*

Gain from sale of properties, investments and other assets is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured.



### Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense under 'Financing costs and other charges' account in the consolidated statement of comprehensive income. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is probable.

### Contingencies

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

### Pension Costs

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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



Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

#### *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 Taxes

#### *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.

#### *Deferred tax*

Deferred 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, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and



- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from unused minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences, and the carryforward benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor future taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilized.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to extent that it is no longer probable that sufficient future taxable income will be available to allow all or 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 the deferred tax assets to be recognized.

Deferred tax assets and liabilities are measured at the tax rates that are 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 of reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss in the consolidated statement of comprehensive income. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

#### Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets, and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or an extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d. there is a substantial change to the asset.



Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a, c or d above, and at the date of renewal or extension period for scenario b.

#### *Group as a lessee*

Finance leases, which transfer to the Group 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 and is included in the consolidated statement of financial position under 'Property, plant and equipment' with the corresponding liability to the lessor included under 'Long-term debt'. 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 to profit or loss in the consolidated statement of comprehensive income. Capitalized leased assets are depreciated over the shorter of the EUL of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense under 'Cost of sales and services' and 'General administrative expenses' in profit or loss in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

A sale and leaseback transaction includes the sale of an asset and the leasing back of the same asset. If the leaseback is classified as an operating lease, then, any gain is recognized immediately in the profit or loss if the sale and leaseback terms are demonstrably at fair value. Otherwise, the sale and leaseback are accounted for as follows:

- If the sale price is below the fair value, then, the gain or loss is recognized immediately other than to the extent that a loss is compensated for by future rentals at below market price, then the loss is deferred and amortized over the period that the asset is expected to be used.
- If the sale price is above the fair value, then, any gain is deferred and amortized over the period that the asset is expected to be used.
- If the fair value of the asset is less than the carrying amount of the asset at the date of the transaction, then that difference is recognized immediately as a on the sale.

#### *Group as a lessor*

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

#### Joint Operation

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognize in relation to its interest in a joint operation its assets, including its share of any assets held jointly; liabilities, including its share of any liabilities incurred jointly; revenue from the sale of its share of the output arising from the joint operation; share of the revenue from the sale of the output by the joint operation; and expenses, including its share of any expenses incurred jointly.



### Earnings Per Share (EPS)

Basic EPS is computed by dividing net income for the period attributable to the ordinary equity holders of the Parent Company by the weighted average number of common shares outstanding during the year, adjusted for any subsequent stock dividends declared.

Diluted EPS amounts are calculated by dividing the net income attributable to ordinary equity holders of the Parent Company (after deducting interest of the preferred shares, if any) by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on the conversion of all the dilutive potential common shares into common shares.

### Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Parent Company in the case of cash dividends, and the BOD and shareholders of the Parent Company in the case of stock dividends.

### Segment Reporting

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 6 to the consolidated financial statements.

### Subsequent Events

Any post-year-end event up to the date of approval of the BOD of the consolidated financial statements that provides additional information about the Group's position at the reporting date (adjusting event) is reflected in the consolidated financial statements. Any post-year-end event that is not an adjusting event is disclosed in the notes to the consolidated financial statements, when material.

### Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

#### *Effective beginning on or after January 1, 2018*

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.



- PFRS 9, *Financial Instruments*

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

The Company plans to adopt the new standard on the mandatory effective date and will not restate comparative information.

In 2017, the Group performed its initial impact assessment of all three phases of PFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information becoming available to the Group when it adopts PFRS 9 in 2018.

*(a) Classification and measurement*

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

Investments in unquoted equity shares currently carried at cost under PAS 39 are intended to be held for the foreseeable future. As such, the Group intends to apply the option to present fair value changes for these investments in OCI. The Group is in the process of determining how to measure the fair value of these unquoted investments.

Quoted equity shares currently held as AFS are expected to be measured at fair value through profit or loss, which will increase volatility in profit or loss.

*(b) Impairment*

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

*(c) Hedge accounting*

The Group has determined that all existing hedge relationships that are currently designated in effective hedging relationships under PAS 39 will continue to qualify for hedge accounting under PFRS 9. On transition, the Group will not retrospectively apply PFRS 9 to the hedges where the Group excluded the forward points from the hedge designation under PAS 39.





As PFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of PFRS 9 will not have a significant impact on the Group's 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 new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

- 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 retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the modified retrospective method.

The Group is still assessing the impact of adopting PFRS 15 in 2018.

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

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.



The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

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

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

*Effective beginning on or after January 1, 2019*

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

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

- PFRS 16, *Leases*

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

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



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

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

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

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

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

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

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

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

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

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

#### *Deferred effectivity*

- Amendments to PFRS 10 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 deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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### 3. Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in compliance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements, as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### 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:

*a. Classification of financial instruments*

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

In addition, 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.

*b. Determination of fair values of financial instruments*

The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any change in fair value of these financial assets and liabilities would affect the consolidated statements of comprehensive income.

Where the fair values of certain financial assets and financial liabilities recorded in the consolidated statements of financial position 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. The judgments include considerations of liquidity



and model inputs such as correlation and volatility for longer dated derivatives. Refer to Note 5 for the fair value measurements of financial instruments.

*c. Revenue from real estate sales*

Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgment based on, among others:

- buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment (buyer's equity); and
- stage of completion of the project determined using cost-to-cost method.

The Group has set a certain percentage of collection over the total selling price in determining buyer's commitment on the sale. It is when the buyer's investment is considered adequate to meet the probability criteria that economic benefits will flow to the Group.

*d. Classification of leases*

Operating Lease

*Operating lease commitments - Group as lessee*

The Group has entered into leases on premises it uses for its operations. The Group has determined, based on evaluation of the terms and conditions of the lease agreements that the significant risk and rewards of ownership to these properties did not transfer to the Group. In determining this, the Group considers the following:

- the lease does not transfer the ownership of the asset to the lessee by the end of the lease term; and
- the related lease term do not approximate the EUL of the assets being leased.

*Operating lease commitments - Group as lessor*

Based on the evaluation of the terms and conditions of the arrangements, the Group has determined that it retains all significant risks and rewards of ownership to these properties. In determining this, the Group considers, the following:

- the leases do not provide for an option to purchase or transfer ownership of the property at the end of the lease; and
- the related lease term do not approximate the EUL of the assets being leased.

Finance Lease

*Group as lessor*

The Group has determined based on evaluation of terms and conditions of the lease arrangements (i.e., present value of minimum lease payments receivable amounts to at least substantially all of the fair value of leased asset, lease term if for the major part of the economic useful life of the asset, and lessor's losses associated with the cancellation are borne by the lessee) that it has transferred all significant risks and rewards of ownership of the properties it leases out on finance leases.

*Group as lessee*

The Group has determined based on evaluation of terms and conditions of the lease arrangements (i.e., present value of minimum lease payments payable amounts to at least substantially all of the fair value of leased asset, lease term if for the major part of the economic useful life of the asset, and lessor's losses associated with the cancellation are borne by the lessee) that it has obtained all significant risks and rewards of ownership of the properties it leased on finance leases.

Refer to Note 42 for the disclosure on the Group's leases.



e. *Distinction between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property is not occupied substantially for use by, or in operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately, the property is accounted for as an investment property, only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Group considers each property separately in making its judgment.

f. *Consolidation of SPEs*

The Group periodically undertakes transactions that may involve obtaining the right to control or significantly influence the operations of other companies. These transactions include the purchase of aircraft and assumption of certain liabilities. In all such cases, management makes an assessment as to whether the Group has: (a) power over the SPEs; (b) the right over the returns of its SPEs; and (c) the ability to use power over the SPEs to affect the amount of the Group's return, and based on these assessments, the SPEs are consolidated as a subsidiary or associated company. In making these assessments, the management considers the underlying economic substance of the transaction and not only the contractual terms. The Group has assessed that it will benefit from the economic benefits of the SPEs' activities and it will affect the returns for the Group. The Group is directly exposed to the risks and returns from its involvement with the SPEs. Such rights and risks associated with the benefits and returns are indicators of control. Accordingly, the SPEs are consolidated.

Upon loss of control, the Group derecognizes the assets and liabilities of its SPEs and any surplus or deficit is recognized in profit or loss.

g. *Determination of functional currency*

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine an entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, each entity in the Group considers the following:

- a. the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- b. the currency in which funds from financing activities are generated; and
- c. The currency in which receipts from operating activities are usually retained.

In the case of an intermediate holding company or finance subsidiary, the principal consideration of management is whether it is an extension of the Parent Company and performing the functions of the Parent Company - i.e., whether its role is simply to hold the investment in, or provide finance to, the foreign operation on behalf of the Parent Company or whether its functions are essentially an extension of a local operation (e.g., performing selling, payroll or similar activities for that operation) or indeed it is undertaking activities on its own account. In the former case, the



functional currency of the entity is the same with that of the Parent Company; while in the latter case, the functional currency of the entity would be assessed separately.

*h. Significant influence over an associate with less than 20.0% ownership*

In determining whether the Group has significant influence over an investee requires significant judgment. Generally, a shareholding of 20.0% to 50.0% of the voting rights of an investee is presumed to give the Group a significant influence.

There are instances that an investor exercises significant influence even if its ownership is less than 20.0%. The Group applies significant judgment in assessing whether it holds significant influence over an investee and considers the following: (a) representation on the board of directors or equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions between the investor and the investee; (d) interchange of managerial personnel; or (e) provision of essential technical information.

*i. Contingencies*

The Group is currently involved in certain legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material effect on the Group's consolidated financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 43).

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 year are discussed below:

*a. Revenue and cost recognition*

The Group's revenue recognition policies require use of estimates and assumptions that may affect the reported amounts of revenue and costs.

- Sale of real estate

The Group's real estate revenue and costs are recognized based on the percentage-of-completion and the completion rate is measured principally on the basis of the estimated completion by reference to the actual costs incurred to date over the total estimated costs of the project. The total estimation costs of the real estate project requires input by project development engineers.

The related balances from real estate transactions follow:

|                   | 2017                  | 2016           | 2015           |
|-------------------|-----------------------|----------------|----------------|
| Revenue           | <b>₱5,973,248,023</b> | ₱6,973,938,019 | ₱6,378,365,315 |
| Cost and expenses | <b>3,143,037,387</b>  | 4,153,220,627  | 3,250,836,782  |

*b. Impairment of AFS investments*

*AFS debt investments*

The Group classifies certain financial assets as AFS debt investments and recognizes movements in the fair value in other comprehensive income in the consolidated statement of comprehensive income. When the fair value declines, management makes assumptions about the decline in value



to determine whether it is an impairment loss that should be recognized in profit or loss in the consolidated statement of comprehensive income.

In 2017, 2016 and 2015, the Group did not recognize impairment losses on its AFS debt investments.

The carrying value of the Group's AFS debt investments is disclosed in Note 10 to the consolidated financial statements.

*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 20.0% or more and 'prolonged' as greater than 12 months for quoted equity securities. In addition, the Group evaluates other factors, including the normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

In 2016, the Group recognized impairment loss on its AFS equity instruments amounting to ₱16.7 billion. In 2017 and 2015, the Group did not recognize impairment losses on its AFS equity investments.

The carrying value of the Group's AFS equity investments is disclosed in Note 10 to the consolidated financial statements.

*c. Impairment of goodwill and intangible assets*

The Group performed its annual impairment test on its goodwill and other intangible assets with indefinite useful lives as of reporting date. The recoverable amounts of the intangible assets were determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The following assumptions were also used in computing value in use:

*Growth rate estimates* - growth rates include long-term growth rates that are based on experiences and strategies developed for the various subsidiaries. The prospect for the industry was also considered in estimating the growth rates.

*Discount rates* - discount rates were estimated based on the industry weighted average cost of capital, which includes the cost of equity and debt after considering the gearing ratio.

Other key assumptions used in estimating value in use are revenue growth and operating margin. Value-in-use is the most sensitive to changes in revenue growth rates, operating margin, discount rates and growth rates.

As of December 31, 2017 and 2016, the balance of the Group's goodwill and intangible assets, net of accumulated depreciation, amortization and impairment loss follow:

|                             | 2017                   | 2016            |
|-----------------------------|------------------------|-----------------|
| Goodwill (Note 19)          | <b>₱32,023,183,943</b> | ₱32,023,183,943 |
| Intangible assets (Note 18) | <b>14,021,031,196</b>  | 14,159,003,493  |





*d. Determination of the fair value of intangible assets and property, plant and equipment acquired in a business combination*

The Group measures the identifiable assets and liabilities acquired in a business combination at fair value at the date of acquisition.

The fair value of the intangible assets acquired in a business combination is determined based on the net sales forecast attributable to the intangible assets, growth rate estimates and royalty rates using comparable license agreements. Royalty rates are based on the estimated arm's length royalty rate that would be paid for the use of the intangible assets. Growth rate estimate includes long-term growth rate and terminal growth rate applied to future cash flows beyond the projection period.

The fair value of property, plant and equipment acquired in a business combination is determined based on comparable properties after adjustments for various factors such as location, size and shape of the property. Cost information and current prices of comparable equipment are also utilized to determine the fair value of equipment.

The Group's acquisitions are discussed in Note 44 to the consolidated financial statements.

*e. Estimation of allowance for impairment losses on receivables*

The Group reviews its finance receivables at each statement of financial position date to assess whether a credit loss should be recorded in the statement of income. The Group determines the provision for credit losses on finance receivables on an individual basis for individually significant finance receivables, and collectively for finance receivables that are not individually significant. The identification of impairment and the determination of the recoverable amount involve various assumptions and factors, including the financial condition of the counterparty, estimated future cash flows, observable market prices, estimated net realizable value of the collateral, historical loss rates, and net flow rates when determining the level of allowance required.

The Group maintains allowances for impairment losses on trade and other receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of relationship with the customer, the customer's payment behavior and known market factors. The Group reviews the age and status of the receivables, and identifies accounts that are to be provided with allowances on a continuous basis. The Group provides full allowance for trade and other receivables that it deems uncollectible.

Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. An increase in the allowance for impairment losses on receivables would increase recorded operating expenses and decrease either current or non-current assets.

Provisions for impairment losses on receivables, included in 'Impairment losses and others' in profit or loss in the consolidated statements of comprehensive income are disclosed in Notes 11 and 34 to the consolidated financial statements.

The carrying value of the Group's total receivables, net of allowance for impairment losses, is disclosed in Note 11 to the consolidated financial statements.

*f. Determination of NRV of inventories*

The Group, in determining the NRV, considers any adjustment necessary for obsolescence which is generally providing a 100.0% write down for nonmoving items for more than one year. The Group adjusts the cost of inventory to the recoverable value at a level considered adequate to reflect



any market decline in the value of the recorded inventories. The Group reviews the classification of the inventories and generally provides adjustments for recoverable values of new, actively sold and slow-moving inventories by reference to prevailing values of the same inventories in the market.

The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in inventory obsolescence and market decline would increase recorded operating expenses and decrease current assets.

Inventory obsolescence and market decline included under 'Impairment losses and others' in profit or loss in the consolidated statements of comprehensive income are disclosed in Notes 12 and 34 to the consolidated financial statements.

The carrying value of the Group's inventories, net of inventory obsolescence and market decline, is disclosed in Note 12 to the consolidated financial statements.

g. *Estimation of ARO*

The Group is contractually required under certain lease contracts to restore certain leased passenger aircraft to stipulated return condition or to bear a proportionate cost of restoration at the end of the contract period. The contractual obligation includes regular aircraft maintenance, overhaul and restoration of the leased aircraft to its original condition. Since the first operating lease entered by the Group in 2001, these costs are accrued based on an internal estimate which includes certain overhaul, restoration, and redelivery costs at the end of the operating aircraft lease. Regular aircraft maintenance is accounted for as expense when incurred, while overhaul and restoration are accounted on an accrual basis. Calculations of such costs includes assumptions and estimates in respect of the anticipated rate of aircraft utilization which includes flying hours and flying cycles and calendar months of the asset as used.

Assumptions and estimates used to compute ARO are reviewed and updated annually by the Group. As of December 31, 2017 and 2016, the cost of restoration is computed based on the Group's assessment on expected future aircraft utilization.

The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. The recognition of ARO would increase other noncurrent liabilities and repairs and maintenance expense.

The carrying values of the Group's ARO (included under 'Other noncurrent liabilities' in the consolidated statements of financial position) is disclosed in Note 24 to the consolidated financial statements.

h. *Estimation of useful lives of property, plant and equipment, investment properties, intangible assets with finite life and biological assets at cost*

The Group estimates the useful lives of its depreciable property, plant and equipment, investment properties, intangible assets with finite life and biological assets at cost based on the period over which the assets are expected to be available for use. The EUL of the said depreciable assets are reviewed at least annually and are updated, if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the EUL of the depreciable property, plant and equipment, investment properties and intangible assets would increase depreciation and amortization expense and decrease noncurrent assets.



The carrying balances of the Group's depreciable assets are disclosed in Notes 15, 16, 17 and 18 to the consolidated financial statements.

*i. Determination of fair values less estimated costs to sell of biological assets*

The fair values of biological assets are determined based on current market prices of livestock of similar age, breed and genetic merit. Costs to sell costs include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Costs to sell exclude transportation and other costs necessary to get the biological assets to the market. The fair values are reviewed and updated, if expectations differ from previous estimates due to changes brought by both physical change and price changes in the market. It is possible that future results of operations could be materially affected by changes in these estimates brought about by the changes in factors mentioned.

The Group recognized gain (loss) arising from changes in the fair value of biological assets amounting to ₱118.8 million, (₱95.6 million) and (₱57.0 million) (included in 'Cost of sales and services' in profit or loss in the consolidated statements of comprehensive income) in 2017, 2016 and 2015, respectively (see Note 17).

The carrying value of the Group's biological assets carried at fair values less estimated costs to sell is disclosed in Note 17 to the consolidated financial statements.

*j. Estimation of pension and other benefits costs*

The determination of the obligation and cost of pension and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates (see Note 37). Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Philippine government bonds with terms consistent with the expected employee benefit payout as of reporting date.

As of December 31, 2017 and 2016, the balance of the Group's present value of defined benefit obligations and other employee benefits is shown in Note 37 to the consolidated financial statements.

*k. Assessment of impairment of nonfinancial assets*

The Group assesses impairment on its nonfinancial assets (i.e., property, plant and equipment, investment properties, investments in associates and joint ventures, biological assets carried at cost and goodwill and other intangible assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating the asset's value in use and decrease the asset's recoverable amount materially;
- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.



The Group determines an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

In the case of goodwill and intangible assets with indefinite lives, at a minimum, such assets are subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for impairment losses on nonfinancial assets recognized in 2017, 2016 and 2015 is disclosed in Note 34 to the consolidated financial statements.

As of December 31, 2017 and 2016, the balance of the Group's nonfinancial assets, net of accumulated depreciation, amortization and impairment loss follow:

|  | 2017                    | 2016             |
|--|-------------------------|------------------|
| Property, plant and equipment (Note 16)                | <b>₱181,660,164,319</b> | ₱175,662,713,462 |
| Investments in associates and joint ventures (Note 14) | <b>138,391,324,239</b>  | 127,952,235,708  |
| Investment properties (Note 15)                        | <b>89,244,835,261</b>   | 75,416,372,370   |
| Intangible assets (Note 18)                            | <b>14,021,031,196</b>   | 14,159,003,493   |

*l. Recognition of deferred tax assets*

The Group reviews the carrying amounts of its deferred tax assets at each reporting date and reduces the 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's recognized deferred tax assets are shown in Note 38.

The Group has certain subsidiaries which enjoy the benefits of an income tax holiday (ITH). As such, no deferred tax assets were set up on certain gross deductible temporary differences that are expected to reverse or expire within the ITH period (see Note 38).

The total amount of temporary differences for which the Group did not recognize any deferred tax assets are shown in Note 38.



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#### 4. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivative financial instruments, comprise cash and cash equivalents, financial assets at FVPL, HTM investments, AFS investments, interest-bearing loans and borrowings and payables and other financial liabilities. The main purpose of these financial instruments is to finance the Group's operations and related capital expenditures. The Group has various other financial assets and financial liabilities, such as trade receivables and payables which arise directly from its operations. Also, the Parent Company and certain subsidiaries are counterparties to derivative contracts, such as interest rate swaps, currency forwards, cross currency swaps, currency options and commodity swaps and options. These derivatives are entered into as a means of reducing or managing their respective foreign exchange and interest rate exposures.

The BOD of the Parent Company and its subsidiaries review and approve the policies for managing each of these risks which are summarized below, together with the related risk management structure.

##### Risk Management Structure

The BOD of the Parent Company and the respective BODs of each subsidiary are ultimately responsible for the oversight of the Group's risk management processes that involve identifying, measuring, analyzing, monitoring and controlling risks.

The risk management framework encompasses environmental scanning, the identification and assessment of business risks, development of risk management strategies, design and implementation of risk management capabilities and appropriate responses, monitoring risks and risk management performance, and identification of areas and opportunities for improvement in the risk management process.

Each BOD has created the board-level Audit Committee (AC) to spearhead the managing and monitoring of risks.

##### *AC*

The AC shall assist the Group's BOD in its fiduciary responsibility for the over-all effectiveness of risk management systems and the internal audit functions of the Group. Furthermore, it is also the AC's purpose to lead in the general evaluation and to provide assistance in the continuous improvements of risk management, control and governance processes.

The AC also aims to ensure that:

- a. financial reports comply with established internal policies and procedures, pertinent accounting and audit standards and other regulatory requirements;
- b. risks are properly identified, evaluated and managed, specifically in the areas of managing credit, market, liquidity, operational, legal and other risks, and crisis management;
- c. audit activities of internal auditors are done based on plan, and deviations are explained through the performance of direct interface functions with the internal auditors; and
- d. the Group's BOD is properly assisted in the development of policies that would enhance the risk management and control systems.

##### *Enterprise Risk Management Group (ERMG)*

The ERMG was created to be primarily responsible for the execution of the enterprise risk management framework. The ERMG's main concerns include:

- a. recommendation of risk policies, strategies, principles, framework and limits;
- b. management of fundamental risk issues and monitoring of relevant risk decisions;



- c. support to management in implementing the risk policies and strategies; and
- d. development of a risk awareness program.

*Corporate Governance Compliance Officer*

Compliance with the principles of good corporate governance is one of the objectives of the Group's BOD. To assist the Group's BOD in achieving this purpose, the Group's BOD has designated a Compliance Officer who shall be responsible for monitoring the actual compliance of the Group with the provisions and requirements of good corporate governance, identifying and monitoring control compliance risks, determining violations, and recommending penalties for such infringements for further review and approval of the Group's BOD, among others.

*Day-to-day risk management functions*

At the business unit or company level, the day-to-day risk management functions are handled by four different groups, namely:

1. Risk-taking Personnel. This group includes line personnel who initiate and are directly accountable for all risks taken.
2. Risk Control and Compliance. This group includes middle management personnel who perform the day-to-day compliance check to approved risk policies and risk mitigation decisions.
3. Support. This group includes back office personnel who support the line personnel.
4. Risk Management. This group pertains to the business unit's Management Committee which makes risk-mitigating decisions within the enterprise-wide risk management framework.

*Enterprise Resource Management (ERM) Framework*

The Parent Company's BOD is also responsible for establishing and maintaining a sound risk management framework and is accountable for risks taken by the Parent Company. The Parent Company's BOD also shares the responsibility with the ERMG in promoting the risk awareness program enterprise-wide.

The ERM framework revolves around the following eight interrelated risk management approaches:

1. Internal Environmental Scanning. It involves the review of the overall prevailing risk profile of the business unit to determine how risks are viewed and addressed by management. This is presented during the strategic planning, annual budgeting and mid-year performance reviews of the Group.
2. Objective Setting. The Group's BOD mandates the business unit's management to set the overall annual targets through strategic planning activities, in order to ensure that management has a process in place to set objectives which are aligned with the Group's goals.
3. Event Identification. It identifies both internal and external events affecting the Group's set targets, distinguishing between risks and opportunities.
4. Risk Assessment. The identified risks are analyzed relative to the probability and severity of potential loss which serves as a basis for determining how the risks should be managed. The risks are further assessed as to which risks are controllable and uncontrollable, risks that require management's attention, and risks which may materially weaken the Group's earnings and capital.
5. Risk Response. The Group's BOD, through the oversight role of the ERMG, approves the business unit's responses to mitigate risks, either to avoid, self-insure, reduce, transfer or share risk.



6. Control Activities. Policies and procedures are established and approved by the Group's BOD and implemented to ensure that the risk responses are effectively carried out enterprise-wide.
7. Information and Communication. Relevant risk management information are identified, captured and communicated in form and substance that enable all personnel to perform their risk management roles.
8. Monitoring. The ERMG, Internal Audit Group, Compliance Office and Business Assessment Team constantly monitor the management of risks through risk limits, audit reviews, compliance checks, revalidation of risk strategies and performance reviews.

#### *Risk management support groups*

The Group's BOD created the following departments within the Group to support the risk management activities of the Parent Company and the other business units:

1. Corporate Security and Safety Board (CSSB). Under the supervision of ERMG, the CSSB administers enterprise-wide policies affecting physical security of assets exposed to various forms of risks.
2. Corporate Supplier Accreditation Team (CORPSAT). Under the supervision of ERMG, the CORPSAT administers enterprise-wide procurement policies to ensure availability of supplies and services of high quality and standards to all business units.
3. Corporate Management Services (CMS). The CMS is responsible for the formulation of enterprise-wide policies and procedures.
4. Corporate Planning (CORPLAN). The CORPLAN is responsible for the administration of strategic planning, budgeting and performance review processes of business units.
5. Corporate Insurance Department (CID). The CID is responsible for the administration of the insurance program of business units concerning property, public liability, business interruption, money and fidelity, and employer compensation insurances, as well as, in the procurement of performance bonds.

#### Risk Management Policies

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risk, such as foreign currency risk, commodity price risk, equity price risk and interest rate risk. The Group's policies for managing the aforementioned risks are summarized below.

#### *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group transacts only with recognized, creditworthy third parties. It is the Group's policy that 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 the Group's exposure to bad debts is not significant.

The Group continuously provides credit notification and implements various credit actions, depending on assessed risks, to minimize credit exposure. Receivable balances of trade customers are being monitored on a regular basis and appropriate credit treatments are executed for overdue accounts. Likewise, other receivable balances are also being monitored and subjected to appropriate actions to manage credit risk.



With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, financial assets at FVPL, AFS investments and certain derivative investments, the Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments.

The Group has a counterparty credit risk management policy which allocates investment limits based on counterparty credit ratings and credit risk profile.

a. Credit risk exposure

The Group's maximum exposure to on-balance sheet credit risk is equal to the carrying value of its financial assets except for the following accounts:

|                                   | 2017                         |   |   |                        |
|-----------------------------------|------------------------------|---|---|------------------------|
|                                   | Gross<br>Maximum<br>Exposure | Fair Value of<br>Collateral or<br>Credit<br>Enhancement | Financial Effect<br>of Collateral or<br>Credit<br>Enhancement | Net<br>Exposure        |
| Interbank loans receivable        | ₱423,750,000                 | ₱423,844,353  | ₱423,750,000  | ₱-                     |
| Loans and receivables:            |                              |   |   |                        |
| Finance receivables:              |                              |   |   |                        |
| Commercial                        | 40,294,044,244               | 10,181,242,298  | 9,841,819,271   | 30,452,224,973         |
| Real estate                       | 9,037,386,206                | 10,927,401,185  | 7,750,150,309   | 1,287,235,897          |
| Consumption                       | 6,673,196,745                | 2,684,242,392   | 2,625,793,460   | 4,047,403,285          |
| Other receivables                 | 34,003,066                   | 58,665,845  | 2,735,398   | 31,267,668             |
| <b>Total credit risk exposure</b> | <b>₱56,462,380,261</b>       | <b>₱24,275,396,073</b>                                  | <b>₱20,644,248,438</b>  | <b>₱35,818,131,823</b> |

|                                   | 2016                         |   |   |                        |
|-----------------------------------|------------------------------|---|---|------------------------|
|                                   | Gross<br>Maximum<br>Exposure | Fair Value of<br>Collateral or<br>Credit<br>Enhancement | Financial Effect<br>of Collateral or<br>Credit<br>Enhancement | Net<br>Exposure        |
| Interbank loans receivable        | ₱96,000,000                  | ₱96,352,096   | ₱96,000,000   | ₱-                     |
| Loans and receivables:            |                              |   |   |                        |
| Finance receivables:              |                              |   |   |                        |
| Commercial                        | 27,331,833,356               | 3,249,062,324   | 2,966,644,526   | 24,365,188,830         |
| Real estate                       | 5,749,265,920                | 9,248,284,662   | 5,001,508,450   | 747,757,470            |
| Consumption                       | 4,947,385,457                | 1,838,552,078   | 1,448,140,640   | 3,499,244,817          |
| Other receivables                 | 45,422,449                   | 82,823,176  | 45,417,018  | 5,431                  |
| <b>Total credit risk exposure</b> | <b>₱38,169,907,182</b>       | <b>₱14,515,074,336</b>                                  | <b>₱9,557,710,634</b>   | <b>₱28,612,196,548</b> |

*Collateral and other credit enhancements*

The Group holds collateral in the form of cash bonds, real estate and chattel mortgages and government securities. The amount and type of collateral required depends on an assessment of credit risk. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. It is the Group's policy to dispose of repossessed properties in an orderly fashion. In general, the proceeds are used to reduce or repay the outstanding claim, and are not occupied for business use.

b. Risk concentrations of the maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Group's financial strength and undermine public confidence.





The Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. In order to avoid excessive concentrations of risks, identified concentrations of credit risks are controlled and managed accordingly.

i. Concentration by geographical location

The Group's credit risk exposures as of December 31, 2017 and 2016, before taking into account any collateral held or other credit enhancements, is categorized by geographic location as follows:

|   | December 31, 2017 |                                    |                  |                |                |                  |
|---|-------------------|------------------------------------|------------------|----------------|----------------|------------------|
|   | Philippines       | Asia<br>(excluding<br>Philippines) | United<br>States | Europe         | Others*        | Total            |
| Cash and cash equivalents**   | ₱42,958,461,075   | ₱6,826,784,494                     | ₱-               | ₱199,606,403   | ₱2,548,328,738 | ₱52,533,180,710  |
| Financial assets at FVPL:   |                   |                                    |                  |                |                |                  |
| Held-for-trading:   |                   |                                    |                  |                |                |                  |
| Debt securities:  |                   |                                    |                  |                |                |                  |
| Private   | 1,563,206,003     | 2,780,141,650                      | 1,636,742,608    | 2,023,520,874  | 102,048,532    | 8,105,659,667    |
| Government  | 1,029,525,516     | 765,267,349                        | -                | -              | -              | 1,794,792,865    |
| Derivatives   | 454,432,958       | -                                  | 13,464,723       | -              | -              | 467,897,681      |
|   | 3,047,164,477     | 3,545,408,999                      | 1,650,207,331    | 2,023,520,874  | 102,048,532    | 10,368,350,213   |
| Investment in convertible note  | -                 | 1,876,775,033                      | -                | -              | -              | 1,876,775,033    |
|   | 3,047,164,477     | 5,422,184,032                      | 1,650,207,331    | 2,023,520,874  | 102,048,532    | 12,245,125,246   |
| Derivative assets:  |                   |                                    |                  |                |                |                  |
| Designated as accounting hedges   | -                 | -                                  | -                | -              | 11,023,146     | 11,023,146       |
|   | -                 | -                                  | -                | -              | 11,023,146     | 11,023,146       |
| AFS investments:  |                   |                                    |                  |                |                |                  |
| Debt securities:  |                   |                                    |                  |                |                |                  |
| Government  | 12,360,718,311    | 1,469,925,220                      | -                | -              | -              | 13,830,643,531   |
| Private   | 6,022,441,196     | 1,072,721,084                      | -                | 107,419,402    | -              | 7,202,581,682    |
|   | 18,383,159,507    | 2,542,646,304                      | -                | 107,419,402    | -              | 21,033,225,213   |
| Receivables:  |                   |                                    |                  |                |                |                  |
| Finance receivables   | 56,615,488,928    | -                                  | -                | -              | -              | 56,615,488,928   |
| Trade receivables   | 18,171,842,727    | 6,431,979,349                      | 21,092,431       | 256,746,177    | 2,952,477,348  | 27,834,138,032   |
| Due from related parties  | 989,922,413       | 616,848,658                        | -                | -              | -              | 1,606,771,071    |
| Interest receivable   | 777,262,836       | 58,266,582                         | 20,939,512       | 25,617,368     | 96,104         | 882,182,402      |
| Other receivables***  | 1,702,465,397     | 125,867,888                        | -                | -              | 16,470,559     | 1,844,803,844    |
|   | 78,256,982,301    | 7,232,962,477                      | 42,031,943       | 282,363,545    | 2,969,044,011  | 88,783,384,277   |
| Refundable security deposits<br>(included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position) | 941,938,573       | 30,639,912                         | -                | -              | -              | 972,578,485      |
|   | ₱143,587,705,933  | ₱22,055,217,219                    | ₱1,692,239,274   | ₱2,612,910,224 | ₱5,630,444,427 | ₱175,578,517,077 |

\* Others include South American countries (i.e., Argentina and Mexico), New Zealand and Australia

\*\* Excludes cash on hand amounting to ₱1,803,114,479

\*\*\* Excludes claims receivable of JGSPC and JGSOC amounting to ₱1,480,521,369



December 31, 2016

|   | Philippines      | Asia<br>(excluding<br>Philippines) | United<br>States | Europe         | Others*        | Total            |
|---|------------------|------------------------------------|------------------|----------------|----------------|------------------|
| Cash and cash equivalents**   | ₱33,884,142,540  | ₱5,477,281,545                     | ₱-               | ₱574,147,908   | ₱1,359,455,924 | ₱41,295,027,917  |
| Financial assets at FVPL:   |                  |                                    |                  |                |                |                  |
| Held-for-trading:   |                  |                                    |                  |                |                |                  |
| Debt securities:  |                  |                                    |                  |                |                |                  |
| Private   | 1,966,086,674    | 3,102,456,348                      | 1,653,094,284    | 2,763,707,992  | 233,835,032    | 9,719,180,330    |
| Government  | 993,779,175      | 728,964,356                        | -                | -              | -              | 1,722,743,531    |
| Derivatives   | 443,195,549      | -                                  | 35,760,812       | -              | -              | 478,956,361      |
|   | 3,403,061,398    | 3,831,420,704                      | 1,688,855,096    | 2,763,707,992  | 233,835,032    | 11,920,880,222   |
| Derivative assets:  |                  |                                    |                  |                |                |                  |
| Designated as<br>accounting hedges  | -                | -                                  | -                | -              | 26,800,472     | 26,800,472       |
|   | -                | -                                  | -                | -              | 26,800,472     | 26,800,472       |
| AFS investments:  |                  |                                    |                  |                |                |                  |
| Debt securities:  |                  |                                    |                  |                |                |                  |
| Government  | 8,967,256,990    | 613,087,660                        | -                | -              | -              | 9,580,344,650    |
| Private   | 3,239,185,098    | 770,593,654                        | 190,637,289      | 32,641,180     | -              | 4,233,057,221    |
|   | 12,206,442,088   | 1,383,681,314                      | 190,637,289      | 32,641,180     | -              | 13,813,401,871   |
| Held-to-maturity investment   | 3,549,900,604    | -                                  | -                | -              | -              | 3,549,900,604    |
| Receivables:  |                  |                                    |                  |                |                |                  |
| Finance receivables   | 38,004,283,010   | -                                  | -                | -              | -              | 38,004,283,010   |
| Trade receivables   | 17,704,004,196   | 5,550,455,681                      | 36,206,256       | 116,719,375    | 2,833,847,588  | 26,241,233,096   |
| Due from related parties  | 423,027,570      | 994,483,279                        | -                | -              | -              | 1,417,510,849    |
| Interest receivable   | 615,462,849      | 69,116,950                         | 34,360,710       | 35,010,319     | 3,242,406      | 757,193,234      |
| Other receivables***  | 1,229,144,374    | 226,281,008                        | -                | -              | 94,766         | 1,455,520,148    |
|   | 57,975,921,999   | 6,840,336,918                      | 70,566,966       | 151,729,694    | 2,837,184,760  | 67,875,740,337   |
| Refundable security deposits<br>(included under 'Other<br>current' and 'Other<br>noncurrent assets' in the<br>consolidated statements of<br>financial position) | 691,891,925      | 29,182,000                         | -                | -              | -              | 721,073,925      |
|   | ₱111,711,360,554 | ₱17,561,902,481                    | ₱1,950,059,351   | ₱3,522,226,774 | ₱4,457,276,188 | ₱139,202,825,348 |

\* Others include South American countries (i.e., Argentina and Mexico), New Zealand and Australia

\*\* Excludes cash on hand amounting to ₱2,115,114,050

\*\*\* Excludes claims receivable of JGSPC and JGSOC amounting to ₱1,844,979,482



ii. Concentration by industry

The tables below show the industry sector analysis of the Group's financial assets as of December 31, 2017 and 2016, before taking into account any collateral held or other credit enhancements.

|  | 2017            |   |                                  |                             |   |  |                               |              |                          |                 |                  |
|--|-----------------|---|----------------------------------|-----------------------------|---|--|-------------------------------|--------------|--------------------------|-----------------|------------------|
|  | Manufacturing   | Real Estate,<br>Renting and<br>Related Business<br>Activities | Wholesale<br>and<br>Retail Trade | Financial<br>Intermediaries | Transportation,<br>Storage and<br>Communication | Agricultural,<br>Hunting and<br>Forestry | Electricity,<br>Gas and Water | Construction | Public<br>Administration | Others*         | Total            |
| Cash and cash equivalents**  | ₱-              | ₱-  | ₱-                               | ₱34,070,330,356             | ₱-  | ₱-                                       | ₱-                            | ₱-           | ₱18,462,850,354          | ₱-              | ₱52,533,180,710  |
| Financial assets at FVPL:  |                 |   |                                  |                             |   |  |                               |              |                          |                 |                  |
| Held-for-trading:  |                 |   |                                  |                             |   |  |                               |              |                          |                 |                  |
| Debt securities:   |                 |   |                                  |                             |   |  |                               |              |                          |                 |                  |
| Private  | 162,627,003     | 212,760,518   | -                                | 3,384,355,744               | 459,804,571                                     | -  | 1,396,158,468                 | -            | -                        | 2,489,953,363   | 8,105,659,667    |
| Government   | -               | -   | -                                | -                           | -   | -  | -                             | -            | 1,794,792,865            | -               | 1,794,792,865    |
| Derivatives  | -               | -   | -                                | 13,497,593                  | 454,400,088                                     | -  | -                             | -            | -                        | -               | 467,897,681      |
|  | 162,627,003     | 212,760,518   | -                                | 3,397,853,337               | 914,204,659                                     | -  | 1,396,158,468                 | -            | 1,794,792,865            | 2,489,953,363   | 10,368,350,213   |
| Investment in convertible note   | -               | -   | -                                | -                           | 1,876,775,033                                   | -  | -                             | -            | -                        | -               | 1,876,775,033    |
|  | 162,627,003     | 212,760,518   | -                                | 3,397,853,337               | 2,790,979,692                                   | -  | 1,396,158,468                 | -            | 1,794,792,865            | 2,489,953,363   | 12,245,125,246   |
| Derivative financial assets:   |                 |   |                                  |                             |   |  |                               |              |                          |                 |                  |
| Designated as an accounting hedge  | 11,023,146      | -   | -                                | -                           | -   | -  | -                             | -            | -                        | -               | 11,023,146       |
|  | 11,023,146      | -   | -                                | -                           | -   | -  | -                             | -            | -                        | -               | 11,023,146       |
| AFS investments:   |                 |   |                                  |                             |   |  |                               |              |                          |                 |                  |
| Debt securities:   |                 |   |                                  |                             |   |  |                               |              |                          |                 |                  |
| Government   | -               | -   | -                                | -                           | -   | -  | -                             | -            | 13,830,643,531           | -               | 13,830,643,531   |
| Private  | 801,818,230     | 3,206,306,338   | -                                | 1,735,745,147               | 420,331,226                                     | -  | 611,583,515                   | -            | -                        | 426,797,226     | 7,202,581,682    |
|  | 801,818,230     | 3,206,306,338   | -                                | 1,735,745,147               | 420,331,226                                     | -  | 611,583,515                   | -            | 13,830,643,531           | 426,797,226     | 21,033,225,213   |
| Receivables:   |                 |   |                                  |                             |   |  |                               |              |                          |                 |                  |
| Finance receivables  | ₱6,279,176,942  | ₱13,265,499,453   | ₱9,139,820,259                   | ₱5,262,059,470              | ₱5,546,788,601                                  | ₱813,446,925                             | ₱5,819,216,124                | ₱804,226,335 | ₱46,128,842              | ₱9,639,125,977  | ₱56,615,488,928  |
| Trade receivables  | 17,114,817,702  | 8,625,452,265   | -                                | -                           | 1,691,835,670                                   | -  | -                             | -            | -                        | 402,032,395     | 27,834,138,032   |
| Due from related parties   | 580,026,268     | 44,606,422  | 283,502,492                      | 477,461,938                 | 121,454,858                                     | -  | -                             | -            | -                        | 99,719,093      | 1,606,771,071    |
| Interest receivable  | 111,369,862     | 157,501,332   | 107,063,735                      | 133,301,452                 | 72,263,152                                      | 9,528,707                                | 83,836,538                    | 9,420,697    | 540,353                  | 197,356,574     | 882,182,402      |
| Other receivables***   | 729,567,496     | 227,315,070   | -                                | 69,827,216                  | 96,482,972                                      | -  | -                             | -            | -                        | 721,611,090     | 1,844,803,844    |
|  | 24,814,958,270  | 22,320,374,542  | 9,530,386,486                    | 5,942,650,076               | 7,528,825,253                                   | 822,975,632                              | 5,903,052,662                 | 813,647,032  | 46,669,195               | 11,059,845,129  | 88,783,384,277   |
| Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position) | 7,499,357       | 884,452,164   | -                                | -                           | 30,665,112                                      | -  | -                             | -            | -                        | 49,961,852      | 972,578,485      |
|  | ₱25,797,926,006 | ₱26,623,893,562   | ₱9,530,386,486                   | ₱45,146,578,916             | ₱10,770,801,283                                 | ₱822,975,632                             | ₱7,910,794,645                | ₱813,647,032 | ₱34,134,955,945          | ₱14,026,557,570 | ₱175,578,517,077 |

\* Others include consumer, community, social and personal services, education, mining and quarrying, and health and social work sectors.

\*\* Excludes cash on hand amounting to ₱1,803,114,479

\*\*\* Excludes claims receivable of JGSPC and JGSOC amounting to ₱1,480,521,369



|  | 2016            |   |                                  |                             |   |  |                               |              |                          |                 |                  |
|--|-----------------|---|----------------------------------|-----------------------------|---|--|-------------------------------|--------------|--------------------------|-----------------|------------------|
|  | Manufacturing   | Real Estate,<br>Renting and<br>Related Business<br>Activities | Wholesale<br>and<br>Retail Trade | Financial<br>Intermediaries | Transportation,<br>Storage and<br>Communication | Agricultural,<br>Hunting and<br>Forestry | Electricity,<br>Gas and Water | Construction | Public<br>Administration | Others*         | Total            |
|  | ₱-              | ₱-  | ₱-                               | ₱28,518,198,281             | ₱-  | ₱-                                       | ₱-                            | ₱-           | ₱10,911,443,456          | ₱1,865,386,180  | ₱41,295,027,917  |
| Cash and cash equivalents**  |                 |   |                                  |                             |   |  |                               |              |                          |                 |                  |
| Financial assets at FVPL:  |                 |   |                                  |                             |   |  |                               |              |                          |                 |                  |
| Held-for-trading:  |                 |   |                                  |                             |   |  |                               |              |                          |                 |                  |
| Debt securities:   |                 |   |                                  |                             |   |  |                               |              |                          |                 |                  |
| Private  | 230,595,095     | 237,373,756   |                                  | 4,608,010,227               | 497,867,118                                     |  | 1,356,461,199                 | -            | -                        | 2,788,872,935   | 9,719,180,330    |
| Government   | -               | -   | -                                | -                           | -   | -  | -                             | -            | 1,722,743,531            | -               | 1,722,743,531    |
| Derivatives  | -               | -   | -                                | 37,182,456                  | 441,773,905                                     | -  | -                             | -            | -                        | -               | 478,956,361      |
|  | 230,595,095     | 237,373,756   | -                                | 4,645,192,683               | 939,641,023                                     | -  | 1,356,461,199                 | -            | 1,722,743,531            | 2,788,872,935   | 11,920,880,222   |
| Derivative financial assets:   |                 |   |                                  |                             |   |  |                               |              |                          |                 |                  |
| Designated as an accounting hedge  | 26,800,472      | -   | -                                | -                           | -   | -  | -                             | -            | -                        | -               | 26,800,472       |
|  | 26,800,472      | -   | -                                | -                           | -   | -  | -                             | -            | -                        | -               | 26,800,472       |
| AFS investments:   |                 |   |                                  |                             |   |  |                               |              |                          |                 |                  |
| Debt securities:   |                 |   |                                  |                             |   |  |                               |              |                          |                 |                  |
| Government   | -               | -   | -                                | -                           | -   | -  | -                             | -            | 9,580,344,650            | -               | 9,580,344,650    |
| Private  | 124,893,768     | 514,130,501   | -                                | 2,557,994,028               | 281,791,732                                     | -  | 219,845,841                   | -            | -                        | 534,401,351     | 4,233,057,221    |
|  | 124,893,768     | 514,130,501   | -                                | 2,557,994,028               | 281,791,732                                     | -  | 219,845,841                   | -            | 9,580,344,650            | 534,401,351     | 13,813,401,871   |
| Held-to-maturity investment  | 596,663,277     | 1,175,000,000   | -                                | 350,000,000                 | 12,259,994                                      | -  | 500,000,000                   | -            | 520,491,564              | 395,485,769     | 3,549,900,604    |
| Receivables:   |                 |   |                                  |                             |   |  |                               |              |                          |                 |                  |
| Finance receivables  | 2,621,318,748   | 6,845,627,000   | 5,659,342,197                    | 3,771,234,014               | 1,574,588,756                                   | 414,632,980                              | 1,845,511,776                 | 417,171,049  |                          | 14,854,856,490  | 38,004,283,010   |
| Trade receivables  | 14,902,927,891  | 9,199,994,574   |                                  |                             | 1,883,241,285                                   |  |                               |              |                          | 255,069,346     | 26,241,233,096   |
| Due from related parties   | 425,609,743     | 25,878,290  | 261,459,147                      | 520,193,596                 | 124,204,940                                     |  |                               |              |                          | 60,165,133      | 1,417,510,849    |
| Interest receivable  | 49,138,702      | 54,598,520  | 18,613,328                       | 151,064,462                 | 18,280,538                                      | 6,955,837                                | 21,436,336                    | 1,521,050    | 70,439,375               | 365,145,086     | 757,193,234      |
| Other receivables***   | 743,840,012     | 311,897,933   | 1,320,370                        |                             | 128,588,214                                     |  |                               |              |                          | 269,873,619     | 1,455,520,148    |
|  | 18,742,835,096  | 16,437,996,317  | 5,940,735,042                    | 4,442,492,072               | 3,728,903,733                                   | 421,588,817                              | 1,866,948,112                 | 418,692,099  | 70,439,375               | 15,805,109,674  | 67,875,740,337   |
| Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position) | 9,484,999       | 625,621,082   | -                                | -                           | 29,207,200                                      | -  | -                             | -            | -                        | 56,760,644      | 721,073,925      |
|  | ₱19,731,272,707 | ₱18,990,121,656   | ₱5,940,735,042                   | ₱40,513,877,064             | ₱4,991,803,682                                  | ₱421,588,817                             | ₱3,943,255,152                | ₱418,692,099 | ₱22,805,462,576          | ₱21,446,016,553 | ₱139,202,825,348 |

\* Others include consumer, community, social and personal services, education, mining and quarrying, and health and social work sectors.

\*\* Excludes cash on hand amounting to ₱2,115,114,050

\*\*\* Excludes claims receivables of JGSPC and JGSOC amounting to ₱1,844,979,482



c. Credit quality per class of financial assets

The table below shows the credit quality by class of financial assets gross of allowance for impairment losses:

|  | 2017                                       |                 |                   |             |  |                       |                  | Total           |
|--|--|-----------------|-------------------|-------------|--|-----------------------|------------------|-----------------|
|  | Neither Past Due Nor Individually Impaired |                 |                   | Unrated     | Past Due but not Individually Impaired | Individually Impaired |                  |                 |
|  | High Grade                                 | Standard Grade  | Substandard Grade |             |  |                       |                  |                 |
| Cash and cash equivalents*   | ₱29,355,902,586                            | ₱23,177,278,124 | ₱-                | ₱-          | ₱-                                     | ₱-                    | ₱-               | ₱52,533,180,710 |
| Financial assets at FVPL:  |  |                 |                   |             |  |                       |                  |                 |
| Held-for-trading:  |  |                 |                   |             |  |                       |                  |                 |
| Debt securities:   |  |                 |                   |             |  |                       |                  |                 |
| Private  | 8,105,659,667                              | -               | -                 | -           | -                                      | -                     | -                | 8,105,659,667   |
| Government   | 1,794,792,865                              | -               | -                 | -           | -                                      | -                     | -                | 1,794,792,865   |
| Derivatives  | 467,897,681                                | -               | -                 | -           | -                                      | -                     | -                | 467,897,681     |
|  | 10,368,350,213                             | -               | -                 | -           | -                                      | -                     | -                | 10,368,350,213  |
| Investment in convertible note   | 1,876,775,033                              | -               | -                 | -           | -                                      | -                     | -                | 1,876,775,033   |
|  | 12,245,125,246                             | -               | -                 | -           | -                                      | -                     | -                | 12,245,125,246  |
| Derivative financial assets not designated as accounting hedges  | 11,023,146                                 | -               | -                 | -           | -                                      | -                     | -                | 11,023,146      |
|  | 11,023,146                                 | -               | -                 | -           | -                                      | -                     | -                | 11,023,146      |
| AFS investments:   |  |                 |                   |             |  |                       |                  |                 |
| Debt securities:   |  |                 |                   |             |  |                       |                  |                 |
| Government   | 13,830,643,531                             | -               | -                 | -           | -                                      | -                     | -                | 13,830,643,531  |
| Private  | 757,791,604                                | 6,444,790,078   | -                 | -           | -                                      | -                     | -                | 7,202,581,682   |
|  | 14,588,435,135                             | 6,444,790,078   | -                 | -           | -                                      | -                     | -                | 21,033,225,213  |
| Receivables:   |  |                 |                   |             |  |                       |                  |                 |
| Finance receivables  | 23,077,786,575                             | 32,235,309,718  | 1,177,747,822     | 88,142,510  | 506,143,989                            | 616,080,009           | 57,701,210,623   |                 |
| Trade receivables  | 23,657,775,438                             | -               | -                 | -           | 4,176,362,594                          | 555,449,421           | 28,389,587,453   |                 |
| Due from related parties   | 1,425,164,568                              | -               | -                 | -           | 181,606,503                            | -                     | 1,606,771,071    |                 |
| Interest receivable  | 340,018,719                                | 443,212,787     | 7,026,052         | 623,711     | 72,788,703                             | 18,512,430            | 882,182,402      |                 |
| Other receivables**  | 788,705,729                                | 686,417,401     | 31,775,924        | -           | 430,187,614                            | 242,677,650           | 2,179,764,318    |                 |
|  | 49,289,451,029                             | 33,364,939,906  | 1,216,549,798     | 88,766,221  | 5,367,089,403                          | 1,432,719,510         | 90,759,515,867   |                 |
| Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position) | 914,974,776                                | 50,104,352      | -                 | -           | 7,499,357                              | -                     | 972,578,485      |                 |
|  | ₱106,404,911,918                           | ₱63,037,112,460 | ₱1,216,549,798    | ₱88,766,221 | ₱5,374,588,760                         | ₱1,432,719,510        | ₱177,554,648,667 |                 |

\* Excludes cash on hand amounting to ₱1,803,114,479

\*\* Excludes claims receivable of JGSPC and JGSOC amounting to ₱1,480,521,369



|  | 2016                                       |                 |                   |                | Past Due but not Individually Impaired | Individually Impaired | Total            |
|--|--|-----------------|-------------------|----------------|--|-----------------------|------------------|
|  | Neither Past Due Nor Individually Impaired |                 |                   |                |  |                       |                  |
|  | High Grade                                 | Standard Grade  | Substandard Grade | Unrated        |  |                       |                  |
| Cash and cash equivalents*   | ₱36,698,814,718                            | ₱4,596,213,199  | ₱-                | ₱-             | ₱-                                     | ₱-                    | ₱41,295,027,917  |
| Financial assets at FVPL:  |  |                 |                   |                |  |                       |                  |
| Held-for-trading:  |  |                 |                   |                |  |                       |                  |
| Debt securities:   |  |                 |                   |                |  |                       |                  |
| Private  | 9,719,180,330                              | -               | -                 | -              | -                                      | -                     | 9,719,180,330    |
| Government   | 1,721,514,777                              | 1,228,754       | -                 | -              | -                                      | -                     | 1,722,743,531    |
| Derivatives  | 443,195,549                                | -               | -                 | -              | -                                      | -                     | 443,195,549      |
|  | 11,883,890,656                             | 1,228,754       | -                 | -              | -                                      | -                     | 11,885,119,410   |
| Derivative financial assets not designated as accounting hedges  | 62,561,284                                 | -               | -                 | -              | -                                      | -                     | 62,561,284       |
|  | 62,561,284                                 | -               | -                 | -              | -                                      | -                     | 62,561,284       |
| AFS investments:   |  |                 |                   |                |  |                       |                  |
| Debt securities:   |  |                 |                   |                |  |                       |                  |
| Government   | 1,386,357,676                              | 8,193,986,974   | -                 | -              | -                                      | -                     | 9,580,344,650    |
| Private  | 993,872,123                                | 3,239,185,098   | -                 | -              | -                                      | -                     | 4,233,057,221    |
|  | 2,380,229,799                              | 11,433,172,072  | -                 | -              | -                                      | -                     | 13,813,401,871   |
| Held to maturity investments   | -  | 3,549,900,604   | -                 | -              | -                                      | -                     | 3,549,900,604    |
| Receivables:   |  |                 |                   |                |  |                       |                  |
| Finance receivables  | 20,052,769,348                             | 14,364,952,634  | 1,084,858,269     | 1,577,862,161  | 736,954,006                            | 1,111,107,383         | 38,928,503,801   |
| Trade receivables  | 19,780,687,108                             | 1,204,453,697   | 515,514,728       | -              | 4,748,363,615                          | 552,361,283           | 26,801,380,431   |
| Due from related parties   | 1,417,510,849                              | -               | -                 | -              | -                                      | -                     | 1,417,510,849    |
| Interest receivable  | 264,396,170                                | 304,687,337     | 2,840,190         | -              | 183,423,687                            | 1,845,850             | 757,193,234      |
| Other receivables**  | 340,930,474                                | 129,996,248     | 59,237,100        | -              | 907,519,329                            | 206,534,551           | 1,644,217,702    |
|  | 41,856,293,949                             | 16,004,089,916  | 1,662,450,287     | 1,577,862,161  | 6,576,260,637                          | 1,871,849,067         | 69,548,806,017   |
| Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position) | 653,391,683                                | 67,682,242      | -                 | -              | -                                      | -                     | 721,073,925      |
|  | ₱93,535,182,089                            | ₱35,652,286,787 | ₱1,662,450,287    | ₱1,577,862,161 | ₱6,576,260,637                         | ₱1,871,849,067        | ₱140,875,891,028 |

\* Excludes cash on hand amounting to ₱2,115,114,050

\*\* Excludes claims receivable of JGSPC and JGSOC amounting to ₱1,844,979,482

#### *Classification of Financial Assets by Class used by the Group except for the Banking Segment*

High grade cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in foreign and local banks belonging to the top 10 banks in the Philippines in terms of resources and profitability.

Other high grade accounts are considered to be of high value since the counterparties have a remote likelihood of default and have consistently exhibited good paying habits.

Standard grade accounts are active accounts with minimal to regular instances of payment default, due to ordinary/common collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

Substandard grade accounts are accounts which have probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up actions and extended payment terms.

#### *Classification of Financial Assets by Class used by the Banking Segment*

For loans and receivables from customers, the Banking Segment's internal credit rating system was approved in 2007 and improved in 2011 in accordance with the Bangko Sentral ng Pilipinas (BSP) requirement, to cover corporate credit exposures, which is defined by the BSP Circular no. 439 as exposures to companies with assets of more than ₱15.0 million.



The Banking Segment's internal credit risk rating is as follows:

| <b>Grades</b>         | <b>Categories</b> | <b>Description</b>   |
|-----------------------|-------------------|--|
| High grade            |                   |  |
| <i>Risk rating 1</i>  | Excellent         | Lowest probability of default; exceptionally strong capacity for financial commitments; highly unlikely to be adversely affected by foreseeable events.  |
| <i>Risk rating 2</i>  | Super Prime       | Very low probability of default; very strong capacity for payment of financial commitments; less vulnerable to foreseeable events.   |
| <i>Risk rating 3</i>  | Prime             | Low probability of default; strong capacity for payment of financial commitments; may be more vulnerable to adverse business/economic conditions.  |
| <i>Risk rating 4</i>  | Very Good         | Moderately low probability of default; more than adequate capacity for payment of financial commitments; but adverse business/economic conditions are more likely to impair this capacity  |
| <i>Risk rating 5</i>  | Good              | More pronounced probability of default; business or financial flexibility exists which supports the servicing of financial commitments; vulnerable to adverse business/economic changes  |
| Standard              |                   |  |
| <i>Risk rating 6</i>  | Satisfactory      | Material probability of default is present, but a margin of safety remains; financial commitments are currently being met although the capacity for continued payment is vulnerable to deterioration in the business/economic condition.                         |
| <i>Risk rating 7</i>  | Average           | Greater probability of default which is reflected in the volatility of earnings and overall performance; repayment source is presently adequate; however, prolonged unfavorable economic period would create deterioration beyond acceptable levels.             |
| Standard              |                   |  |
| <i>Risk rating 8</i>  | Fair              | Sufficiently pronounced probability of default, although borrowers should still be able to withstand normal business cycles; any prolonged unfavorable economic/market conditions would create an immediate deterioration of cash flow beyond acceptable levels. |
| Sub-standard grade    |                   |  |
| <i>Risk rating 9</i>  | Marginal          | Elevated level of probability of default, with limited margin; repayment source is adequate to marginal.   |
| <i>Risk rating 10</i> | Watch list        | Unfavorable industry or company specific risk factors represent a concern, financial strength may be marginal; will find it difficult to cope with significant downturn.   |



| <b>Grades</b>                | <b>Categories</b> | <b>Description</b>   |
|------------------------------|-------------------|--|
| <i>Risk rating 11</i>        | Special mention   | Loans have potential weaknesses that deserve close attention; borrower has reached a point where there is a real risk that the borrower's ability to pay the interest and repay the principal timely could be jeopardized due to evidence of weakness in the borrower's financial condition. |
| <i>Risk rating 12</i>        | Substandard       | Substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics; with well-defined weaknesses that jeopardize their liquidation e.g. negative cash flow, case of fraud.   |
| <b>Past due and impaired</b> |                   |  |
| <i>Risk rating 13</i>        | Doubtful          | Weaknesses similar to "Substandard", but with added characteristics that make liquidation highly improbable.   |
| <i>Risk rating 14</i>        | Loss              | Uncollectible or worthless.  |

The Banking Segment's internal credit risk rating system intends to provide a structure to define the corporate credit portfolio, and consists of an initial rating for the borrower risk later adjusted for the facility risk. Inputs include an assessment of management, credit experience, financial condition, industry outlook, documentation, security and term.

#### Aging analysis of receivables by class

The aging analysis of the Group's receivables as of December 31, 2017 and 2016 follow:

|                          | 2017                          |                       |                     |                     |                       |                       | Total                  |
|--------------------------|-------------------------------|-----------------------|---------------------|---------------------|-----------------------|-----------------------|------------------------|
|                          | Neither Past Due Nor Impaired | Less than 30 Days     | 30 to 60 Days       | 61 to 90 Days       | Over 90 Days          | Past Due and Impaired |                        |
| Finance receivables      | ₱56,578,986,625               | ₱42,814,855           | ₱20,512,712         | ₱27,202,641         | ₱415,613,781          | ₱616,080,009          | ₱57,701,210,623        |
| Trade receivables        | 23,657,775,438                | 2,248,189,014         | 521,399,773         | 156,577,549         | 1,250,196,258         | 555,449,421           | 28,389,587,453         |
| Due from related parties | 1,425,164,568                 | 181,606,503           | -                   | -                   | -                     | -                     | 1,606,771,071          |
| Interest receivable      | 790,881,269                   | 2,524,067             | 1,352,940           | 3,937,961           | 64,973,735            | 18,512,430            | 882,182,402            |
| Others                   | 1,506,899,054                 | 255,026,927           | 4,403,064           | 5,147,592           | 165,610,031           | 242,677,650           | 2,179,764,318          |
|                          | <b>₱83,959,706,954</b>        | <b>₱2,730,161,366</b> | <b>₱547,668,489</b> | <b>₱192,865,743</b> | <b>₱1,896,393,805</b> | <b>₱1,432,719,510</b> | <b>₱90,759,515,867</b> |

|                          | 2016                          |                       |                     |                     |                       |                       | Total                  |
|--------------------------|-------------------------------|-----------------------|---------------------|---------------------|-----------------------|-----------------------|------------------------|
|                          | Neither Past Due Nor Impaired | Less than 30 Days     | 30 to 60 Days       | 61 to 90 Days       | Over 90 Days          | Past Due and Impaired |                        |
| Finance receivables      | ₱37,080,442,412               | 10,331,805            | 18,843,201          | 37,785,278          | 669,993,722           | 1,111,107,383         | ₱38,928,503,801        |
| Trade receivables        | 21,107,554,503                | 1,472,782,710         | 505,194,071         | 574,437,631         | 2,589,050,233         | 552,361,283           | 26,801,380,431         |
| Due from related parties | 1,417,510,849                 | -                     | -                   | -                   | -                     | -                     | 1,417,510,849          |
| Interest receivable      | 536,785,981                   | 1,100,643             | 2,261,626           | 3,302,164           | 211,896,970           | 1,845,850             | 757,193,234            |
| Others                   | 1,164,052,693                 | 14,326,702            | (17,123,787)        | 23,153,997          | 253,273,546           | 206,534,551           | 1,644,217,702          |
|                          | <b>₱61,306,346,438</b>        | <b>₱1,498,541,860</b> | <b>₱509,175,111</b> | <b>₱638,679,070</b> | <b>₱3,724,214,471</b> | <b>₱1,871,849,067</b> | <b>₱69,548,806,017</b> |

#### Liquidity risk

Liquidity risk is the risk of not being able to meet funding obligations such as the repayment of liabilities or payment of asset purchases as they fall due. The Group's liquidity management involves maintaining funding capacity to finance capital expenditures and service maturing debts, and to accommodate any fluctuations in asset and liability levels due to changes in the Group's business operations or unanticipated events created by customer behavior or capital market conditions. The Group maintains a level of cash and cash equivalents deemed sufficient to finance its 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 obtaining bank loans and capital market issues both onshore and offshore.

The tables below summarize the maturity profile of the Group's financial assets and liabilities based on the applicable undiscounted contractual payments as of December 31, 2017 and 2016:

|   | 2017            |                 |                 |                 |                   | Total            |
|---|-----------------|-----------------|-----------------|-----------------|-------------------|------------------|
|   | On Demand       | Up to 3 Months  | 3 to 12 Months  | 1 to 5 Years    | More Than 5 Years |                  |
| <b>Financial Assets</b>                                     |                 |                 |                 |                 |                   |                  |
| Cash and cash equivalents                                   | ₱36,587,518,064 | ₱17,767,785,719 | ₱-              | ₱-              | ₱-                | ₱54,355,303,783  |
| Financial assets at FVPL:                                   |                 |                 |                 |                 |                   |                  |
| Held-for-trading:   |                 |                 |                 |                 |                   |                  |
| Debt securities:  |                 |                 |                 |                 |                   |                  |
| Private   | -               | -               | 8,105,659,667   | -               | -                 | 8,105,659,667    |
| Government  | 48,101,461      | -               | 1,746,691,404   | -               | -                 | 1,794,792,865    |
| Derivatives   | -               | 13,464,723      | 32,870          | 454,400,088     | -                 | 467,897,681      |
|   | 48,101,461      | 13,464,723      | 9,852,383,941   | 454,400,088     | -                 | 10,368,350,213   |
| Equity securities:  |                 |                 |                 |                 |                   |                  |
| Quoted  | 731,032,721     | -               | 1,380,970,629   | -               | -                 | 2,112,003,350    |
| Unquoted  | -               | -               | 3,745           | -               | -                 | 3,745            |
|   | 731,032,721     | -               | 1,380,974,374   | -               | -                 | 2,112,007,095    |
| Investment in convertible note                              | -               | -               | 1,876,775,033   | -               | -                 | 1,876,775,033    |
|   | 779,134,182     | 13,464,723      | 13,110,133,348  | 454,400,088     | -                 | 14,357,132,341   |
| Derivative financial assets designated as accounting hedges | -               | -               | 11,023,146      | -               | -                 | 11,023,146       |
| AFS investments:  |                 |                 |                 |                 |                   |                  |
| Debt securities:  |                 |                 |                 |                 |                   |                  |
| Government  | -               | 12,546,456,413  | 1,284,187,118   | -               | -                 | 13,830,643,531   |
| Private   | -               | 5,820,800,519   | 1,381,781,163   | -               | -                 | 7,202,581,682    |
|   | -               | 18,367,256,932  | 2,665,968,281   | -               | -                 | 21,033,225,213   |
| Equity securities:  |                 |                 |                 |                 |                   |                  |
| Quoted  | 45,980,000      | 180,172,373     | 184,424,622     | 25,597,305,960  | -                 | 26,007,882,955   |
| Unquoted  | -               | 23,605,700      | 687,671         | -               | -                 | 24,293,371       |
|   | 45,980,000      | 203,778,073     | 185,112,293     | 25,597,305,960  | -                 | 26,032,176,326   |
|   | 45,980,000      | 18,571,035,005  | 2,851,080,574   | 25,597,305,960  | -                 | 47,065,401,539   |
| Receivables:  |                 |                 |                 |                 |                   |                  |
| Trade receivables   | 4,036,315,417   | 18,917,494,880  | 1,659,828,584   | 2,577,739,263   | 1,198,209,309     | 28,389,587,453   |
| Finance receivables   | 191,453,056     | 12,515,779,494  | 8,908,082,851   | 24,121,610,776  | 20,540,795,502    | 66,277,721,679   |
| Due from related parties                                    | 1,606,771,071   | -               | -               | -               | -                 | 1,606,771,071    |
| Interest receivable   | 37,489,424      | 579,250,895     | 265,442,083     | -               | -                 | 882,182,402      |
| Other receivables   | 809,840,615     | 891,704,277     | 478,219,426     | -               | -                 | 2,179,764,318    |
|   | 6,681,869,583   | 32,904,229,546  | 11,311,572,944  | 26,699,350,039  | 21,739,004,811    | 99,336,026,923   |
| Refundable security deposits                                | 17,488,429      | -               | 130,000         | 716,064,597     | 241,230,491       | 974,913,517      |
|   | ₱44,111,990,258 | ₱69,256,514,993 | ₱27,283,940,012 | ₱53,467,120,684 | ₱21,980,235,302   | ₱216,099,801,249 |

|   | 2017            |                 |                 |                  |                   | Total            |
|---|-----------------|-----------------|-----------------|------------------|-------------------|------------------|
|   | On Demand       | Up to 3 Months  | 4 to 12 Months  | 1 to 5 Years     | More Than 5 Years |                  |
| <b>Financial Liabilities</b>  |                 |                 |                 |                  |                   |                  |
| Accounts payable and accrued expenses (including noncurrent portion booked under 'Other noncurrent liabilities' in the consolidated statement of financial position but excluding 'Deposit liabilities' and 'Due to related parties') | ₱24,356,148,277 | ₱19,240,869,749 | ₱4,926,447,045  | ₱571,857,563     | ₱1,505,456,413    | ₱50,600,779,047  |
| Short-term debt   | -               | 38,391,406,440  | 7,630,772,957   | -                | -                 | 46,022,179,397   |
| Deposit liabilities (included under 'Accounts payable and accrued expenses' and 'Other noncurrent liabilities' in the consolidated statements of financial position)  | 24,837,560,992  | 33,372,598,454  | 5,555,447,123   | 16,803,658,856   | 5,000,000         | 80,574,265,425   |
| Due to related parties (included under 'Accounts payable and accrued expense' and 'Other noncurrent liabilities' in the consolidated statement of financial position)   | 104,073,070     | -               | -               | -                | -                 | 104,073,070      |
| Deposits from lessees (included under 'Other current liabilities' and 'Other noncurrent liabilities' in the consolidated statement of financial position)   | 892,315,691     | 208,108,544     | 1,255,817,284   | 1,454,412,903    | 887,155,680       | 4,697,810,102    |
| Long-term debt (including current portion)  | -               | 1,112,397,796   | 3,337,193,384   | 129,191,354,738  | 75,828,182,390    | 209,469,128,308  |
| Derivative liabilities  | -               | -               | 5,904,377       | -                | -                 | 5,904,377        |
|   | ₱50,190,098,030 | ₱92,325,380,983 | ₱22,711,582,170 | ₱148,021,284,060 | ₱78,225,794,483   | ₱391,474,139,726 |



|   | 2016            |                 |                 |                 |                   |                  |
|---|-----------------|-----------------|-----------------|-----------------|-------------------|------------------|
|   | On Demand       | Up to 3 Months  | 3 to 12 Months  | 1 to 5 Years    | More Than 5 Years | Total            |
| <b>Financial Assets</b>   |                 |                 |                 |                 |                   |                  |
| Cash and cash equivalents   | ₱19,983,211,322 | ₱21,269,568,309 | ₱2,224,970,000  | ₱-              | ₱-                | ₱43,477,749,631  |
| Financial assets at FVPL:   |                 |                 |                 |                 |                   |                  |
| Held-for-trading:   |                 |                 |                 |                 |                   |                  |
| Debt securities:  |                 |                 |                 |                 |                   |                  |
| Private   | -               | -               | 9,719,180,330   | -               | -                 | 9,719,180,330    |
| Government  | 1,228,754       | -               | 1,721,514,777   | -               | -                 | 1,722,743,531    |
| Derivatives   | -               | -               | 443,195,549     | 35,760,812      | -                 | 478,956,361      |
|   | 1,228,754       | -               | 11,883,890,656  | 35,760,812      | -                 | 11,920,880,222   |
| Equity securities:  |                 |                 |                 |                 |                   |                  |
| Quoted  | 1,197,749,259   | -               | 1,581,516,084   | -               | -                 | 2,779,265,343    |
| Unquoted  | -               | -               | 3,729           | -               | -                 | 3,729            |
|   | 1,197,749,259   | -               | 1,581,519,813   | -               | -                 | 2,779,269,072    |
|   | 1,198,978,013   | -               | 13,465,410,469  | -               | -                 | 14,664,388,482   |
| Derivative financial assets designated as accounting hedges   | -               | -               | 26,800,472      | -               | -                 | 26,800,472       |
| AFS investments:  |                 |                 |                 |                 |                   |                  |
| Debt securities:  |                 |                 |                 |                 |                   |                  |
| Government  | -               | 31,631,237      | 9,548,713,413   | -               | -                 | 9,580,344,650    |
| Private   | -               | 128,949,103     | 4,104,108,118   | -               | -                 | 4,233,057,221    |
|   | -               | 160,580,340     | 13,652,821,531  | -               | -                 | 13,813,401,871   |
| Equity securities:  |                 |                 |                 |                 |                   |                  |
| Quoted  | 41,830,000      | 305,772,373     | 1,282,326,757   | 23,608,326,105  | -                 | 25,238,255,235   |
| Unquoted  | -               | 23,605,700      | 687,671         | -               | -                 | 24,293,371       |
|   | 41,830,000      | 329,378,073     | 1,283,014,428   | 23,608,326,105  | -                 | 25,262,548,606   |
|   | 41,830,000      | 489,958,413     | 14,935,835,959  | 23,608,326,105  | -                 | 39,075,950,477   |
| Held to maturity investments  | -               | 57,006,693      | -               | 1,077,759,585   | 2,743,443,378     | 3,878,209,656    |
| Receivables:  |                 |                 |                 |                 |                   |                  |
| Trade receivables   | 4,021,645,112   | 18,825,052,506  | 1,190,477,613   | 2,270,869,372   | 528,385,047       | 26,836,429,650   |
| Finance receivables   | 648,028,853     | 6,105,462,562   | 3,553,042,371   | 13,835,045,477  | 22,421,302,199    | 46,562,881,462   |
| Due from related parties  | 1,315,333,252   | 3,464,762       | 98,712,835      | -               | -                 | 1,417,510,849    |
| Interest receivable   | 153,379,197     | 252,184,026     | 351,630,011     | -               | -                 | 757,193,234      |
| Other receivables   | 692,972,269     | 832,605,996     | 118,639,437     | -               | -                 | 1,644,217,702    |
|   | 6,831,358,683   | 26,018,769,852  | 5,312,502,267   | 16,105,914,849  | 22,949,687,246    | 77,218,232,897   |
| Refundable security deposits  | 7,240,035       | 16,106,444      | 10,598,643      | 299,571,580     | 388,358,803       | 721,875,505      |
|   | ₱28,062,618,053 | ₱47,851,409,711 | ₱35,976,117,810 | ₱41,091,572,119 | ₱26,081,489,427   | ₱179,063,207,120 |
| <b>Financial Liabilities</b>  |                 |                 |                 |                 |                   |                  |
| Accounts payable and accrued expenses (including noncurrent portion booked under 'Other noncurrent liabilities' in the consolidated statement of financial position but excluding 'Deposit liabilities' and 'Due to related parties') | ₱16,103,568,618 | ₱17,425,567,745 | ₱8,751,203,461  | ₱544,320,629    | ₱1,911,686,040    | ₱44,736,346,493  |
| Short-term debt   | -               | 30,826,688,773  | 31,468,105,354  | -               | -                 | 62,294,794,127   |
| Redeemable preferred shares   | 1,700,000       | -               | -               | -               | -                 | 1,700,000        |
| Deposit liabilities (included under 'Accounts payable and accrued expenses' and 'Other noncurrent liabilities' in the consolidated statements of financial position)  | 31,668,994,253  | 15,349,040,957  | 9,428,793,502   | 4,817,729,266   | 3,908,763         | 61,268,466,741   |
| Due to related parties (included under 'Accounts payable and accrued expense' and 'Other noncurrent liabilities' in the consolidated statement of financial position)   | 136,118,258     | -               | -               | -               | -                 | 136,118,258      |
| Deposits from lessees (included under 'Other current liabilities' and 'Other noncurrent liabilities' in the consolidated statement of financial position)   | 525,132,237     | 248,624,698     | 997,198,681     | 1,476,918,169   | 785,584,181       | 4,033,457,966    |
| Long-term debt (including current portion)  | -               | 1,276,164,221   | 3,661,742,495   | 93,118,218,594  | 94,045,704,321    | 192,101,829,631  |
| Derivative liabilities  | -               | -               | 5,947,386       | -               | -                 | 5,947,386        |
|   | ₱48,435,513,366 | ₱65,126,086,394 | ₱54,312,990,879 | ₱99,957,186,658 | ₱96,746,883,305   | ₱364,578,660,602 |

**Market risk**

Market risk is the risk of loss to future earnings, to fair value or future cash flows of a financial instrument as a result of changes in its price, in turn caused by changes in interest rates, foreign currency exchange rates, equity prices and other market factors.



The following discussion covers the market risks of the Group except for its Banking Segment:

*Foreign currency risk*

Foreign currency risk arises on financial instruments that are denominated in a foreign currency other than the functional currency in which they are measured. The Group makes use of derivative financial instruments, such as currency swaps, to hedge foreign currency exposure (Note 8).

The Group has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the entities' functional currency. As of December 31, 2017, 2016 and 2015, approximately 35.5%, 32.0% and 33.6%, respectively, of the Group's total sales are denominated in currencies other than the functional currency. In addition, approximately 29.8% and 44.3% of total debt are denominated in US Dollar as of December 31, 2017 and 2016, respectively. The Group's capital expenditures are likewise substantially denominated in US Dollar.

The tables below summarize the Group's exposure to foreign currency risk as of December 31, 2017 and 2016:

|  | 2017                     |                       | Total                    |
|--|--------------------------|-----------------------|--------------------------|
|  | US Dollar                | Other Currencies*     |                          |
| <b>Assets</b>  |                          |                       |                          |
| Cash and cash equivalents  | ₱12,964,785,838          | ₱2,011,385,496        | ₱14,976,171,334          |
| Financial assets at FVPL   | 13,564,500,566           | –                     | 13,564,500,566           |
| AFS investments  | 2,041,978,722            | –                     | 2,041,978,722            |
| Receivables  | 4,745,235,242            | 368,316,038           | 5,113,551,280            |
| Derivative assets  | 13,464,723               | –                     | 13,464,723               |
| Other noncurrent assets  | 30,639,912               | –                     | 30,639,912               |
|  | <b>33,360,605,003</b>    | <b>2,379,701,534</b>  | <b>35,740,306,537</b>    |
| <b>Liabilities</b>   |                          |                       |                          |
| Accounts payable and accrued expenses                            | 7,249,833,340            | 365,383,062           | 7,615,216,402            |
| Short-term debt  | 8,493,090,363            | –                     | 8,493,090,363            |
| Long-term debt (including current portion)                       | 59,384,675,968           | –                     | 59,384,675,968           |
|  | <b>75,127,599,671</b>    | <b>365,383,062</b>    | <b>75,492,982,733</b>    |
| <b>Net Foreign Currency-Denominated Assets<br/>(Liabilities)</b> | <b>(₱41,766,994,668)</b> | <b>₱2,014,318,472</b> | <b>(₱39,752,676,196)</b> |

\*Other currencies include Hong Kong Dollar, Singaporean Dollar, Thai Baht, Chinese Yuan, Indonesian Rupiah, Vietnam Dong, Malaysian Ringgit, Korean Won, New Taiwan Dollar, Japanese Yen, Australian Dollar, New Zealand Dollar and Euro

|   | 2016                     |                         | Total                    |
|---|--------------------------|-------------------------|--------------------------|
|   | US Dollar                | Other Currencies*       |                          |
| <b>Assets</b>                                       |                          |                         |                          |
| Cash and cash equivalents                           | ₱11,970,236,863          | ₱862,423,855            | ₱12,832,660,718          |
| Financial assets at FVPL                            | 13,463,988,825           | –                       | 13,463,988,825           |
| AFS investments                                     | 3,945,928,928            | –                       | 3,945,928,928            |
| Receivables   | 4,807,169,837            | 523,730,773             | 5,330,900,610            |
| Derivative assets                                   | 35,760,812               | –                       | 35,760,812               |
| Other noncurrent assets                             | 29,250,904               | –                       | 29,250,904               |
|   | <b>34,252,336,169</b>    | <b>1,386,154,628</b>    | <b>35,638,490,797</b>    |
| <b>Liabilities</b>                                  |                          |                         |                          |
| Accounts payable and accrued expenses               | 2,533,153,303            | 3,402,174,159           | 5,935,327,462            |
| Short-term debt                                     | 28,735,530,890           | –                       | 28,735,530,890           |
| Long-term debt (including current portion)          | 69,020,188,041           | –                       | 69,020,188,041           |
| Other noncurrent liabilities                        | 224,413,504              | –                       | 224,413,504              |
|   | <b>100,513,285,738</b>   | <b>3,402,174,159</b>    | <b>103,915,459,897</b>   |
| <b>Net Foreign Currency-Denominated Liabilities</b> | <b>(₱66,260,949,569)</b> | <b>(₱2,016,019,531)</b> | <b>(₱68,276,969,100)</b> |

\*Other currencies include Hong Kong Dollar, Singaporean Dollar, Thai Baht, Chinese Yuan, Indonesian Rupiah, Vietnam Dong, Malaysian Ringgit, Korean Won, New Taiwan Dollar, Japanese Yen, Australian Dollar, New Zealand Dollar and Euro



The exchange rates used to convert the Group's US dollar-denominated assets and liabilities into Philippine peso as of December 31, 2017 and 2016 follow:

|   | <b>2017</b>                   | <b>2016</b>           |
|---|-------------------------------|-----------------------|
| US dollar-Philippine peso exchange rate | <b>₱49.93 to<br/>US\$1.00</b> | ₱49.72 to<br>US\$1.00 |

The following table sets forth the impact of the range of reasonably possible changes in the US Dollar-Philippine peso exchange rate on the Group's income before income tax (due to the revaluation of monetary assets and liabilities) for the years ended December 31, 2017 and 2016:

| Reasonably Possible Changes in<br>Exchange rates | Change in<br>Income Before Income Tax |                  |
|--|---------------------------------------|------------------|
|  | <b>2017</b>                           | <b>2016</b>      |
| ₱2.0   | <b>(₱1,691,223,503)</b>               | (₱2,700,962,149) |
| (2.0)  | <b>1,691,223,503</b>                  | 2,700,962,149    |

Other than the potential impact on the Group's pre-tax income, the Group does not expect any other material effect on equity.

The Group does not expect the impact of the volatility on other currencies to be material.

*Equity price risk*

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks.

In 2017, 2016 and 2015, changes in fair value of equity instruments held as financial assets at FVPL due to a reasonably possible change in equity indices, with all other variables held constant, will increase profit by ₱83.7 million, ₱25.1 million and ₱14.1 million, respectively, if equity prices will increase by 1.5%. A similar increase in equity indices on AFS equity instruments will also increase net unrealized gains on other comprehensive income by ₱431.2 million, ₱369.9 million and ₱590.6 million as of December 31, 2017, 2016 and 2015, respectively. An equal change in the opposite direction would have decreased equity and profit by the same amount.

*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' long-term debt obligations which are subject to floating rate. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group makes use of derivative financial instruments, such as interest rate swaps, to hedge the variability in cash flows arising from fluctuation in benchmark interest rates.



The following tables show information about the Group’s long-term debt presented by maturity profile:

|                                 |  | 2017            |                 |                 |                  |                  |                 | Total                 | Total                | Debt           | Carrying Value       |                 |
|---------------------------------|--|-----------------|-----------------|-----------------|------------------|------------------|-----------------|-----------------------|----------------------|----------------|----------------------|-----------------|
|                                 |  | <1 year         | >1-<2 years     | >2-<3 years     | >3-<4 years      | >4-<5 years      | >5 years        | (In Foreign Currency) | (in Philippine Peso) | Issuance Costs | (in Philippine Peso) | Fair Value      |
| Long-term debt                  |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
| Philippine peso                 |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
| <i>Floating rate</i>            |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
| Commercial loan                 |  | ₱1,778,409,798  | ₱1,745,234,775  | ₱1,710,867,422  | ₱1,673,501,570   | ₱1,636,871,320   | ₱6,702,912,377  |                       | ₱15,247,797,262      | ₱–             | ₱15,247,797,262      | ₱12,656,770,112 |
| Interest rate (3% - 5% PDST-R2) |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
| Foreign currencies:             |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
| <i>Floating rate</i>            |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
| US Dollar loans                 |  | US\$69,747,609  | US\$68,527,070  | US\$67,042,857  | US\$66,589,271   | US\$66,140,418   | US\$135,384,658 | US\$473,431,883       | 23,638,453,918       | –              | 23,638,453,918       | 21,702,080,320  |
| Interest rate 2%-5% (USD LIBOR) |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
| New Zealand Dollar loans        |  | NZ\$16,205,992  | NZ\$435,180,958 | NZ\$–           | NZ\$–            | NZ\$–            | NZ\$–           | NZ\$451,386,950       | 14,808,699,804       | 104,771,265    | 14,703,928,539       | 14,910,608,581  |
| Interest rate (NZ BKBM+1.60%)   |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
| Australian Dollar loans         |  | AUS\$13,251,758 | AUS\$13,179,542 | AUS\$13,215,650 | AUS\$494,081,575 | AUS\$–           | AUS\$–          | AUS\$533,728,525      | 18,772,656,535       | 250,622,686    | 18,522,033,849       | 18,491,979,928  |
| Interest rate (BBSY BID+1.25%)  |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
|                                 |  |                 |                 |                 |                  |                  |                 |                       | ₱72,467,607,519      | ₱355,393,951   | ₱72,112,213,568      | ₱67,761,438,941 |
|                                 |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
|                                 |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
| 2016                            |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
|                                 |  | <1 year         | >1-<2 years     | >2-<3 years     | >3-<4 years      | >4-<5 years      | >5 years        | Total                 | Total                | Debt           | Carrying Value       | Fair Value      |
|                                 |  |                 |                 |                 |                  |                  |                 | (In Foreign Currency) | (in Philippine Peso) | Issuance Costs | (in Philippine Peso) |                 |
| Long-term debt                  |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
| Philippine peso                 |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
| <i>Floating rate</i>            |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
| Commercial loan                 |  | ₱621,619,694    | ₱590,652,740    | ₱586,849,102    | ₱583,115,806     | ₱579,241,827     | ₱2,839,181,951  |                       | ₱5,800,661,120       | ₱–             | ₱5,800,661,120       | ₱4,927,396,109  |
| Interest rate (2% - 3% PDST-R2) |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
| Foreign currencies:             |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
| <i>Floating rate</i>            |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
| US Dollar loans                 |  | US\$70,173,100  | US\$69,727,562  | US\$68,507,024  | US\$67,022,811   | US\$66,569,224   | US\$200,649,959 | US\$542,649,680       | 26,980,542,092       | –              | 26,980,542,092       | 24,830,050,134  |
| Interest rate 1%-2% (USD LIBOR) |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
| New Zealand Dollar loans        |  | NZ\$22,344,000  | NZ\$22,344,000  | NZ\$438,620,000 | NZ\$–            | NZ\$–            | NZ\$–           | NZ\$483,308,000       | 14,466,505,197       | 154,827,284    | 14,311,677,913       | 12,765,477,192  |
| Interest rate (NZ BKBM+1.60%)   |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
| Australian Dollar loans         |  | AUS\$14,720,410 | AUS\$14,720,410 | AUS\$14,720,410 | AUS\$14,720,410  | AUS\$495,264,306 | AUS\$–          | AUS\$554,145,946      | 17,344,295,962       | 289,381,090    | 17,054,914,872       | 14,228,578,841  |
| Interest rate (BBSY BID+1.25%)  |  |                 |                 |                 |                  |                  |                 |                       |                      |                |                      |                 |
|                                 |  |                 |                 |                 |                  |                  |                 |                       | ₱64,592,004,371      | ₱444,208,374   | ₱64,147,795,997      | ₱56,751,502,276 |



The following table sets forth the impact of the range of reasonably possible changes in the interest rates on the Group's income from floating debt obligations before income tax:

| Reasonably Possible Changes in Interest Rates | Change in Income Before Income Tax |                |
|---|------------------------------------|----------------|
|   | 2017                               | 2016           |
| +150 basis points (bps)                       | <b>(₱1,198,003,295)</b>            | (₱675,254,010) |
| -150 bps                                      | <b>1,198,003,295</b>               | 675,254,010    |

*Price interest rate risk*

The Group is exposed to the risks of changes in the value/future cash flows of its financial instruments due to its market risk exposures. The Group's exposure to interest rate risk relates primarily to the Group's financial assets at FVPL and AFS investments.

Except for RBC, which uses Earnings-at -Risk (EaR) as a tool for measuring and managing interest rate risk in the banking book, the table below shows the impact on income before income tax of the estimated future yield of the related market indices of the Group's FVPL and AFS investments using a sensitivity approach.

| Reasonably Possible Changes in Interest Rates | Change in Income Before Income Tax |               |
|---|------------------------------------|---------------|
|   | 2017                               | 2016          |
| +150 basis points (bps)                       | <b>₱325,473,510</b>                | ₱115,108,680  |
| -150 bps                                      | <b>(325,473,510)</b>               | (115,108,680) |

*Commodity price risk*

The Group enters into commodity derivatives to manage its price risks on fuel purchases. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Depending on the economic hedge cover, the price changes on the commodity derivative positions are offset by higher or lower purchase costs on fuel. A change in price by US\$10.0 per barrel of jet fuel affects the Group's fuel annual costs on pre-tax income by ₱2.5 billion in 2017, ₱2.3 billion in 2016 and ₱2.1 billion in 2015, assuming no change in volume of fuel is consumed.

The Group manages its commodity price risk through fuel surcharges which are approved by the Philippine Civil Aeronautics Board, a fuel hedge that protects the Group's fuel usage from volatile price fluctuations and certain operational adjustments in order to conserve fuel use in the way the aircraft is operated.

*Banking Segment's Market Risk*

Market risk is defined as the possibility of loss due to adverse movements in market factors such as rates and prices. Market risk is present in both trading and non-trading activities. These are the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments. The risk arises from market-making, dealing and position-taking in quoted debt securities and foreign exchange.

RBC observes market risk limits, which are approved by the BOD and reviewed at least annually. Limits are set in such a way as to ensure that risks taken are based on RBC's existing capital adequacy framework, and corresponding monitoring reports are prepared regularly by an independent risk management unit.



When limits are breached, approval is sought from successive levels of authority depending on the amount of the excess. Limit breaches are periodically presented to the BOD.

Value-at-Risk (VaR) is computed to estimate potential losses arising from market movements. RBC calculates and monitors VaR and profit or loss on a daily basis.

*VaR objectives and methodology*

VaR is used by RBC to measure market risk exposure from its trading and investment activities. VaR is an estimate of the maximum decline in value on a given position over a specified holding period in a normal market environment, with a given probability of occurrence.

RBC uses the historical simulation method in estimating VaR. The historical simulation method is a non-parametric approach to VaR calculation, in which asset returns are not subject to any functional distribution assumption. VaR is estimated directly from historical data without deriving parameters or making assumptions about the entire data distribution.

In employing the historical simulation method, RBC assumes a 260 historical data (approximately 1 year), 99.50% confidence level and 1-day holding period. On August 17, 2016, RBC implemented new assumptions in the model, specifically the use of 500 historical data (approximately 2 years) and 99.00% confidence level, with the holding period still at 1-day.

*VaR methodology limitations and assumptions*

Discussed below are the limitations and assumptions applied by RBC on its VaR methodology:

- a. VaR is a statistical estimate and thus, does not give the precise amount of loss RBC may incur in the future;
- b. VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from RBC's exposure to market risk;
- c. Since VaR is computed from end-of-day positions and market factors, VaR does not capture intraday market risk.
- d. VaR systems depend on historical data. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Therefore, market shifts (i.e. an unexpected collapse of the market) will not be captured and may inflict losses larger than VaR; and
- e. The limitation relating to the pattern of historical returns being indicative of future returns is addressed by supplementing VaR with daily stress testing reported to RBC's Risk Management Committee, Asset-Liability Committee (ALCO) and the concerned risk-takers.

VaR back testing is the process by which financial institutions periodically compare ex-post profit or loss with the ex-ante VaR figures to gauge the robustness of the VaR model. RBC performs quarterly back testing.

RBC's VaR figures are as follows (in millions):

|   | 2017    |         |         |             |
|---|---------|---------|---------|-------------|
|   | Average | High    | Low     | December 31 |
| Instruments sensitive to local interest rates   | ₱2.5082 | ₱8.8925 | ₱0.0165 | ₱0.5591     |
| Instruments sensitive to foreign interest rates | -       | -       | -       | -           |



|   | January - August 2016   |          |         |             |
|---|-------------------------|----------|---------|-------------|
|   | Average                 | High     | Low     | August 16   |
| Instruments sensitive to local interest rates   | ₱3.0005                 | ₱20.6307 | ₱0.1707 | ₱2.5533     |
| Instruments sensitive to foreign interest rates | -                       | -        | -       | -           |
|   | August - December 2016* |          |         |             |
|   | Average                 | High     | Low     | December 31 |
| Instruments sensitive to local interest rates   | ₱4.2745                 | ₱7.8317  | ₱0.0222 | ₱0.0225     |
| Instruments sensitive to foreign interest rates | 0.0002                  | 0.0158   | -       | -           |

\*based on new VaR assumptions

#### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

RBC's ALCO surveys the interest rate environment, adjusts the interest rates for RBC's loans and deposits, assesses investment opportunities and reviews the structure of assets and liabilities. RBC uses Earnings-at-Risk as a tool for measuring and managing interest rate risk in the banking book.

#### Earnings-at-Risk objectives and methodology

Earnings-at-Risk (EaR) is a statistical measure of the likely impact of changes in interest rates to the RBC's net interest income (NII). To do this, repricing gaps (difference between interest rate-sensitive assets and liabilities) are classified according to time to repricing and multiplied with applicable historical interest rate volatility, although available contractual repricing dates are generally used for putting instruments into time bands, contractual maturity dates (e.g., for fixed rate instruments) or expected liquidation periods often based on historical data are used alternatively. The repricing gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive repricing gap implies that RBC's net interest income could decline if interest rates decrease upon repricing. A negative repricing gap implies that RBC's net interest income could decline if interest rates increase upon repricing. Although such gaps are a normal part of the business, a significant change may bring significant interest rate risk.

To help control interest rate risk arising from repricing gaps, maximum repricing gap and EaR/NII targets are set for time bands up to one year. EaR is prepared and reported to the Risk Management Committee quarterly.

RBC's EaR figures are as follows (in PHP millions):

|   | 2017    |         |         |             |
|---|---------|---------|---------|-------------|
|   | Average | High    | Low     | December 31 |
| Instruments sensitive to local interest rates   | ₱162.86 | ₱287.07 | ₱116.87 | ₱287.07     |
| Instruments sensitive to foreign interest rates | 0.13    | 0.21    | 0.08    | 0.11        |
|   | 2016    |         |         |             |
|   | Average | High    | Low     | December 31 |
| Instruments sensitive to local interest rates   | ₱71.65  | ₱154.18 | ₱1.08   | ₱121.35     |
| Instruments sensitive to foreign interest rates | 0.04    | 0.09    | 0.01    | 0.09        |





*Foreign currency risk*

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The BOD has set limits on positions by currency. In accordance with the RBC's policy, positions are monitored on a daily basis and are used to ensure positions are maintained within established limits.

|                       |                           | 2017           |                            |
|-----------------------|---------------------------|----------------|----------------------------|
|                       |                           | Profit or loss | Other comprehensive income |
| +10% USD appreciation | USD                       | (₱364,319,032) | ₱484,543,977               |
|                       | Other Foreign Currencies* | (26,247,025)   | -                          |
| -10% USD depreciation | USD                       | 364,319,032    | (484,543,977)              |
|                       | Other Foreign Currencies* | 26,247,025     | -                          |

\*significant positions held in EUR and AUD

|                       |                           | 2016           |                            |
|-----------------------|---------------------------|----------------|----------------------------|
|                       |                           | Profit or loss | Other comprehensive income |
| +10% USD appreciation | USD                       | (₱416,372,261) | ₱394,119,655               |
|                       | Other Foreign Currencies* | 20,666,562     | -                          |
| -10% USD depreciation | USD                       | 416,372,261    | 394,119,655                |
|                       | Other Foreign Currencies* | (20,666,562)   | -                          |

\*significant positions held in EUR and AUD

## 5. Fair Value Measurement

The following methods and assumptions were used to estimate the fair value of each asset and liability for which it is practicable to estimate such value:

*Cash and cash equivalents, receivables (except for finance receivables and installment contract receivables), accounts payable and accrued expenses and short-term debt*

Carrying amounts approximate their fair values due to the relatively short-term maturities of these instruments.

*Finance receivables*

Fair values of loans are estimated using the discounted cash flow methodology, using RBC's current incremental lending rates for similar types of loans. Where the instruments are repriced on a quarterly basis or have a relatively short-term maturity, the carrying amounts approximate fair values.

*Installment contract receivables*

Fair values of installment contract receivables are based on the discounted value of future cash flows using the applicable rates for similar types of receivables. The discount rates used range from 3.0% to 4.7% in 2017 and 2.5% to 4.7% in 2016.

*Debt securities*

Fair values of debt securities are generally based on quoted market prices.

*Quoted equity securities*

Fair values are based on quoted prices published in markets.



*Unquoted equity securities*

Fair values could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. These are carried at cost.

*Amounts due from and due to related parties*

Carrying amounts of due from and due to related parties which are collectible/payable on demand approximate their fair values. Due from related parties are unsecured and have no foreseeable terms of repayments.

*Noninterest-bearing refundable security deposits*

The fair values are determined as the present value of estimated future cash flows using prevailing market rates.

*Investment in convertible note*

The investment in convertible note's fair value is measured using the discounted cash flow model (using current incremental lending rates for similar types of loans) and the Black-Scholes-Merton model (using the underlying's stock price and stock volatility).

*Biological assets*

Biological assets are measured at their fair values less costs to sell. The fair values of Level 2 biological assets are determined based on current market prices of livestock of similar age, breed and genetic merit while Level 3 are determined based on cost plus reasonable profit margin or replacement cost as applicable. Costs to sell include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Costs to sell exclude transport and other costs necessary to get the biological assets to the market.

The Group has determined that the highest and best use of the sucklings and weanlings is finishers while for other biological assets is their current use.

*Derivative financial instruments*

The fair values of the interest rate swaps and commodity swaps and options are determined based on the quotes obtained from counterparties. The fair values of forward exchange derivatives are calculated by reference to the prevailing interest differential and spot exchange rate as of valuation date, taking into account the remaining term-to-maturity of the forwards. The fair values of cross currency swaps are based on the discounted cash flow swap valuation model of a third party provider.

*Investment properties*

Fair value of investment properties are based on market data (or direct sales comparison) approach. This approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or offered with close proximity to the subject property.

The fair values of the Group's investment properties have been determined by appraisers, including independent external appraisers, in the basis of the recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time of the valuations are made.

The Group has determined that the highest and best use of the property used for the land and building is its current use.



*Deposit liabilities*

Fair values are estimated using the discounted cash flow methodology using RBC's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liabilities being valued.

*Deposits from Lessees*

The fair value of customers' deposits is based on the discounted value of future cash flows using the applicable rates for similar types of loans and receivables as of reporting date. The discount rates used range from 3.0% to 4.7% in 2017 and 2.5% to 4.7% in 2016.

*Long-term debt*

The fair value of long-term debt is based on the discounted value of future cash flows (interests and principal) using the applicable rates for similar types of loans. The discount rates used range from 2% to 6% in 2017 and 2016.

*Fair Value Hierarchy Assets and Liabilities*

Assets and liabilities carried at fair value are those whose fair values are required to be disclosed.

- (a) Level 1: quoted (unadjusted) prices in an active market for identical assets or liabilities;
- (b) Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- (c) Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows the Group's assets and liabilities carried at fair value:

|  | December 31, 2017     |                       |                    |               |                       |
|--|-----------------------|-----------------------|--------------------|---------------|-----------------------|
|  | Carrying Value        | Level 1               | Level 2            | Level 3       | Total Fair value      |
| <i>Assets measured at fair value</i>                             |                       |                       |                    |               |                       |
| Financial assets at FVPL:  |                       |                       |                    |               |                       |
| Held-for-trading:  |                       |                       |                    |               |                       |
| Debt securities:   |                       |                       |                    |               |                       |
| Private  | P8,105,659,667        | P8,105,659,667        | P-                 | P-            | P8,105,659,667        |
| Government   | 1,794,792,865         | 1,794,792,865         | -                  | -             | 1,794,792,865         |
|  | <b>9,900,452,532</b>  | <b>9,900,452,532</b>  | <b>-</b>           | <b>-</b>      | <b>9,900,452,532</b>  |
| Equity securities:   |                       |                       |                    |               |                       |
| Quoted   | 2,112,003,350         | 2,112,003,350         | -                  | -             | 2,112,003,350         |
|  | <b>12,012,455,882</b> | <b>12,012,455,882</b> | <b>-</b>           | <b>-</b>      | <b>12,012,455,882</b> |
| Investment in convertible note                                   | 1,876,775,033         | 1,876,775,033         | -                  | -             | 1,876,775,033         |
| Derivatives financial assets not designated as accounting hedges |                       |                       |                    |               |                       |
|  | 467,897,681           | -                     | 467,897,681        | -             | 467,897,681           |
| Derivative financial assets designated as accounting hedges      |                       |                       |                    |               |                       |
|  | 11,023,146            | 11,023,146            | -                  | -             | 11,023,146            |
|  | <b>478,920,827</b>    | <b>11,023,146</b>     | <b>467,897,681</b> | <b>-</b>      | <b>478,920,827</b>    |
| AFS investments:   |                       |                       |                    |               |                       |
| Debt securities:   |                       |                       |                    |               |                       |
| Government   | 13,830,643,531        | 13,830,643,531        | -                  | -             | 13,830,643,531        |
| Private  | 7,202,581,682         | 7,202,581,682         | -                  | -             | 7,202,581,682         |
|  | <b>21,033,225,213</b> | <b>21,033,225,213</b> | <b>-</b>           | <b>-</b>      | <b>21,033,225,213</b> |
| Equity securities:   |                       |                       |                    |               |                       |
| Quoted   | 26,007,882,955        | 26,007,882,955        | -                  | -             | 26,007,882,955        |
|  | <b>47,041,108,168</b> | <b>47,041,108,168</b> | <b>-</b>           | <b>-</b>      | <b>47,041,108,168</b> |
| Biological assets  | 1,678,576,389         | -                     | 477,262,840        | 1,201,313,549 | 1,678,576,389         |



|  | December 31, 2017       |                        |                       |                         |                         |
|--|-------------------------|------------------------|-----------------------|-------------------------|-------------------------|
|  | Carrying Value          | Level 1                | Level 2               | Level 3                 | Total Fair value        |
| <i>Assets for which fair values are disclosed</i>                |                         |                        |                       |                         |                         |
| Receivables:   |                         |                        |                       |                         |                         |
| Trade receivables  | P27,820,576,741         | P-                     | P-                    | P 28,369,754,245        | P28,369,754,245         |
| Finance receivables  | 56,615,488,928          | -                      | -                     | 61,162,000,840          | 61,162,000,840          |
| Other receivables  | 1,858,365,135           | -                      | -                     | 1,860,230,707           | 1,860,230,707           |
| Refundable deposits  | 972,578,485             | -                      | -                     | 980,808,430             | 980,808,430             |
| Investment properties  | 89,244,835,261          | -                      | -                     | 195,098,922,273         | 195,098,922,273         |
| Repossessed chattels   | 89,992,111              | -                      | -                     | 122,656,736             | 122,656,736             |
|  | <b>P239,689,672,960</b> | <b>P60,941,362,229</b> | <b>P945,160,521</b>   | <b>P288,795,686,780</b> | <b>P350,682,209,530</b> |
| Deposit liabilities  | P80,559,735,038         | P-                     | P-                    | P80,582,181,373         | P80,582,181,373         |
| Derivative liabilities   | 5,904,377               | -                      | 5,904,377             | -                       | 5,904,377               |
| Deposits from lessees  | 4,697,810,102           | -                      | -                     | 4,272,486,127           | 4,272,486,127           |
| Long-term debt (including current portion)                       | 181,686,814,666         | -                      | -                     | 191,655,347,796         | 191,655,347,796         |
|  | <b>P266,950,264,183</b> | <b>P-</b>              | <b>P5,904,377</b>     | <b>P276,510,015,296</b> | <b>P276,515,919,673</b> |
| December 31, 2016  |                         |                        |                       |                         |                         |
|  | Carrying Value          | Level 1                | Level 2               | Level 3                 | Total Fair value        |
| <i>Assets measured at fair value</i>                             |                         |                        |                       |                         |                         |
| Financial assets at FVPL:  |                         |                        |                       |                         |                         |
| Held-for-trading:  |                         |                        |                       |                         |                         |
| Debt securities:   |                         |                        |                       |                         |                         |
| Private  | P9,719,180,330          | P9,719,180,330         | P-                    | P-                      | P9,719,180,330          |
| Government   | 1,722,743,531           | 1,722,743,531          | -                     | -                       | 1,722,743,531           |
|  | 11,441,923,861          | 11,441,923,861         | -                     | -                       | 11,441,923,861          |
| Equity securities:   |                         |                        |                       |                         |                         |
| Quoted   | 2,779,265,343           | 2,779,265,343          | -                     | -                       | 2,779,265,343           |
|  | 14,221,189,204          | 14,221,189,204         | -                     | -                       | 14,221,189,204          |
| Derivatives financial assets not designated as accounting hedges | 478,956,361             | -                      | 478,956,361           | -                       | 478,956,361             |
| Derivative financial assets designated as accounting hedges      | 26,800,472              | -                      | 26,800,472            | -                       | 26,800,472              |
|  | 505,756,833             | -                      | 505,756,833           | -                       | 505,756,833             |
| AFS investments:   |                         |                        |                       |                         |                         |
| Debt securities:   |                         |                        |                       |                         |                         |
| Government   | 9,580,344,650           | 9,580,344,650          | -                     | -                       | 9,580,344,650           |
| Private  | 4,233,057,221           | 4,233,057,221          | -                     | -                       | 4,233,057,221           |
|  | 13,813,401,871          | 13,813,401,871         | -                     | -                       | 13,813,401,871          |
| Equity securities:   |                         |                        |                       |                         |                         |
| Quoted   | 25,238,255,235          | 25,238,255,235         | -                     | -                       | 25,238,255,235          |
|  | 39,051,657,106          | 39,051,657,106         | -                     | -                       | 39,051,657,106          |
| Held-to-maturity investment                                      | 3,549,900,604           | 2,877,873,255          | 724,431,818           | -                       | 3,602,305,073           |
| Biological assets  | 1,383,379,248           | -                      | 140,714,789           | 1,242,664,459           | 1,383,379,248           |
| <i>Assets for which fair values are disclosed</i>                |                         |                        |                       |                         |                         |
| Receivables:   |                         |                        |                       |                         |                         |
| Trade receivables  | P26,241,233,096         | P-                     | P-                    | P25,926,164,694         | P25,926,164,694         |
| Finance receivables  | 38,004,283,010          | -                      | -                     | 39,430,369,944          | 39,430,369,944          |
| Other receivables  | 1,455,520,148           | -                      | -                     | 1,450,445,746           | 1,450,445,746           |
| Refundable deposits  | 721,073,925             | -                      | -                     | 726,140,884             | 726,140,884             |
| Investment properties  | 75,416,372,370          | -                      | -                     | 175,063,056,484         | 175,063,056,484         |
|  | <b>P200,550,365,544</b> | <b>P56,150,719,565</b> | <b>P1,370,903,440</b> | <b>P243,838,842,211</b> | <b>P301,360,465,216</b> |
| Deposit liabilities  | P57,364,495,943         | P-                     | P-                    | P57,467,829,433         | P57,467,829,433         |
| Derivative liabilities   | 5,947,386               | -                      | 5,947,386             | -                       | 5,947,386               |
| Deposits from lessees  | 4,033,457,966           | -                      | -                     | 3,055,829,774           | 3,055,829,774           |
| Long-term debt   | 159,187,755,600         | -                      | -                     | 158,197,696,503         | 158,197,696,503         |
|  | <b>P220,591,656,895</b> | <b>P-</b>              | <b>P5,947,386</b>     | <b>P218,721,355,710</b> | <b>P218,727,303,096</b> |

In 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements. Non-financial asset determined under Level 3 includes investment properties. No transfers between any levels of the fair value hierarchy took place in the equivalent comparative period. There were also no changes in the purpose of any financial asset that subsequently resulted in a different classification of that asset.



Description of significant unobservable inputs to valuation:

| <b>Account</b>                 | <b>Valuation Technique</b>                                | <b>Significant Unobservable Inputs</b>   |
|--------------------------------|---|--|
| Loans and receivables          | Discounted cash flow method                               | 4.0% - 14.75% risk premium rate  |
| Investment in convertible note | Black-Scholes-Merton model and discounted cash flow model | Historical volatility  |
| Biological assets              | Cost plus reasonable profit margin                        | Reasonable profit margin   |
| Investment properties          | Market data approach and Cost approach                    | Price/cost per square meter, size, shape, location, time element, discount, replacement cost and depreciation for improvements |
|                                | Discounted cash flow method                               | Discount rate, capitalization rate, growth rate, occupancy rate  |
| Refundable deposits            | Discounted cash flow method                               | 0.25% - 11.50% risk premium rate   |
| Repossessed chattels           | Market data approach                                      | Price per unit, size, shape, location, time element and discount   |
| Time deposits                  | Discounted cash flow method                               | 0.25% - 3.90% risk premium rate  |
| Long-term debt                 | Discounted cash flow method                               | 2% - 6% discount rate  |

The relationship of historical volatility to the fair value of the investment in convertible bond is the higher the historical volatility, the higher the fair value of the derivative financial asset, and vice versa. If the historical volatility increases (decreases) by 500 bps, considering all other variables are held constant, the fair value of the derivative financial asset would increase (decrease) by approximately ₱32.6 million (₱33.0 million) as of December 31, 2017.

Significant increases (decreases) in reasonable profit margin applied would result in a significantly higher (lower) fair value of the biological assets, considering all other variables are held constant.

*Significant Unobservable Inputs*

|              |   |
|--------------|---|
| Size         | Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of the lot size differences on land value.   |
| Shape        | Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.            |
| Location     | Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.                                       |
| Time Element | An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perceptions of the market over time. In which case, the current data is superior to historic data. |



|                          |   |
|--------------------------|---|
| Discount                 | Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent. |
| Risk premium             | The return in excess of the risk-free rate of return that an investment is expected to yield.   |
| Reasonable profit margin | Mark up of biological assets at different stages of development.  |
| Historical volatility    | The degree of variation of the underlying stock's trading price over time. Historical volatility is measured from the date of initial public offering until December 31, 2017.                                      |

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## 6. Segment Information

### 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.

The industry segments where the Group operates are as follows:

- Foods, agro-industrial and commodities businesses - manufacturing of snack foods, granulated coffee and pre-mixed coffee, chocolates, candies, biscuits, instant noodles, ice cream and frozen novelties, pasta and tomato-based products and canned beans; raising of hog, chicken and manufacturing and distribution of animal feeds, corn products and vegetable oil and the synthesis of veterinary compound; and sugar milling and refining and flour milling.
- Air transportation - air transport services, both domestic and international, for passengers and cargoes.
- Real estate and hotels - ownership, development, leasing and management of shopping malls and retail developments; ownership and operation of prime hotels in major Philippine cities; development, sale and leasing of office condominium space in office buildings and mixed use developments including high rise residential condominiums; and development of land into residential subdivisions and sale of subdivision lots and residential houses and the provision of customer financing for sales.
- Petrochemicals - manufacturer of polyethylene (PE) and polypropylene (PP), polymer grade ethylene, polymer grade propylene, partially hydrogenated pyrolysis gasoline and pyrolysis fuel oil.
- Banking - commercial banking operations, including deposit-taking, lending, foreign exchange dealing and fund transfers or remittance servicing.
- Other supplementary businesses - asset management, insurance brokering, foreign exchange and securities dealing. This also includes dividend income from PLDT and equity in net earnings of Meralco and GBPC.

No operating segments have been aggregated to form the above reportable operating business segments.



The Group does not have a single external major customer (which represents 10.0% of Group's revenues).

Management monitors the operating results of each segment. The measure presented to manage segment performance is the segment operating income (loss). Segment operating income (loss) is based on the same accounting policies as the consolidated operating income (loss) except that intersegment revenues are eliminated only at the consolidation level. Group financing (including finance cost and other charges), finance income, market valuation gains(losses) on financial assets at FVPL and derivatives, foreign exchange gains (losses), other operating income, general and administrative expenses, impairment losses and others and income taxes are managed on a group basis and are not allocated to operating segments. Transfer pricing between operating segments are on arm's length basis in a manner similar to transactions with third parties.

The Executive Committee (Excom) is actively involved in planning, approving, reviewing, and assessing the performance of each of the Group's segments. The Excom oversees Group's decision making process. The Excom's functions are supported by the heads of each of the operating segments, which provide essential input and advice in the decision-making process. The Excom is the Group's chief operating decision maker.

The following tables present the financial information of each of the operating segments in accordance with PFRS except for 'Core earnings', EBIT' and EBITDA' as of and for the years ended December 31, 2017, 2016 and 2015. Core earnings pertain to income before income tax excluding market valuation gains (losses) on financial assets at FVPL and impaired AFS investments, market valuation gains (losses) on derivative financial instruments and foreign exchange gains (losses).



The Group's operating segment information follows:

|   | December 31, 2017                            |                       |                           |                 |                |                                      |                                    |                     |  |
|---|--|-----------------------|---------------------------|-----------------|----------------|--------------------------------------|------------------------------------|---------------------|--|
|   | Foods,<br>Agro-Industrial<br>and Commodities | Air<br>Transportation | Real Estate<br>and Hotels | Petrochemicals  | Banking        | Other<br>Supplementary<br>Businesses | Adjustments<br>and<br>Eliminations | TOTAL<br>OPERATIONS |  |
| <b>Revenue</b>  |  |                       |                           |                 |                |                                      |                                    |                     |  |
| Sale of goods and services:   |  |                       |                           |                 |                |                                      |                                    |                     |  |
| External customers  | ₱125,007,824,013                             | ₱68,029,131,426       | ₱22,448,257,224           | ₱41,406,489,496 | ₱4,475,828,582 | ₱717,368,505                         | ₱-                                 | ₱262,084,899,246    |  |
| Intersegment revenues   | -  | -                     | 68,560,406                | 1,190,430,306   | -              | -                                    | (1,258,990,712)                    | -                   |  |
| Dividend income (Note 28)   | 125,007,824,013                              | 68,029,131,426        | 22,516,817,630            | 42,596,919,802  | 4,475,828,582  | 717,368,505                          | (1,258,990,712)                    | 262,084,899,246     |  |
| Equity in net earnings of associates and joint ventures (Note 14)     | 12,921,148                                   | -                     | -                         | -               | 13,399,782     | 1,426,716,235                        | (1,199,410)                        | 1,451,837,755       |  |
|   | (280,533,323)                                | 140,330,649           | 3,752,117,462             | -               | -              | 6,310,746,773                        | (13,943,655)                       | 9,908,717,906       |  |
| <b>Total revenue</b>  | 124,740,211,838                              | 68,169,462,075        | 26,268,935,092            | 42,596,919,802  | 4,489,228,364  | 8,454,831,513                        | (1,274,133,777)                    | 273,445,454,907     |  |
| Cost of sales and services (Note 30)                                  | 85,693,355,234                               | 40,626,822,232        | 10,626,386,640            | 34,811,743,595  | 1,183,714,020  | -                                    | (1,387,580,735)                    | 171,554,440,986     |  |
| <b>Gross income</b>   | ₱39,046,856,604                              | ₱27,542,639,843       | ₱15,642,548,452           | ₱7,785,176,207  | ₱3,305,514,344 | ₱8,454,831,513                       | ₱113,446,958                       | ₱101,891,013,921    |  |
| General and administrative expenses (Note 31)                         |  |                       |                           |                 |                |                                      |                                    | 49,910,047,737      |  |
| Impairment losses and others (Note 34)                                |  |                       |                           |                 |                |                                      |                                    | 248,080,372         |  |
| <b>Operating income</b>   |  |                       |                           |                 |                |                                      |                                    | 51,732,885,812      |  |
| Financing cost and other charges (Note 35)                            |  |                       |                           |                 |                |                                      |                                    | (7,836,137,934)     |  |
| Finance income (Note 27)  |  |                       |                           |                 |                |                                      |                                    | 1,243,424,967       |  |
| Other operating income (Note 29)                                      |  |                       |                           |                 |                |                                      |                                    | 241,871,584         |  |
| <b>Core earnings</b>  |  |                       |                           |                 |                |                                      |                                    | 45,382,044,429      |  |
| Market valuation gains (losses) on financial assets                   |  |                       |                           |                 |                |                                      |                                    | 541,176,531         |  |
| Foreign exchange gains (losses)                                       |  |                       |                           |                 |                |                                      |                                    | (902,717,961)       |  |
| <b>Income before income tax</b>                                       |  |                       |                           |                 |                |                                      |                                    | 45,020,502,999      |  |
| Provision for income tax (Note 38)                                    |  |                       |                           |                 |                |                                      |                                    | 5,501,468,891       |  |
| <b>Net income</b>   |  |                       |                           |                 |                |                                      |                                    | ₱39,519,034,108     |  |
| <b>Net income attributable to equity holders of the Parent</b>        |  |                       |                           |                 |                |                                      |                                    |                     |  |
| Company   | ₱6,015,871,239                               | ₱5,316,821,268        | ₱7,338,007,677            | ₱5,991,258,470  | ₱184,325,780   | ₱4,581,345,354                       | (₱58,092,332)                      | ₱29,369,537,456     |  |
| <b>EBIT</b>   | ₱14,952,166,760                              | ₱10,134,278,023       | ₱8,562,414,443            | ₱6,518,388,803  | ₱355,398,353   | ₱11,210,239,430                      | ₱-                                 | ₱51,732,885,812     |  |
| Depreciation and amortization (Notes 15, 16, 18 and 33)               | 6,104,063,359                                | 6,839,363,607         | 3,914,114,101             | 1,697,187,358   | 285,278,308    | 96,732,527                           | -                                  | 18,936,739,260      |  |
| <b>EBITDA</b>   | ₱21,056,230,119                              | ₱16,973,641,630       | ₱12,476,528,544           | ₱8,215,576,161  | ₱640,676,661   | ₱11,306,971,957                      | ₱-                                 | ₱70,669,625,072     |  |
| <b>Other information</b>  |  |                       |                           |                 |                |                                      |                                    |                     |  |
| Non-cash expenses other than depreciation and amortization (Note 34): |  |                       |                           |                 |                |                                      |                                    |                     |  |
| Impairment losses on receivables (Note 11)                            | ₱18,553,155                                  | ₱173,269              | ₱-                        | ₱-              | ₱217,183,385   | ₱-                                   | ₱-                                 | ₱235,909,809        |  |
| Inventory obsolescence and market decline (Note 12)                   | 2,870,047                                    | -                     | -                         | -               | -              | -                                    | -                                  | 2,870,047           |  |
| Impairment losses on other assets                                     | -  | -                     | -                         | -               | 9,300,516      | -                                    | -                                  | 9,300,516           |  |
|   | ₱21,423,202                                  | ₱173,269              | ₱-                        | ₱-              | ₱226,483,901   | ₱-                                   | ₱-                                 | ₱248,080,372        |  |





December 31, 2016

|  | Foods,<br>Agro-Industrial<br>and Commodities | Air<br>Transportation | Real Estate<br>and Hotels | Petrochemicals  | Banking        | Other<br>Supplementary<br>Businesses | Adjustments<br>and<br>Eliminations | TOTAL<br>OPERATIONS |
|--|--|-----------------------|---------------------------|-----------------|----------------|--------------------------------------|------------------------------------|---------------------|
| <b>Revenue</b>   |  |                       |                           |                 |                |                                      |                                    |                     |
| Sale of goods and services:  |  |                       |                           |                 |                |                                      |                                    |                     |
| External customers   | ₱112,611,969,799                             | ₱61,899,278,892       | ₱22,750,417,221           | ₱29,070,077,332 | ₱3,412,187,119 | ₱551,082,564                         | ₱-                                 | ₱230,295,012,927    |
| Intersegment revenues  | -  | -                     | 37,495,297                | 889,958,295     | -              | -                                    | (927,453,592)                      | -                   |
| Dividend income (Note 28)  | 112,611,969,799                              | 61,899,278,892        | 22,787,912,518            | 29,960,035,627  | 3,412,187,119  | 551,082,564                          | (927,453,592)                      | 230,295,012,927     |
| Equity in net earnings of associates and joint ventures (Note 14)      | 12,813,084                                   | -                     | -                         | -               | 6,917,794      | 2,013,048,726                        | (1,199,410)                        | 2,031,580,194       |
| <b>Total revenue</b>   | (166,719,320)                                | 178,308,843           | 2,790,366,394             | -               | -              | 5,376,658,316                        | (2,088,117)                        | 8,176,526,116       |
| <b>Total revenue</b>   | 112,458,063,563                              | 62,077,587,735        | 25,578,278,912            | 29,960,035,627  | 3,419,104,913  | 7,940,789,606                        | (930,741,119)                      | 240,503,119,237     |
| Cost of sales and services (Note 30)                                   | 76,403,953,654                               | 34,262,194,205        | 11,011,098,421            | 22,753,221,449  | 696,840,597    |                                      | (1,033,072,080)                    | 144,094,236,246     |
| <b>Gross income</b>  | ₱36,054,109,909                              | ₱27,815,393,530       | ₱14,567,180,491           | ₱7,206,814,178  | ₱2,722,264,316 | ₱7,940,789,606                       | ₱102,330,961                       | ₱96,408,882,991     |
| General and administrative expenses (Note 31)                          |  |                       |                           |                 |                |                                      |                                    | 43,498,208,309      |
| Impairment losses and others (Note 34)                                 |  |                       |                           |                 |                |                                      |                                    | 640,717,050         |
| <b>Operating income</b>  |  |                       |                           |                 |                |                                      |                                    | 52,269,957,632      |
| Financing cost and other charges (Note 35)                             |  |                       |                           |                 |                |                                      |                                    | (7,461,996,870)     |
| Finance income (Note 27)   |  |                       |                           |                 |                |                                      |                                    | 1,161,245,053       |
| Other operating income (Note 29)                                       |  |                       |                           |                 |                |                                      |                                    | (487,955,842)       |
| <b>Core earnings</b>   |  |                       |                           |                 |                |                                      |                                    | 45,481,249,973      |
| Market valuation gains (losses) on financial assets                    |  |                       |                           |                 |                |                                      |                                    | (15,036,945,759)    |
| Foreign exchange gains (losses)  |  |                       |                           |                 |                |                                      |                                    | (2,638,787,064)     |
| <b>Income before income tax</b>  |  |                       |                           |                 |                |                                      |                                    | 27,805,517,150      |
| Provision for income tax (Note 38)                                     |  |                       |                           |                 |                |                                      |                                    | 5,437,906,633       |
| <b>Net income</b>  |  |                       |                           |                 |                |                                      |                                    | ₱22,367,610,517     |
| <b>Net income attributable to equity holders of the Parent Company</b> | ₱7,172,181,138                               | ₱6,549,733,816        | ₱6,294,414,833            | ₱5,125,794,521  | ₱153,989,567   | (₱14,312,364,434)                    | (₱65,770,516)                      | ₱10,917,978,925     |
| <b>EBIT</b>  | ₱15,759,516,726                              | ₱12,251,198,185       | ₱8,276,963,246            | ₱5,813,705,056  | ₱384,998,860   | ₱9,783,575,559                       | ₱-                                 | ₱52,269,957,632     |
| Depreciation and amortization (Notes 15, 16, 18 and 33)                | 5,645,120,618                                | 5,998,695,417         | 3,774,153,608             | 1,318,457,917   | 290,172,266    | 70,941,305                           | -                                  | 17,097,541,131      |
| <b>EBITDA</b>  | ₱21,404,637,344                              | ₱18,249,893,602       | ₱12,051,116,854           | ₱7,132,162,973  | ₱675,171,126   | ₱9,854,516,864                       | ₱-                                 | ₱69,367,498,763     |
| <b>Other information</b>   |  |                       |                           |                 |                |                                      |                                    |                     |
| Non-cash expenses other than depreciation and amortization (Note 34):  |  |                       |                           |                 |                |                                      |                                    |                     |
| Impairment losses on receivables (Note 11)                             | ₱10,144,972                                  | ₱-                    | ₱ 4,673                   | ₱-              | ₱138,969,094   | ₱300,000,000                         | ₱-                                 | ₱449,118,739        |
| Inventory obsolescence and market decline (Note 12)                    | 175,449,919                                  | -                     | -                         | -               | -              | -                                    | -                                  | 175,449,919         |
| Impairment losses on other assets                                      | -  | -                     | -                         | -               | 16,148,392     | -                                    | -                                  | 16,148,392          |
|  | ₱185,594,891                                 | ₱-                    | ₱4,673                    | ₱-              | ₱155,117,486   | ₱300,000,000                         | ₱-                                 | ₱640,717,050        |



December 31, 2015

|  | Foods,<br>Agro-Industrial<br>and Commodities | Air<br>Transportation | Real Estate<br>and Hotels | Petrochemicals  | Banking        | Other<br>Supplementary<br>Businesses | Adjustments<br>and<br>Eliminations | TOTAL<br>OPERATIONS |
|--|--|-----------------------|---------------------------|-----------------|----------------|--------------------------------------|------------------------------------|---------------------|
| Revenue  |  |                       |                           |                 |                |                                      |                                    |                     |
| Sale of goods and services:  |  |                       |                           |                 |                |                                      |                                    |                     |
| External customers   | ₱112,004,706,553                             | ₱56,501,654,516       | ₱20,298,039,549           | ₱26,780,296,575 | ₱2,968,940,306 | ₱558,258,619                         | ₱-                                 | ₱219,111,896,118    |
| Intersegment revenues  | -  | -                     | 32,563,971                | 964,757,683     | -              | -                                    | (997,321,654)                      | -                   |
| Dividend income (Note 28)  | 112,004,706,553                              | 56,501,654,516        | 20,330,603,520            | 27,745,054,258  | 2,968,940,306  | 558,258,619                          | (997,321,654)                      | 219,111,896,118     |
| Equity in net earnings of associates and joint ventures (Note 14)      | 22,806,476                                   | -                     | -                         | -               | 249,758        | 2,826,279,780                        | (1,142,295)                        | 2,848,193,719       |
|  | (248,426,814)                                | 35,418,498            | 2,507,485,422             | -               | -              | 5,015,199,674                        | 1,886,396                          | 7,311,563,176       |
| <b>Total revenue</b>   | 111,779,086,215                              | 56,537,073,014        | 22,838,088,942            | 27,745,054,258  | 2,969,190,064  | 8,399,738,073                        | (996,577,553)                      | 229,271,653,013     |
| Cost of sales and services (Note 30)                                   | 75,285,872,510                               | 33,251,909,025        | 9,374,307,866             | 23,439,025,606  | 615,766,210    | -                                    | (1,103,234,875)                    | 140,863,646,342     |
| <b>Gross income</b>  | ₱36,493,213,705                              | ₱23,285,163,989       | ₱13,463,781,076           | ₱4,306,028,652  | ₱2,353,423,854 | ₱8,399,738,073                       | ₱106,657,322                       | ₱88,408,006,671     |
| General and administrative expenses (Note 31)                          |  |                       |                           |                 |                |                                      |                                    | 38,677,396,939      |
| Impairment losses and others (Note 34)                                 |  |                       |                           |                 |                |                                      |                                    | 378,065,854         |
| <b>Operating income</b>  |  |                       |                           |                 |                |                                      |                                    | 49,352,543,878      |
| Financing cost and other charges (Note 35)                             |  |                       |                           |                 |                |                                      |                                    | (6,879,818,419)     |
| Finance income (Note 27)   |  |                       |                           |                 |                |                                      |                                    | 1,367,392,486       |
| Other operating income (Note 29)                                       |  |                       |                           |                 |                |                                      |                                    | 151,214,790         |
| <b>Core earnings</b>   |  |                       |                           |                 |                |                                      |                                    | 43,991,332,735      |
| Market valuation gains (losses) on financial assets                    |  |                       |                           |                 |                |                                      |                                    | (2,690,064,305)     |
| Foreign exchange gains (losses)  |  |                       |                           |                 |                |                                      |                                    | (4,136,883,267)     |
| <b>Income before income tax</b>  |  |                       |                           |                 |                |                                      |                                    | 37,164,385,163      |
| Provision for income tax (Note 38)                                     |  |                       |                           |                 |                |                                      |                                    | 4,488,982,473       |
| <b>Net income</b>  |  |                       |                           |                 |                |                                      |                                    | ₱32,675,402,690     |
| <b>Net income attributable to equity holders of the Parent Company</b> | ₱7,738,310,512                               | ₱2,949,733,870        | ₱6,137,260,108            | ₱3,155,702,482  | ₱64,002,113    | ₱2,663,457,053                       | (₱98,449,832)                      | ₱22,610,016,306     |
| <b>EBIT</b>  | ₱18,103,065,451                              | ₱9,700,220,805        | ₱7,923,848,911            | ₱3,191,887,809  | ₱239,896,904   | ₱10,193,623,998                      | ₱-                                 | ₱49,352,543,878     |
| Depreciation and amortization (Notes 15, 16, 18 and 33)                | 4,954,771,494                                | 5,111,543,725         | 3,203,353,347             | 1,016,593,005   | 219,954,653    | 41,962,769                           | -                                  | 14,548,178,993      |
| <b>EBITDA</b>  | ₱23,057,836,945                              | ₱14,811,764,530       | ₱11,127,202,258           | ₱4,208,480,814  | ₱459,851,557   | ₱10,235,586,767                      | ₱-                                 | ₱63,900,722,871     |
| <b>Other information</b>   |  |                       |                           |                 |                |                                      |                                    |                     |
| Non-cash expenses other than depreciation and amortization (Note 34):  |  |                       |                           |                 |                |                                      |                                    |                     |
| Impairment losses on receivables (Note 11)                             | ₱5,300,692                                   | ₱-                    | ₱1,629,711                | ₱-              | ₱244,696,803   | ₱7,786,052                           | ₱-                                 | ₱259,413,258        |
| Inventory obsolescence and market decline (Note 12)                    | 104,202,866                                  | -                     | -                         | -               | -              | -                                    | -                                  | 104,202,866         |
| Impairment losses on other assets                                      | -  | -                     | -                         | -               | 14,449,730     | -                                    | -                                  | 14,449,730          |
|  | ₱109,503,558                                 | ₱-                    | ₱1,629,711                | ₱               | ₱259,146,533   | ₱7,786,052                           | ₱-                                 | ₱378,065,854        |



Other information on the Group's operating segments follow:

December 31, 2017

|  | Foods,<br>Agro-Industrial<br>and Commodities | Air<br>Transportation | Real Estate<br>and Hotels | Petrochemicals  | Banking          | Other<br>Supplementary<br>Businesses | Adjustments<br>and Eliminations | Consolidated     |
|--|--|-----------------------|---------------------------|-----------------|------------------|--------------------------------------|---------------------------------|------------------|
| Investments in associates and joint ventures (Note 14) | ₱404,647,575                                 | ₱840,972,437          | ₱46,365,842,599           | ₱-              | ₱-               | ₱90,779,861,628                      | ₱-                              | ₱138,391,324,239 |
| Segment assets   | ₱147,493,293,568                             | ₱109,245,863,713      | ₱147,528,320,430          | ₱69,409,114,388 | ₱104,926,584,835 | ₱209,817,783,530                     | (₱49,114,026,661)               | ₱739,306,933,803 |
| Short-term debt (Note 23)                              | ₱5,164,505,591                               | ₱-                    | ₱15,693,400,000           | ₱5,714,393,097  | ₱-               | ₱19,275,514,773                      | ₱-                              | ₱45,847,813,461  |
| Long-term debt (Note 23)                               | ₱33,225,962,388                              | ₱40,982,210,752       | ₱35,661,162,154           | ₱-              | ₱-               | ₱71,817,479,372                      | ₱-                              | ₱181,686,814,666 |
| Segment liabilities                                    | ₱65,807,280,971                              | ₱69,761,176,242       | ₱80,155,702,670           | ₱15,302,675,696 | ₱92,833,429,203  | ₱111,870,754,089                     | (₱42,843,633,069)               | ₱392,887,385,802 |
| Capital expenditures (Notes 15 and 16)                 | ₱8,011,626,579                               | ₱14,776,336,747       | ₱23,851,531,485           | ₱3,090,406,047  | ₱229,685,485     | ₱104,674,277                         | (₱6,544,360,000)                | ₱43,519,900,620  |

December 31, 2016

|  | Foods,<br>Agro-Industrial<br>and Commodities | Air<br>Transportation | Real Estate<br>and Hotels | Petrochemicals  | Banking         | Other<br>Supplementary<br>Businesses | Adjustments<br>and Eliminations | Consolidated     |
|--|--|-----------------------|---------------------------|-----------------|-----------------|--------------------------------------|---------------------------------|------------------|
| Investments in associates and joint ventures (Note 14) | ₱301,582,060                                 | ₱805,801,372          | ₱42,613,725,137           | ₱-              | ₱-              | ₱84,231,127,139                      | ₱-                              | ₱127,952,235,708 |
| Segment assets   | ₱142,669,975,956                             | ₱100,665,363,677      | ₱123,330,412,832          | ₱63,016,837,736 | ₱77,854,969,207 | ₱215,598,681,564                     | (₱56,824,924,086)               | ₱666,311,316,886 |
| Short-term debt (Note 23)                              | ₱5,985,992,111                               | ₱-                    | ₱16,010,000,000           | ₱6,982,613,256  | ₱-              | ₱32,905,909,210                      | ₱-                              | ₱61,884,514,577  |
| Long-term debt (Note 23)                               | ₱31,366,592,785                              | ₱42,810,437,630       | ₱23,361,477,678           | ₱-              | ₱-              | ₱61,649,247,507                      | ₱-                              | ₱159,187,755,600 |
| Segment liabilities                                    | ₱63,777,329,559                              | ₱67,079,106,744       | ₱60,598,091,112           | ₱14,891,419,804 | ₱65,875,566,403 | ₱126,120,587,307                     | (₱44,814,639,244)               | ₱353,527,461,685 |
| Capital expenditures (Notes 15 and 16)                 | ₱7,657,219,437                               | ₱19,126,054,236       | ₱12,731,165,668           | ₱1,973,324,669  | ₱317,506,229    | ₱47,758,548                          | ₱-                              | ₱41,853,028,787  |

December 31, 2015

|  | Foods,<br>Agro-Industrial<br>and Commodities | Air<br>Transportation | Real Estate<br>and Hotels | Petrochemicals  | Banking         | Other<br>Supplementary<br>Businesses | Adjustments<br>and Eliminations | Consolidated     |
|--|--|-----------------------|---------------------------|-----------------|-----------------|--------------------------------------|---------------------------------|------------------|
| Investments in associates and joint ventures (Note 14) | ₱377,551,375                                 | ₱525,623,987          | ₱39,823,358,743           | ₱-              | ₱-              | ₱74,049,553,801                      | ₱-                              | ₱114,776,087,906 |
| Segment assets   | ₱117,636,749,631                             | ₱85,312,423,204       | ₱111,711,513,673          | ₱60,513,281,404 | ₱57,917,156,532 | 228,114,024,290                      | (₱64,873,169,746)               | ₱596,331,978,988 |
| Short-term debt (Note 23)                              | ₱5,277,377,299                               | ₱-                    | ₱9,264,330,600            | ₱11,444,378,840 | ₱-              | ₱8,897,869,735                       | ₱-                              | ₱34,883,956,474  |
| Long-term debt (Note 23)                               | ₱23,535,491,713                              | ₱36,588,985,492       | ₱21,840,457,665           | ₱-              | ₱-              | ₱84,517,251,974                      | ₱-                              | ₱166,482,186,844 |
| Segment liabilities                                    | ₱48,817,735,721                              | ₱60,289,945,007       | ₱53,266,770,642           | ₱17,449,925,835 | ₱45,939,887,788 | ₱124,465,736,317                     | (₱41,223,683,680)               | ₱309,006,317,630 |
| Capital expenditures (Notes 15 and 16)                 | ₱7,251,505,242                               | ₱13,047,934,091       | ₱14,003,122,388           | ₱4,402,650,161  | ₱312,837,720    | ₱10,585,122                          | ₱-                              | ₱39,028,634,724  |



Reconciliation of Income Before Income Tax to EBITDA and Core Earnings

|  | 2017                   | 2016            | 2015            |
|--|------------------------|-----------------|-----------------|
| Income before income tax   | <b>₱45,020,502,999</b> | ₱27,805,517,150 | ₱37,164,385,163 |
| Finance income   | <b>(1,243,424,967)</b> | (1,161,245,053) | (1,367,392,486) |
| Financing cost and other charges   | <b>7,836,137,934</b>   | 7,461,996,870   | 6,879,818,419   |
| Other operating income   | <b>(241,871,584)</b>   | 487,955,842     | (151,214,790)   |
| Market valuation losses (gains) on<br>financial assets at FVPL and<br>derivative financial instruments | <b>(541,176,531)</b>   | 15,032,420,017  | 2,690,064,305   |
| Foreign exchange losses  | <b>902,717,961</b>     | 2,643,312,806   | 4,136,883,267   |
| EBIT   | <b>51,732,885,812</b>  | 52,269,957,632  | 49,352,543,878  |
| Depreciation and amortization  | <b>18,936,739,260</b>  | 17,097,541,131  | 14,548,178,993  |
| <b>EBITDA</b>  | <b>₱70,669,625,072</b> | ₱69,367,498,763 | ₱63,900,722,871 |
| Income before income tax   | <b>₱45,020,502,999</b> | ₱27,805,517,150 | ₱37,164,385,163 |
| Market valuation losses (gains) on<br>financial assets at FVPL and<br>derivative financial instruments | <b>(541,176,531)</b>   | 15,032,420,017  | 2,690,064,305   |
| Foreign exchange losses  | <b>902,717,961</b>     | 2,643,312,806   | 4,136,883,267   |
| <b>Core earnings</b>   | <b>₱45,382,044,429</b> | ₱45,481,249,973 | ₱43,991,332,735 |



The table below presents the consolidated statement of financial position of the Group broken down between industrial and banking components:

|  | December 31, 2017       |                         |                         | December 31, 2016       |                        |                         |
|--|-------------------------|-------------------------|-------------------------|-------------------------|------------------------|-------------------------|
|  | Industrial*             | Banks*                  | Consolidated            | Industrial*             | Banks*                 | Consolidated            |
| <b>ASSETS</b>  |                         |                         |                         |                         |                        |                         |
| <b>Current Assets</b>                                  |                         |                         |                         |                         |                        |                         |
| Cash and cash equivalents                              | ₱29,519,716,475         | ₱24,816,578,714         | ₱54,336,295,189         | ₱23,288,706,821         | ₱20,121,435,146        | ₱43,410,141,967         |
| Financial assets at fair value through profit and loss | 14,308,998,010          | 48,134,331              | 14,357,132,341          | 14,697,498,896          | 2,650,398              | 14,700,149,294          |
| Available-for-sale investments                         | 2,273,071,015           | 19,195,024,564          | 21,468,095,579          | 3,705,074,227           | 11,762,550,145         | 15,467,624,372          |
| Receivables - net                                      | 28,582,733,808          | 19,031,459,759          | 47,614,193,567          | 28,085,322,312          | 16,784,915,722         | 44,870,238,034          |
| Inventories - net                                      | 52,536,364,842          | –                       | 52,536,364,842          | 49,702,679,594          | –                      | 49,702,679,594          |
| Biological assets - net                                | 1,180,266,509           | –                       | 1,180,266,509           | 920,226,312             | –                      | 920,226,312             |
| Other current assets                                   | 15,050,916,371          | 172,425,132             | 15,223,341,503          | 12,911,848,176          | 123,457,025            | 13,035,305,201          |
| <b>Total current assets</b>                            | <b>143,452,067,030</b>  | <b>63,263,622,500</b>   | <b>206,715,689,530</b>  | <b>133,311,356,338</b>  | <b>48,795,008,436</b>  | <b>182,106,364,774</b>  |
| <b>Noncurrent Assets</b>                               |                         |                         |                         |                         |                        |                         |
| Available-for-sale investments                         | 25,597,305,960          | –                       | 25,597,305,960          | 23,608,326,105          | –                      | 23,608,326,105          |
| Receivables - noncurrent                               | 3,775,948,572           | 38,873,763,507          | 42,649,712,079          | 2,799,254,419           | 22,048,530,776         | 24,847,785,195          |
| Held-to-maturity investments                           | –                       | –                       | –                       | –                       | 3,549,900,604          | 3,549,900,604           |
| Investments in associates and JVs - net                | 138,538,902,953         | –                       | 138,538,902,953         | 127,952,235,708         | –                      | 127,952,235,708         |
| Investments properties - net                           | 88,960,376,499          | 284,458,762             | 89,244,835,261          | 75,124,309,829          | 292,062,541            | 75,416,372,370          |
| Property, plant and equipment - net                    | 181,069,052,242         | 591,112,077             | 181,660,164,319         | 175,159,768,712         | 502,944,750            | 175,662,713,462         |
| Biological assets - bearer                             | 498,309,880             | –                       | 498,309,880             | 463,152,936             | –                      | 463,152,936             |
| Goodwill - net   | 31,778,856,937          | 244,327,006             | 32,023,183,943          | 31,778,856,937          | 244,327,006            | 32,023,183,943          |
| Intangibles - net                                      | 12,694,146,088          | 1,326,885,108           | 14,021,031,196          | 12,797,827,284          | 1,361,176,209          | 14,159,003,493          |
| Other noncurrents assets                               | 8,162,961,521           | 342,415,875             | 8,505,377,396           | 5,461,259,411           | 1,061,018,885          | 6,522,278,296           |
| <b>Total Noncurrent Assets</b>                         | <b>491,075,860,652</b>  | <b>41,662,962,335</b>   | <b>532,738,822,987</b>  | <b>455,144,991,341</b>  | <b>29,059,960,771</b>  | <b>484,204,952,112</b>  |
|  | <b>₱634,527,927,682</b> | <b>₱104,926,584,835</b> | <b>₱739,454,512,517</b> | <b>₱588,456,347,679</b> | <b>₱77,854,969,207</b> | <b>₱666,311,316,886</b> |

\*Balances are after elimination of intercompany balances between industrial and banking components



|   | December 31, 2017       |                        |                         | December 31, 2016       |                        |                         |
|---|-------------------------|------------------------|-------------------------|-------------------------|------------------------|-------------------------|
|   | Industrial*             | Banks*                 | Consolidated            | Industrial*             | Banks*                 | Consolidated            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>           |                         |                        |                         |                         |                        |                         |
| <b>Current liabilities</b>                            |                         |                        |                         |                         |                        |                         |
| Accounts payable and accrued expenses                 | ₱48,813,819,258         | ₱65,785,218,569        | ₱114,599,037,827        | ₱41,004,876,196         | ₱55,294,026,018        | ₱96,298,902,214         |
| Short-term debt                                       | 45,847,813,461          | –                      | 45,847,813,461          | 61,884,514,577          | –                      | 61,884,514,577          |
| Current portion of long-term debt                     | 5,728,469,720           | –                      | 5,728,469,720           | 6,826,230,309           | –                      | 6,826,230,309           |
| Derivative liabilities                                | 1,809,511,201           | –                      | 1,809,511,201           | –                       | 5,947,386              | 5,947,386               |
| Income tax payable                                    | –                       | –                      | –                       | 2,987,170,958           | 1,097,150              | 2,988,268,108           |
| Other current liabilities                             | 13,688,829,840          | 6,310,369              | 13,695,140,209          | 12,902,376,109          | 2,115,700              | 12,904,491,809          |
| Total current liabilities                             | 115,888,443,480         | 65,791,528,938         | 181,679,972,418         | 125,605,168,149         | 55,303,186,254         | 180,908,354,403         |
| <b>Noncurrent liabilities</b>                         |                         |                        |                         |                         |                        |                         |
| Long-term debt - net of current portion               | 175,958,344,946         | –                      | 175,958,344,946         | 152,361,525,291         | –                      | 152,361,525,291         |
| Deferred tax liabilities - net                        | 7,205,880,096           | –                      | 7,205,880,096           | 7,051,282,285           | –                      | 7,051,282,285           |
| Other noncurrent liabilities                          | 11,305,423,772          | 16,885,343,284         | 28,190,767,056          | 8,968,400,708           | 4,237,898,998          | 13,206,299,706          |
| Total noncurrent liabilities                          | 194,469,648,814         | 16,885,343,284         | 211,354,992,098         | 168,381,208,284         | 4,237,898,998          | 172,619,107,282         |
| Total Liabilities                                     | 310,358,092,294         | 82,676,872,222         | 393,034,964,516         | 293,986,376,433         | 59,541,085,252         | 353,527,461,685         |
| <b>Stockholders' equity</b>                           | <b>260,581,462,007</b>  | <b>7,255,893,379</b>   | <b>267,837,355,386</b>  | <b>232,327,880,163</b>  | <b>7,187,641,682</b>   | <b>239,515,521,845</b>  |
| <b>Minority interest in consolidated subsidiaries</b> | <b>73,744,930,362</b>   | <b>4,837,262,253</b>   | <b>78,582,192,615</b>   | <b>68,476,572,234</b>   | <b>4,791,761,122</b>   | <b>73,268,333,356</b>   |
|   | <b>₱644,684,484,663</b> | <b>₱94,770,027,854</b> | <b>₱739,454,512,517</b> | <b>₱594,790,828,830</b> | <b>₱71,520,488,056</b> | <b>₱666,311,316,886</b> |

\*Balances are after elimination of intercompany balances between industrial and banking components



### Intersegment Revenues

Intersegment revenues are eliminated at the consolidation level.

### Segment Results

Segment results pertain to the net income (loss) of each of the operating segments adjusted by the subsequent take up of significant transactions of operating segments with fiscal year-end and the capitalization of borrowing costs at the consolidated level for qualifying assets held by a certain subsidiary. The chief decision maker also uses the 'Core earnings', 'EBIT' and 'EBITDA' in measuring the performance of each of the Group's operating segments. The Group defines each of the operating segment's 'Core earnings' as the total of the 'Operating income', 'Finance income' and 'Other operating income' deducted by the 'Financing cost and other charges'. EBIT is equivalent to the Group's operating income while EBITDA is computed by adding back to the EBIT the depreciation and amortization expenses during the period. Depreciation and amortization include only the depreciation and amortization of plant and equipment, investment properties and intangible assets.

### Depreciation and amortization

In 2017, 2016 and 2015, the amount of reported depreciation and amortization includes depreciation for investment properties and property, plant and equipment, and amortization of intangible assets.

### Segment Assets

Segment assets are resources owned by each of the operating segments with the exclusion of intersegment balances, which are eliminated, and adjustment of significant transactions of operating segment with fiscal year-end.

### Segment Liabilities

Segment liabilities are obligations incurred by each of the operating segments excluding intersegment balances which are eliminated. The Group also reports, separately, to the chief operating decision maker the breakdown of the short-term and long-term debt of each of the operating segments.

### Capital Expenditures

The components of capital expenditures reported to the chief operating decision maker are the acquisitions of investment property and property, plant and equipment during the period, including those acquired through business combination.

### Geographical Information

The Group operates in the Philippines, Thailand, Malaysia, Indonesia, China, Hong Kong, Singapore, Vietnam, Myanmar, New Zealand and Australia.

The following table shows the distribution of the Group's consolidated revenues to external customers by geographical market, regardless of where the goods were produced:

|          | 2017                    | 2016             | 2015             |
|----------|-------------------------|------------------|------------------|
| Domestic | <b>₱176,285,141,889</b> | ₱163,546,437,410 | ₱152,281,564,567 |
| Foreign  | <b>97,160,313,018</b>   | 76,956,681,827   | 76,990,088,446   |
|          | <b>₱273,445,454,907</b> | ₱240,503,119,237 | ₱229,271,653,013 |

The Group has no significant customer which contributes 10.0% or more of the consolidated revenues of the Group.



The table below shows the Group's carrying amounts of noncurrent assets per geographic location excluding noncurrent financial assets, deferred tax assets and pension assets:

|          | 2017                    | 2016                    |
|----------|-------------------------|-------------------------|
| Domestic | ₱351,886,428,272        | ₱312,536,374,451        |
| Foreign  | 109,541,061,355         | 116,887,705,059         |
|          | <b>₱461,427,489,627</b> | <b>₱429,424,079,510</b> |

## 7. Cash and Cash Equivalents

This account consists of:

|                            | 2017                   | 2016                   |
|----------------------------|------------------------|------------------------|
| Cash on hand               | ₱1,803,114,479         | ₱2,115,114,050         |
| Cash in banks (Note 40)    | 29,672,232,553         | 24,507,650,528         |
| Cash equivalents (Note 40) | 22,860,948,157         | 16,787,377,389         |
|                            | <b>₱54,336,295,189</b> | <b>₱43,410,141,967</b> |

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents represent money market placements made for varying periods depending on the immediate cash requirements of the Group, and earn annual interest ranging from 0.05% to 6.50%, from 0.01% to 6.50% and from 0.05% to 6.50% in 2017, 2016 and 2015, respectively (Note 27).

## 8. Derivative Financial Instruments

The tables below show the fair value of the Group's outstanding derivative financial instruments, reported as assets or liabilities, together with their notional amounts as of December 31, 2017 and 2016. The notional amount is the basis upon which changes in the value of derivatives are measured.

|   | December 31, 2017              |                    |                                    |                                  |
|---|--------------------------------|--------------------|------------------------------------|----------------------------------|
|   | Notional Amounts (in Millions) |                    |                                    |                                  |
|   | US Dollar                      | New Zealand Dollar | Derivative Assets (Notes 9 and 13) | Derivative Liabilities (Note 22) |
| <b>Derivatives Not Designated as Accounting Hedges (Notes 9 and 22)</b>   |                                |                    |                                    |                                  |
| Freestanding:   |                                |                    |                                    |                                  |
| Zero cost collars*  |                                |                    | ₱454,400,088                       | ₱-                               |
| Interest rate swaps   | US\$ 250.0                     |                    | 13,464,723                         | -                                |
| Foreign currency swaps  | US\$17.1                       |                    | 32,870                             | 5,904,377                        |
|   |                                |                    | <b>₱467,897,681</b>                | <b>₱5,904,377</b>                |
| <b>Derivatives Designated as Accounting Hedges (Note 13)</b>              |                                |                    |                                    |                                  |
| Currency options  |                                | NZ\$28.2           | 11,023,146                         | -                                |
|   |                                |                    | <b>₱11,023,146</b>                 | <b>₱-</b>                        |
| <b>Presented in the consolidated statements of financial position as:</b> |                                |                    |                                    |                                  |
| Current   |                                |                    | ₱478,920,827                       | ₱5,904,377                       |
| Noncurrent  |                                |                    | ₱-                                 | ₱-                               |

\*Notional quantity amounted to 1,740,000 US barrels as of December 31, 2017





| December 31, 2016   |           |                    |                                    |                                  |
|---|-----------|--------------------|------------------------------------|----------------------------------|
| Notional Amounts (in Millions)  |           |                    |                                    |                                  |
|   | US Dollar | New Zealand Dollar | Derivative Assets (Notes 9 and 13) | Derivative Liabilities (Note 22) |
| <b>Derivatives Not Designated as Accounting Hedges (Notes 9 and 22)</b>   |           |                    |                                    |                                  |
| Freestanding:   |           |                    |                                    |                                  |
| Commodity swaps and zero cost collars*                                    |           |                    | ₱441,773,905                       | ₱-                               |
| Interest rate swaps   | US\$250.0 |                    | 35,760,812                         | -                                |
| Foreign currency swaps  | US\$71.0  |                    | 1,421,644                          | 5,947,386                        |
|   |           |                    | ₱478,956,361                       | ₱5,947,386                       |
| <b>Derivatives Designated as Accounting Hedges (Note 13)</b>              |           |                    |                                    |                                  |
| Currency options  |           | NZ\$28.2           | ₱26,800,472                        | -                                |
|   |           |                    | ₱26,800,472                        | ₱-                               |
| <b>Presented in the consolidated statements of financial position as:</b> |           |                    |                                    |                                  |
| Current   |           |                    | ₱505,756,833                       | ₱5,947,386                       |
| Noncurrent  |           |                    | -                                  | -                                |

\*Notional quantity amounted to 3,285,000 US barrels as of December 31, 2016

*Derivatives not designated as accounting hedges*

The Group's derivatives not designated as accounting hedges include transactions to take positions for risk management purpose.

- Commodity swaps and zero cost collars

CAI enters into fuel derivatives to manage its exposure to fuel price fluctuations. Such fuel derivatives are not designated as accounting hedges. The gains or losses on these instruments are accounted for directly as a charge against or credit to profit or loss. As of December 31, 2017 and 2016, CAI has outstanding fuel hedging transactions. The notional quantity is the amount of the derivatives' underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The swaps and collars can be exercised at various calculation dates with specified quantities on each calculation date. The collars have various maturity dates through December 31, 2019.

In 2017, 2016 and 2015, CAI recognized net changes in fair value of derivatives amounting to ₱135.9 million loss, ₱1.6 billion gain and ₱2.9 billion loss, respectively under 'Market valuation gains (losses) on derivative financial instruments' account in the consolidated statements of comprehensive income.

- Interest rate swap

On December 18, 2012, the JGSPL entered into an interest rate swap transaction with a notional amount of US\$250.0 million effective January 16, 2013. The swap is intended to hedge the interest rate exposure due to the movements in the benchmark LIBOR on the US\$ 250.0 million JGSPL 5-year Guaranteed Notes. In October 2016, JGSPL prepaid the notes and de-designated the interest rate swap as a cashflow hedge of the related notes. Accordingly, the changes in the fair value of the interest rate swap accumulated in other comprehensive income was recycled to profit or loss in 2016. In 2017, JGSPL recognized net changes in fair value of derivatives amounting to ₱22.7 million loss and ₱34.1 million gain, respectively.



- Foreign currency forwards

In 2015, URC entered into a foreign currency forwards arrangement with notional amount of NZ\$322.3 million and recognized change in fair value of the instrument amounting to ₪578.1 million during the year. On April 6, 2016, URC settled the foreign currency forward with carrying value of NZ\$22.1 million (₪694.7 million). The Group recognized total mark-to-market gains of NZ\$27.2 million (₪847.0 million).

In 2017, 2016 and 2015, CAI entered into foreign currency derivative contracts which were pre-terminated in the same year, where it recognized realized gain of ₪14.1 million, ₪6.7 million and ₪14.6 million, respectively. The realized gain is recognized under 'Market valuation gains (losses) on derivative financial instruments - net' account in the consolidated statements of comprehensive income.

- Foreign currency swaps

In 2017, RBC entered into foreign currency swap transactions with positive and negative fair values of ₪0.03 million and ₪5.9 million, respectively as of December 31, 2017. In 2016, RBC entered into foreign currency swap transactions with positive and negative fair values of ₪1.4 million and ₪5.9 million, respectively as of December 31, 2016. In 2017, 2016 and 2015, RBC recognized net changes in fair value of derivatives amounting to ₪15.3 million gain, ₪12.3 million gain and nil, respectively.

*Derivatives designated as accounting hedges*

As part of its asset and liability management, the Group uses derivatives, particularly interest rate swaps and currency options, as cash flow hedges in order to reduce its exposure to market risks that is achieved by hedging portfolios of floating rate financial instruments.

The accounting treatment explained in Note 2 to the consolidated financial statements, *Hedge Accounting*, varies according to the nature of the hedged item and compliance with the hedge criteria. Hedges entered into by the Group which provide economic hedges but do not meet the hedge accounting criteria are included under derivatives not designated as accounting hedges.

- Currency options

The Group's currency options have a total notional amount of NZD28.2 million with positive fair value amounting to ₪11.0 million and ₪26.8 million as of December 31, 2017 and 2016, respectively. The swap is intended to hedge the foreign currency denominated future purchases and cash outflows of the Company.

Hedge Effectiveness Results

The hedge is assessed to be effective as the critical terms of the hedging instrument match the terms of the hedged item.



Fair value changes in derivatives

*Fair value changes of derivatives designated as accounting hedges*

The net movements in fair value of the Group's derivative financial instruments designated as accounting hedges follow:

|  | 2017                | 2016         |
|--|---------------------|--------------|
| Beginning balance  | <b>₱26,800,472</b>  | ₱37,358,957  |
| Net changes shown in other comprehensive income (Note 36):                   |                     |              |
| Net changes in fair value of derivatives taken to other comprehensive income | <b>(11,359,660)</b> | 16,103,892   |
| Fair value of dedesignated derivative recycled to profit or loss             | –                   | (34,166,517) |
|  | <b>(11,359,660)</b> | (18,062,625) |
| Fair value of settled instruments  | <b>(4,417,666)</b>  | 7,504,140    |
|  | <b>(15,777,326)</b> | (10,558,485) |
|  | <b>₱11,023,146</b>  | ₱26,800,472  |

Net changes in fair value of derivatives taken to other comprehensive income are recorded under 'Net gains (losses) from cash flow hedges' in the consolidated statement of comprehensive income.

*Fair value changes of derivatives not designated as accounting hedges*

The net movements in fair value of the Group's derivative financial instruments not designated as accounting hedges follow:

|  | 2017                 | 2016            |
|--|----------------------|-----------------|
| Balance at beginning of year:  |                      |                 |
| Derivative assets  | <b>₱478,956,361</b>  | ₱580,568,726    |
| Derivative liabilities   | <b>(5,947,386)</b>   | (2,443,495,138) |
|  | <b>473,008,975</b>   | (1,862,926,412) |
| Net gains (losses) from changes in fair value of derivatives taken to profit or loss | <b>(139,886,091)</b> | 1,734,360,262   |
| Fair value of settled instruments  | <b>128,870,420</b>   | 601,575,125     |
|  | <b>₱461,993,304</b>  | ₱473,008,975    |
| Balance at end of year:  |                      |                 |
| Derivative assets  | <b>₱467,897,681</b>  | ₱478,956,361    |
| Derivative liabilities   | <b>₱5,904,377</b>    | ₱5,947,386      |

The net changes in fair value of derivatives taken to profit or loss are included under 'Market valuation gains (losses) on derivative financial instruments' in the consolidated statements of comprehensive income, except for the foreign currency swaps of RBC, where the net changes in fair value are taken to profit or loss under 'Trading and securities gains' (see Note 26).



## 9. Financial Assets at Fair Value through Profit or Loss

This account consists of the following:

|                                | 2017                   | 2016            |
|--------------------------------|------------------------|-----------------|
| Debt securities:               |                        |                 |
| Private                        | <b>₱8,105,659,667</b>  | ₱9,719,180,330  |
| Government                     | <b>1,794,792,865</b>   | 1,722,743,531   |
|                                | <b>9,900,452,532</b>   | 11,441,923,861  |
| Equity securities:             |                        |                 |
| Quoted                         | <b>2,112,003,350</b>   | 2,779,265,343   |
| Unquoted                       | <b>3,745</b>           | 3,729           |
|                                | <b>2,112,007,095</b>   | 2,779,269,072   |
| Investment in convertible note | <b>1,876,775,033</b>   | -               |
| Derivatives (Note 8)           | <b>467,897,681</b>     | 478,956,361     |
|                                | <b>₱14,357,132,341</b> | ₱14,700,149,294 |

On April 13, 2017, JGSPL invested in a convertible note from Sea Limited in the amount of US\$25.0 million (or ₱1.3 billion). The Principal Amount excluding any accrued and unpaid interest may be converted into fully paid and non-assessable voting ordinary shares of Sea Limited. As of December 31, 2017, unrealized gain on the investment in convertible note recognized amounted to ₱0.6 billion.

As of December 31, 2017 and 2016, unrealized gain on debt securities recognized amounted to ₱157.7 million and ₱35.9 million, respectively.

As of December 31, 2017 and 2016, unrealized loss on equity securities recognized amounted to ₱95.7 million and ₱93.6 million, respectively.

In 2017, 2016 and 2015, the Group recognized net market valuation gains (losses) on financial assets at FVPL (excluding derivatives) amounting to ₱696.4 million, (₱57.7 million) and (₱337.0 million), respectively, included under 'Market valuation gains (losses) on financial assets at fair value through profit or loss' in the consolidated statements of comprehensive income.

Interest income on financial assets at FVPL consists of (see Note 27):

|                  | 2017                | 2016         | 2015         |
|------------------|---------------------|--------------|--------------|
| Debt securities: |                     |              |              |
| Private          | <b>₱536,802,342</b> | ₱528,821,679 | ₱583,323,027 |
| Government       | <b>113,969,006</b>  | 110,301,242  | 142,739,992  |
|                  | <b>₱650,771,348</b> | ₱639,122,921 | ₱726,063,019 |



## 10. Available-for-Sale and Held-to-Maturity Investments

### Available-for-Sale Investments

This account consists of investments in:

|                    | 2017                   | 2016            |
|--------------------|------------------------|-----------------|
| Debt securities:   |                        |                 |
| Government         | <b>₱13,830,643,531</b> | ₱9,580,344,650  |
| Private            | <b>7,202,581,682</b>   | 4,233,057,221   |
|                    | <b>21,033,225,213</b>  | 13,813,401,871  |
| Equity securities: |                        |                 |
| Quoted             | <b>26,007,882,955</b>  | 25,238,255,235  |
| Unquoted           | <b>24,293,371</b>      | 24,293,371      |
|                    | <b>26,032,176,326</b>  | 25,262,548,606  |
|                    | <b>₱47,065,401,539</b> | ₱39,075,950,477 |

Breakdown of AFS investments as shown in the consolidated statements of financial position follows:

|                    | 2017                   | 2016            |
|--------------------|------------------------|-----------------|
| Current portion    | <b>₱21,468,095,579</b> | ₱15,467,624,372 |
| Noncurrent portion | <b>25,597,305,960</b>  | 23,608,326,105  |
|                    | <b>₱47,065,401,539</b> | ₱39,075,950,477 |

The Group has classified its remaining 17.3 million PLDT shares representing 8.0% ownership interest as AFS investments which have a carrying values of ₱25.6 billion, ₱23.6 billion and ₱35.6 billion as of December 31, 2017, 2016 and 2015, respectively.

In 2016, the Group recognized impairment losses on its AFS investments amounting to ₱16.7 billion. No impairment in value of its AFS investments was recognized in 2017 and 2015.

Interest income on AFS debt securities follows (see Note 27):

|                  | 2017                | 2016         | 2015         |
|------------------|---------------------|--------------|--------------|
| Debt securities: |                     |              |              |
| Government       | <b>₱458,963,998</b> | ₱331,913,646 | ₱330,565,210 |
| Private          | <b>370,841,736</b>  | 200,960,934  | 169,913,035  |
|                  | <b>₱829,805,734</b> | ₱532,874,580 | ₱500,478,245 |



The movements in net unrealized gains (losses) on AFS investments follow:

|  | 2017             |                           |                  |
|--|------------------|---------------------------|------------------|
|  | Parent Company   | Non-controlling Interests | Total            |
| Balance at beginning of year   | (₱596,224,679)   | (₱119,301,795)            | (₱715,526,474)   |
| Net changes shown in other comprehensive income (Note 36):   |                  |                           |                  |
| Fair value changes during the period on AFS investments of the Parent Company and its subsidiaries | 1,855,132,262    | (80,951,614)              | 1,774,180,648    |
| Realized gain on sale of AFS investments (Note 29)   | (14,747,467)     | –                         | (14,747,467)     |
|  | 1,840,384,795    | (80,951,614)              | 1,759,433,181    |
| Share in net changes in fair value of AFS investments of an associate (Note 14)                    | 24,394,385       | –                         | 24,394,385       |
| Balance at end of year   | ₱1,268,554,501   | (₱200,253,409)            | ₱1,068,301,092   |
|  |                  |                           |                  |
|  | 2016             |                           |                  |
|  | Parent Company   | Non-controlling Interests | Total            |
| Balance at beginning of year   | (₱4,984,560,896) | (₱4,142,032)              | (₱4,988,702,928) |
| Net changes shown in other comprehensive income (Note 36):   |                  |                           |                  |
| Fair value changes during the period on AFS investments of the Parent Company and its subsidiaries | (12,220,137,282) | (115,159,763)             | (12,335,297,045) |
| Realized (gain) on sale of AFS investments (Note 29)   | (452,510)        | –                         | (452,510)        |
| Reclassification of unrealized loss to profit or loss due to impairment                            | 16,713,629,844   | –                         | 16,713,629,844   |
|  | 4,493,040,052    | (115,159,763)             | 4,377,880,289    |
| Share in net changes in fair value of AFS investments of an associate (Note 14)                    | (104,703,835)    | –                         | (104,703,835)    |
| Balance at end of year   | (₱596,224,679)   | (₱119,301,795)            | (₱715,526,474)   |
|  |                  |                           |                  |
|  | 2015             |                           |                  |
|  | Parent Company   | Non-controlling Interests | Total            |
| Balance at beginning of year   | ₱9,855,437,008   | ₱89,716,046               | ₱9,945,153,054   |
| Net changes shown in other comprehensive income (Note 36):   |                  |                           |                  |
| Fair value changes during the period on AFS investments of the Parent Company and its subsidiaries | (14,837,369,077) | (93,858,078)              | (14,931,227,155) |
| Realized (gain) on sale of AFS investments (Note 29)   | (898,183)        | –                         | (898,183)        |
|  | (14,838,267,260) | (93,858,078)              | (14,932,125,338) |
| Share in net changes in fair value of AFS investments of an associate (Note 14)                    | (1,730,644)      | –                         | (1,730,644)      |
| Balance at end of year   | (₱4,984,560,896) | (₱4,142,032)              | (₱4,988,702,928) |

#### Held-to-Maturity Investment

In 2017, RBC disposed portion of its HTM investments with carrying value of ₱300.0 million for a total consideration of ₱308.9 million. Total trading gains on disposal of these HTM investments amounted to ₱8.9 million, included in 'Trading and securities gain' (Note 26). Accordingly, the remaining HTM investments portfolio of the Group with carrying values amounting to ₱3.2 billion and ₱3.0 billion, respectively, were reclassified to AFS investments and carried at fair value amounting to ₱3.2 billion and ₱3.0 billion, respectively.



Interest income on HTM debt securities amounted to ₱23.7 million and ₱170.4 million, respectively (see Note 27).

## 11. Receivables

This account consists of:

|                                      | 2017                   | 2016            |
|--------------------------------------|------------------------|-----------------|
| Finance receivables                  | <b>₱57,465,698,853</b> | ₱38,928,503,801 |
| Trade receivables                    | <b>28,389,587,453</b>  | 26,798,683,841  |
| Due from related parties (Note 40)   | <b>1,606,771,071</b>   | 1,417,510,849   |
| Interest receivable                  | <b>882,182,402</b>     | 757,193,234     |
| Other receivables                    | <b>3,690,087,848</b>   | 3,518,999,345   |
|                                      | <b>92,034,327,627</b>  | 71,420,891,070  |
| Less allowance for impairment losses | <b>1,770,421,981</b>   | 1,702,867,841   |
|                                      | <b>₱90,263,905,646</b> | ₱69,718,023,229 |

Total receivables shown in the consolidated statements of financial position follow:

|                    | 2017                   | 2016            |
|--------------------|------------------------|-----------------|
| Current portion    | <b>₱47,614,193,567</b> | ₱44,870,238,034 |
| Noncurrent portion | <b>42,649,712,079</b>  | 24,847,785,195  |
|                    | <b>₱90,263,905,646</b> | ₱69,718,023,229 |

Noncurrent receivables consist of:

|                     | 2017                   | 2016            |
|---------------------|------------------------|-----------------|
| Finance receivables | <b>₱38,873,763,507</b> | ₱22,048,530,776 |
| Trade receivables   | <b>3,775,948,572</b>   | 2,799,254,419   |
|                     | <b>₱42,649,712,079</b> | ₱24,847,785,195 |

### Finance Receivables

Breakdown of finance receivables, which represent receivables from customers of RBC and its subsidiary, follows:

|                                      | 2017                   | 2016            |
|--------------------------------------|------------------------|-----------------|
| Receivables from customers:          |                        |                 |
| Commercial                           | <b>₱40,925,026,335</b> | ₱27,911,987,226 |
| Real estate                          | <b>9,430,388,922</b>   | 5,762,119,652   |
| Consumption                          | <b>6,847,265,413</b>   | 5,145,940,300   |
| Domestic bills purchased             | <b>498,529,953</b>     | 139,455,175     |
|                                      | <b>57,701,210,623</b>  | 38,959,502,353  |
| Less unearned interest and discounts | <b>235,511,770</b>     | 30,998,552      |
|                                      | <b>₱57,465,698,853</b> | ₱38,928,503,801 |



Interest income on finance receivables and sales contract receivable included under 'Banking revenue' in profit or loss in the consolidated statements of comprehensive income, consists of (see Notes 26 and 27):

|                             | 2017                  | 2016           | 2015           |
|-----------------------------|-----------------------|----------------|----------------|
| Receivables from customers: |                       |                |                |
| Commercial                  | <b>₱1,691,903,926</b> | ₱1,062,179,726 | ₱957,872,797   |
| Consumption                 | <b>1,016,984,816</b>  | 944,289,657    | 716,822,261    |
| Real estate                 | <b>480,287,737</b>    | 314,683,992    | 376,084,516    |
| Domestic bills purchased    | <b>304,453</b>        | 455,965        | 482,050        |
| Others                      | <b>4,705,429</b>      | 12,526,920     | 7,628,865      |
|                             | <b>₱3,194,186,361</b> | ₱2,334,136,260 | ₱2,058,890,489 |

Others consist of sales contract receivables and lease receivables.

Restructured receivables which do not meet the requirements to be treated as performing receivables are considered as nonperforming loans. Restructured receivables as of December 31, 2017 and 2016 amounted to ₱314.5 million and ₱348.0 million, respectively.

#### Trade Receivables

Included in trade receivables are installment contract receivables of the real estate segment of the Group amounting to ₱6.9 billion and ₱7.5 billion as of December 31, 2017 and 2016. These are collectible in monthly installments over a period of between one year to five years and earn annual interest ranging from 12.0% to 21.0% computed on the diminishing balance of the principal. The title of the real estate property, which is the subject of the installment contract receivable due beyond 12 months, passes to the buyer once the receivable is fully paid. Revenue from real estate and hotels includes interest income earned from installment contract receivables amounting to ₱1.7 billion, ₱476.6 million and ₱541.4 million in 2017, 2016 and 2015, respectively, and is recorded under the 'Sale of goods and services' of real estate segment on the consolidated statements of comprehensive income.

Other trade receivables are noninterest-bearing and generally have 30 to 90-day terms.

#### Others

Other receivables include claims receivables and other non-trade receivables. As of December 31, 2017 and 2016, claims receivables amounted to ₱1.6 billion and ₱2.0 billion, respectively.

#### Allowance for Impairment Losses on Receivables

Changes in the allowance for impairment losses on receivables follow:

|   | December 31, 2017     |                     |                     |                       |                     |                     |                       |
|---|-----------------------|---------------------|---------------------|-----------------------|---------------------|---------------------|-----------------------|
|   | Individual Assessment |                     |                     | Collective Assessment |                     |                     | Total                 |
|   | Trade Receivables     | Finance Receivables | Other Receivables   | Trade Receivables     | Finance Receivables | Other Receivables   |                       |
| Balance at beginning of year              | <b>₱527,586,044</b>   | <b>₱433,040,294</b> | <b>₱239,988,527</b> | <b>₱32,561,291</b>    | <b>₱352,103,027</b> | <b>₱117,588,658</b> | <b>₱1,702,867,841</b> |
| Provision for impairment losses (Note 34) | 18,726,424            | -                   | -                   | -                     | 193,565,277         | 18,876,157          | 231,167,858           |
| Accounts written-off                      | (7,786,052)           | -                   | -                   | -                     | -                   | -                   | (7,786,052)           |
| Unrealized foreign exchange gains         | 6,487,481             | -                   | -                   | -                     | -                   | -                   | 6,487,481             |
| Reclassification/Others                   | (22,125,767)          | (38,501,691)        | 31,274,954          | -                     | (89,996,982)        | (42,965,661)        | (162,315,147)         |
| Balance at end of year                    | <b>₱522,888,130</b>   | <b>₱394,538,603</b> | <b>₱271,263,481</b> | <b>₱32,561,291</b>    | <b>₱455,671,322</b> | <b>₱93,499,154</b>  | <b>₱1,770,421,981</b> |





December 31, 2016

|   | Individual Assessment |                     |                   | Collective Assessment |                     |                   | Total          |
|---|-----------------------|---------------------|-------------------|-----------------------|---------------------|-------------------|----------------|
|   | Trade Receivables     | Finance Receivables | Other Receivables | Trade Receivables     | Finance Receivables | Other Receivables |                |
| Balance at beginning of year              | ₱527,395,204          | ₱526,316,821        | ₱239,988,527      | ₱32,561,291           | ₱173,882,538        | ₱117,588,658      | ₱1,617,733,039 |
| Provision for impairment losses (Note 34) | 10,149,645            | 68,344,598          | 300,000,000       | –                     | 70,624,496          | –                 | 449,118,739    |
| Accounts written-off                      | (24,878,644)          | (4,985,000)         | (300,000,000)     | –                     | –                   | –                 | (329,863,644)  |
| Unrealized foreign exchange gains         | 14,919,839            | –                   | –                 | –                     | –                   | –                 | 14,919,839     |
| Reclassification/Others                   | –                     | (156,636,125)       | –                 | –                     | 107,595,993         | –                 | (49,040,132)   |
| Balance at end of year                    | ₱527,586,044          | ₱433,040,294        | ₱239,988,527      | ₱32,561,291           | ₱352,103,027        | ₱117,588,658      | ₱1,702,867,841 |

Provision for impairment losses on receivables for the year ended December 31, 2017, 2016 and 2015 amounted to ₱231.2 million, ₱449.1 million and ₱259.4 million, respectively.

## 12. Inventories

This account consists of inventories at cost held as follows:

|  | 2017                   | 2016            |
|--|------------------------|-----------------|
| Subdivision land, condominium and residential units for sale | <b>₱26,606,139,436</b> | ₱25,643,036,168 |
| Spare parts, packaging materials and other supplies          | <b>8,983,460,406</b>   | 7,582,920,709   |
| Raw materials  | <b>9,640,292,896</b>   | 8,879,578,308   |
| Finished goods   | <b>6,323,116,493</b>   | 6,545,414,718   |
| Work-in-process  | <b>976,357,941</b>     | 1,050,961,612   |
| By-products  | <b>6,997,670</b>       | 768,079         |
|  | <b>₱52,536,364,842</b> | ₱49,702,679,594 |

Summary of the movements in real estate inventory follows:

|  | 2017                   | 2016            |
|--|------------------------|-----------------|
| Balance at beginning of year   | <b>₱25,643,036,168</b> | ₱25,999,400,711 |
| Construction and development costs incurred  | <b>5,160,712,394</b>   | 3,782,144,704   |
| Costs of real estate sales (Note 30)   | <b>(3,143,037,387)</b> | (4,138,509,247) |
| Transfers from (to) investment properties and property and equipment (Notes 15 and 16) | <b>(1,054,571,739)</b> | –               |
| Balance at end of year   | <b>₱26,606,139,436</b> | ₱25,643,036,168 |

Borrowing cost capitalized amounted to ₱490.0 million and ₱474.0 million in 2017 and 2016, respectively. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization in 2017 and 2016 is 4.02% and 3.87%, respectively. This amount was included in the construction and development costs incurred.

Under the terms of agreements covering liabilities under trust receipts amounting to ₱2.95 billion and ₱4.6 billion as of December 31, 2017 and 2016, respectively, inventories of equivalent amount with the liabilities under trust receipts have been released to the Group in trust for the creditor banks (see Note 23). The Group is accountable to the banks for the value of the trustee inventories or their sales proceeds.



The Group recognized impairment losses on its inventories included under 'Impairment losses and others' amounting to ₱2.9 million, ₱175.4 million and ₱104.2 million in 2017, 2016 and 2015, respectively (see Note 34).

As of December 31, 2017 and 2016, the Group does not have inventories that were pledged as collaterals.

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### 13. Other Current Assets

This account consists of:

|   | 2017                   | 2016            |
|---|------------------------|-----------------|
| Input value-added tax (VAT)                       | <b>₱5,600,375,496</b>  | ₱4,650,668,245  |
| Advances to suppliers                             | <b>4,645,579,635</b>   | 4,413,834,474   |
| Advances to lot owners and joint operations       | <b>1,884,161,701</b>   | 1,636,442,295   |
| Prepaid expenses                                  | <b>1,767,150,037</b>   | 1,377,863,336   |
| Creditable withholding tax                        | <b>1,203,616,654</b>   | 817,547,531     |
| Derivative assets under hedge accounting (Note 8) | <b>11,023,146</b>      | 26,800,472      |
| Utility deposits                                  | <b>9,989,072</b>       | 7,261,546       |
| Restricted cash                                   | <b>4,257,265</b>       | 81,436,823      |
| Others  | <b>97,188,497</b>      | 23,450,479      |
|   | <b>₱15,223,341,503</b> | ₱13,035,305,201 |

#### Input VAT

As of December 31, 2017 and 2016, the gross amount of output VAT deducted from input VAT amounted to ₱17.8 billion and ₱12.7 billion, respectively. The Group believes that the amount of input VAT is fully realizable in the future.

#### Advances to Suppliers

Advances to suppliers include advance payments for the acquisition of raw materials, spare parts, packaging materials and other supplies. Also included in the account are advances made to contractors related to construction activities and for the purchase of various aircraft parts and service maintenance for regular maintenance and restoration costs of aircraft. These are applied against progress and final billings which occur within one year from the date the advances arose.

#### Advances to Lot Owners and Joint Operations

Advances to lot owners consist of advance payments to land owners which will be applied against the acquisition cost of the real properties that will be acquired. The application is expected to be within twelve (12) months after the reporting date.

This also includes deposit to various joint operations partners representing share in an ongoing real estate development which will be liquidated at the end of the joint venture agreement. This deposit will be realized through RLC's share in the completed units or share in the sales proceeds of the units, depending on the agreement with the other party.



*Interest in joint projects with Harbour Land Realty and Development Corp and Federal Land, Inc. (Jointly Controlled Operations)*

On February 7, 2011, the Parent Company entered into a joint venture agreement with Harbour Land Realty and Development Corp (HLRD) and Federal Land, Inc. (FLI) to develop a project called Axis Residences located along Pioneer Street in Mandaluyong City. The construction of the planned 2-phase residential condominium has commenced in March 2012. One tower of first phase was completed on September 2015.

The agreed contributions of the parties follow:

- a. RLC: Road lot valued at ₱0.1 billion and development costs amounting ₱1.4 billion
- b. FLI: Development costs amounting to ₱0.8 billion
- c. HLRD, an affiliate of FLI: Four (4) adjoining parcels of land valued at ₱0.7 billion located along Pioneer St., Mandaluyong City, 21,109 sqm.

Further, the sharing of saleable units (inventories) of real estate revenue, cost of real estate sales and any common expenses incurred, are as follows: RLC: 50.00%; FLI: 50.00%.

On December 6, 2017, RLC executed an addendum agreement with HLPDC and FLI to discontinue the development of Phase II.

The following were the agreements included in the addendum:

- a. The development of the Project shall be limited to Phase I;
- b. The discontinuance shall be without fault on either of the Parties. Accordingly, HLPDC and FLI shall reimburse RLC the amount of ₱193 million representing the non-development of four (4) towers of Phase II;
- c. Ownership and right of possession of the parcels of land corresponding to Phase II shall remain to be with HLPDC and shall be excluded from the provisions of the JVA.
- d. The perpetual right to use RLC's land contribution is limited to Phase I and to the adjacent properties owned by HLPDC, FLI or its affiliates.

Prepaid Expenses

This account consists of prepayments on rent, insurance, taxes, and office supplies.

Restricted cash

RLC has restricted cash - escrow which pertains to cash placed in escrow funds earmarked for the acquisition of parcels of land, pursuant to the memorandum of agreement (MOA) with various sellers. Said amount shall be released to the sellers upon fulfillment of certain conditions set forth in MOA.

Deposit to Counterparties

Deposit to counterparties pertains to collateral deposits provided to counterparties for fuel hedging transactions.



#### 14. Investments in Associates and Joint Ventures

Details of this account follow:

|   | 2017             | 2016             |
|---|------------------|------------------|
| Acquisition cost:   |                  |                  |
| Balance at beginning of year  | ₱107,169,574,445 | ₱94,487,165,622  |
| Additional investments  | 7,963,398,152    | 12,682,408,823   |
| Balance at end of year  | 115,132,972,597  | 107,169,574,445  |
| Accumulated equity in net earnings:   |                  |                  |
| Balance at beginning of year  | 20,291,989,192   | 20,452,778,905   |
| Equity in net earnings  | 10,056,296,620   | 8,176,526,116    |
| Dividends received  | (7,164,697,676)  | (8,337,315,829)  |
| Balance at end of year  | 23,183,588,136   | 20,291,989,192   |
| Share in net unrealized gains (losses) on AFS investments of an associate:                |                  |                  |
| Balance at beginning of year  | (103,212,591)    | 1,491,244        |
| Share in net changes in fair value of AFS investments of an associate (Notes 10 and 36)   | 24,394,385       | (104,703,835)    |
| Balance at end of year  | (78,818,206)     | (103,212,591)    |
| Share in remeasurements of the net defined benefit liability of associates:               |                  |                  |
| Balance at beginning of year  | 525,146,569      | 624,084          |
| Share in net changes in remeasurements of the net defined benefit liability of associates | (326,973,548)    | 524,522,485      |
|   | 198,173,021      | 525,146,569      |
| Cumulative translation adjustment of associates   | 400,437,802      | 366,188,490      |
|   | 138,836,353,350  | 128,249,686,105  |
| Less allowance for impairment losses  | 297,450,397      | 297,450,397      |
|   | ₱138,538,902,953 | ₱127,952,235,708 |

Equity in net earnings amounting to ₱10.1 billion in 2017 excludes the excess of the share in net loss over the investment in a joint venture amounting to ₱147.6 million (presented in 'Other noncurrent liabilities).

The composition of the carrying value of the Group's investments in associates and joint ventures and the related percentages of effective ownership interest are shown below:

|  | Effective Ownership |       | Carrying Value     |           |
|--|---------------------|-------|--------------------|-----------|
|  | 2017                | 2016  | 2017               | 2016      |
|  |                     |       | (In Million Pesos) |           |
| <b>Associates</b>                                |                     |       |                    |           |
| Domestic:  |                     |       |                    |           |
| Manila Electric Company (Meralco)                | 29.56               | 27.12 | ₱77,668.6          | ₱71,243.8 |
| Global Business Power Corporation (GBPC)         | 30.00               | 30.00 | 12,223.4           | 12,180.5  |
| Oriental Petroleum and Mining Corporation (OPMC) | 19.40               | 19.40 | 743.0              | 731.0     |
| Cebu Light Industrial Park, Inc. (CLIP)          | 20.00               | 20.00 | 68.2               | 72.0      |
| Foreign:   |                     |       |                    |           |
| United Industrial Corp., Limited (UICL)          | 37.06               | 37.03 | 46,365.8           | 42,613.7  |
| Air Black Box (ABB)                              | 10.09               | 10.09 | 43.7               | 43.7      |
|  |                     |       | 137,112.7          | 126,884.7 |



|  | Effective Ownership |       | Carrying Value    |                   |
|--|---------------------|-------|-------------------|-------------------|
|  | 2017                | 2016  | 2017              | 2016              |
| (In Million Pesos)                               |                     |       |                   |                   |
| <b>Joint Ventures</b>                            |                     |       |                   |                   |
| Domestic:  |                     |       |                   |                   |
| SIA Engineering (Philippines) Corp. (SIAEP)      | 23.53               | 23.53 | 379.2             | 365.3             |
| Aviation Partnership (Philippines) Corp. (APPC)  | 32.95               | 32.95 | 229.3             | 230.6             |
| Philippine Academy for Aviation Training (PAAT)  | 33.62               | 33.62 | 188.7             | 166.1             |
| Calbee - URC, Inc. (CURCI)                       | 27.63               | 27.63 | 184.2             | 231.1             |
| Oriente Express Techsystem Corporation (Oriente) | 50.00               | –     | 67.0              | –                 |
| Hunt Universal Robina Corporation (HURC)         | 27.63               | 27.63 | 56.8              | 93.4              |
| Vitasoy-URC, Inc (VURCI)                         | 27.63               | 27.63 | 31.6              | 5.0               |
| Paloo Financing, Inc                             | 50.00               | –     | 6.0               | –                 |
| MPIC-JGS Airport Holdings, Inc.                  | 41.25               | 41.25 | 3.8               | 3.8               |
| Danone Universal Robina Beverages, Inc. (DURBI)  | 27.63               | 27.63 | –                 | (28.0)            |
| Foreign:   |                     |       |                   |                   |
| Proper Snack Foods Limited (PSFL)                | 27.68               | –     | 279.6             | –                 |
|  |                     |       | 1,426.2           | 1,067.3           |
|  |                     |       | <b>₱138,538.9</b> | <b>₱127,952.2</b> |

#### Material investees

##### *Investment in Meralco*

On December 11, 2013, the Parent Company completed the acquisition of 305,689,397 common shares of Manila Electric Company (Meralco) from San Miguel Corporation, San Miguel Purefoods Company, Inc., and SMC Global Power Holdings, Inc. (collectively referred to as “Sellers”) for a total cost of ₱71.9 billion. The shares acquired represented 27.12% of Meralco’s total outstanding common shares. Meralco is a corporation organized and incorporated in the Philippines to construct, operate, and maintain the electric distribution system.

On June 14, 2017, the Parent Company acquired an additional 27,500,000 common shares of Meralco for a total cost of ₱6.9 billion. After this transaction, the total number of shares held by the Parent Company is 333,189,397 representing 29.56% of Meralco’s total outstanding common shares.

##### *Investment in GBPC*

On June 30, 2016, the Parent Company acquired 577,206,289 common shares of Global Business Power Corporation (GBPC) from Meralco Powergen Corporation (153,921,676 shares) and GT Capital Holdings, Inc. (423,284,613 shares) for a total cost of ₱11.8 billion. The acquisition represents 30.0% of GBPC’s total outstanding common shares. GBPC is a company incorporated in the Philippines engaged in power generation.

In 2016, the Parent Company engaged the services of a third party valuer to perform a purchase price allocation of the Parent Company’s investment in GBPC. Based on the final purchase price allocation, the difference of ₱4.2 billion between the Parent Company’s share in the carrying values of GBPC’s specific identifiable assets and liabilities and total cost of the Parent Company’s investment was allocated to the Parent Company’s share in the difference between the fair value and carrying value of GBPC’s specific and identifiable assets and liabilities as follows: ₱2.8 billion for intangible assets; ₱442.3 million for property, plant and equipment; ₱4.2 million for long term receivables; ₱333.3 million for long term debt and the remaining balance of ₱1.3 billion for goodwill.



*Investment in OPMC*

OPMC is a company incorporated in the Philippines with the purpose of exploring, developing and producing petroleum and mineral resources in the Philippines. As an exploration company, OPMC operational activities depend principally on its service contracts with the government. The Group accounts for its investment in OPMC as an associate although the Group holds less than 20.00% of the issued share capital, as the Group has the ability to exercise significant influence over the investment, due to the Group's voting power (both through its equity holding and its representation in key decision-making committees) and the nature of the commercial relationships with OPMC.

*Investment in UICL*

UICL, a company incorporated in Singapore is engaged in residential property management. UICL follows the fair value model in measuring investment properties while the Group follows the cost model in measuring investment properties. The financial information of UICL below represents the adjusted amounts after reversal of the effect of revaluation and depreciation on the said assets.

In 2017 and 2016, the Group elected to receive 5,272,126 ordinary shares and 5,670,381 ordinary shares, respectively, under the UIC Scrip Dividend Scheme in lieu of cash dividend at the issue price of S\$2.99 per share and S\$2.75 per share, respectively.

*Fair value of investments in listed associates*

As of December 31, 2017 and 2016, the Group's investments in the following listed investee companies have fair values of:

|         | Exchange Listed            | 2017                    | 2016            |
|---------|----------------------------|-------------------------|-----------------|
| Meralco | Philippine Stock Exchange  | <b>₱107,953,364,628</b> | ₱81,007,690,205 |
| UICL    | Singapore Exchange Limited | <b>65,623,456,660</b>   | 50,043,570,192  |
| OPMC    | Philippine Stock Exchange  | <b>465,698,420</b>      | 426,890,219     |

As of December 31, 2017 and 2016, the breakdown of the total fair market value of the Group's investment in OPMC follows:

|                      | 2017                | 2016         |
|----------------------|---------------------|--------------|
| Class A Common Stock | <b>₱108,126,378</b> | ₱99,115,847  |
| Class B Common Stock | <b>357,572,042</b>  | 327,774,372  |
|                      | <b>₱465,698,420</b> | ₱426,890,219 |

The fair value is based on the quoted price prevailing as of the reporting date.



Summarized below is the financial information of the significant associates of the Group:

- Summarized statements of financial position of the Group's significant associates as of December 31, 2017 and 2016:

|   | 2017                   |                        |                         |                       | 2016            |                 |                  |                |
|---|------------------------|------------------------|-------------------------|-----------------------|-----------------|-----------------|------------------|----------------|
|   | Meralco                | GBPC                   | UICL                    | OPMC                  | Meralco         | GBPC            | UICL             | OPMC           |
| Current assets                            | <b>₱98,432,000,000</b> | <b>₱24,232,449,977</b> | <b>₱30,418,860,996</b>  | <b>₱916,673,658</b>   | ₱88,008,000,000 | ₱23,593,444,341 | ₱46,444,482,783  | ₱931,372,343   |
| Noncurrent assets                         | <b>204,923,000,000</b> | <b>57,411,862,419</b>  | <b>277,212,181,039</b>  | <b>3,684,742,279</b>  | 208,030,000,000 | 55,055,906,714  | 249,991,477,419  | 3,588,239,548  |
| Current liabilities                       | <b>105,839,000,000</b> | <b>11,565,603,710</b>  | <b>11,769,326,095</b>   | <b>32,630,114</b>     | 104,602,000,000 | 10,719,239,976  | 50,308,105,990   | 26,440,400     |
| Noncurrent liabilities                    | <b>123,084,000,000</b> | <b>38,446,900,367</b>  | <b>22,294,704,246</b>   | <b>101,620,282</b>    | 116,290,000,000 | 35,519,247,861  | 4,247,430,935    | 87,802,636     |
| Equity                                    | <b>₱74,432,000,000</b> | <b>₱31,631,808,319</b> | <b>₱273,567,011,694</b> | <b>₱4,467,165,541</b> | ₱75,146,000,000 | ₱32,410,863,218 | ₱241,880,423,277 | ₱4,405,368,855 |
| Group's carrying amount of the investment | <b>₱77,668,545,132</b> | <b>₱12,223,412,529</b> | <b>₱46,365,842,599</b>  | <b>₱743,002,387</b>   | ₱71,243,849,662 | ₱12,180,494,451 | ₱42,613,725,137  | ₱731,013,829   |

As of December 31, 2017 and 2016, the Group's share in Meralco's net assets amounted to ₱22.0 billion and ₱20.4 billion, respectively. As of December 31, 2017 and 2016, the excess of the carrying value over the Group's share in Meralco's net assets is attributable to the notional goodwill of ₱50.4 billion and ₱45.4 billion, respectively, and the difference between the fair value and carrying value of Meralco's net assets amounting to ₱5.3 billion and ₱6.0 billion, respectively.

As of December 31, 2017 and 2016, the Group's share in GBPC's net assets amounted to ₱9.5 billion and ₱9.7 billion, respectively. The excess of the Group's share in the carrying value of GBPC's net assets over the carrying value of the investment is attributable to the notional goodwill and the difference between the fair value and carrying value of GBPC's net assets.

As of December 31, 2017 and 2016, the Group's share in UICL's net assets amounted to ₱101.4 billion and ₱89.6 billion, respectively. The excess of the Group's share in the carrying value of UICL's net assets over the carrying value of the investment is attributable to the difference between the fair value and carrying value of UICL's net assets.

As of December 31, 2017 and 2016, the Group's share in OPMC's net assets amounted to ₱866.6 million and ₱854.6 million, respectively. The excess of the Group's share in the carrying value of OPMC's net assets over the carrying value of the investment is attributable to the difference between the fair value and carrying value of OPMC's net assets.



- Summarized statements of comprehensive income of the Group's significant associates for the period ended December 31, 2016, 2015 and 2014:

|   | 2017                    |                        |                        |                     | 2016             |                |                 |              |
|---|-------------------------|------------------------|------------------------|---------------------|------------------|----------------|-----------------|--------------|
|   | Meralco                 | GBPC                   | UICL                   | OPMC                | Meralco          | GBPC           | UICL            | OPMC         |
| Revenue   | <b>₱283,382,000,000</b> | <b>₱23,980,615,078</b> | <b>₱48,056,937,031</b> | <b>₱498,684,483</b> | ₱261,186,000,000 | ₱9,026,093,325 | ₱35,839,290,575 | ₱656,345,619 |
| Expenses  | <b>256,178,000,000</b>  | <b>17,192,603,211</b>  | <b>34,646,705,537</b>  | <b>376,981,707</b>  | 233,151,000,000  | 5,863,240,155  | 25,237,685,045  | 288,951,142  |
| Finance costs   | <b>658,000,000</b>      | <b>1,776,083,291</b>   | <b>426,294,642</b>     | <b>–</b>            | 1,343,000,000    | 1,008,892,704  | 316,620,895     | –            |
| Profit before tax   | <b>26,546,000,000</b>   | <b>5,011,928,576</b>   | <b>12,983,936,852</b>  | <b>121,702,776</b>  | 26,692,000,000   | 2,153,960,466  | 10,284,984,635  | 367,394,477  |
| Income tax expense  | <b>7,363,000,000</b>    | <b>1,239,464,976</b>   | <b>1,815,520,951</b>   | <b>2,874,004</b>    | 7,352,000,000    | 26,610,580     | 1,704,881,742   | –            |
| Profit for the year<br>(continuing operations)                        | <b>₱19,183,000,000</b>  | <b>₱3,772,463,600</b>  | <b>₱11,168,415,901</b> | <b>₱118,828,772</b> | ₱19,340,000,000  | ₱2,127,349,886 | ₱8,580,102,893  | ₱367,394,477 |
| Other comprehensive<br>income for the year                            | <b>470,000,000</b>      | <b>(54,211,548)</b>    | <b>–</b>               | <b>16,272,503</b>   | 3,233,000,000    | 16,330,538     | (412,701,096)   | –            |
| Total comprehensive<br>income for the year<br>(continuing operations) | <b>₱19,653,000,000</b>  | <b>₱3,718,252,052</b>  | <b>₱11,168,415,901</b> | <b>₱135,101,275</b> | ₱22,573,000,000  | ₱2,143,680,424 | ₱8,167,401,797  | ₱367,394,477 |
| Group's share of profit for<br>the year                               | <b>₱5,601,657,500</b>   | <b>₱719,181,542</b>    | <b>₱3,752,117,462</b>  | <b>₱8,831,693</b>   | ₱4,980,696,000   | ₱356,430,766   | ₱2,790,366,394  | ₱37,617,071  |

|  | 2015             |                 |              |
|--|------------------|-----------------|--------------|
|  | Meralco          | UICL            | OPMC         |
| Revenue  | ₱261,110,000,000 | ₱27,842,938,298 | ₱676,701,906 |
| Expenses   | 235,018,000,000  | 18,301,964,391  | 348,246,035  |
| Finance costs  | 1,216,000,000    | 416,876,275     | –            |
| Profit before tax  | 24,876,000,000   | 9,124,097,632   | 328,455,871  |
| Income tax expense   | 5,687,000,000    | 1,300,987,718   | 1,199,154    |
| Profit for the year (continuing operations)                        | ₱19,189,000,000  | ₱7,823,109,914  | ₱327,256,717 |
| Total comprehensive income<br>for the year (continuing operations) | (805,000,000)    | 197,462,482     | –            |
| Total comprehensive income for the year<br>(continuing operations) | ₱18,384,000,000  | ₱8,020,572,396  | ₱327,256,717 |
| Group's share of profit for the year                               | ₱4,959,558,000   | ₱2,507,485,422  | ₱39,363,870  |





Individually immaterial investees

*Investment in CLIPI*

The Group accounts for its investments in CLIPI as an associate as it owns 20.0% of the issued share capital of CLIPI. As of December 31, 2017 and 2016, the Group has deposit for future stock subscription in CLIPI amounting to ₱10.0 million. These represents 20.0% of CLIPI's proposed increase in authorized capital stock.

*Investment in ABB*

In May 2016, CAI entered into a Value Alliance Agreement with other low cost carriers (LCCs), namely, Scoot Pte. Ltd, Nok Airlines Public Company Limited, CEBGO, and Vanilla Air Inc. The alliance aims to increase passenger traffic by creating interline partnerships and the parties involved have agreed to create joint sales and support operations to expand services and products available to passengers. This is achieved through LCC's investment in ABB.

In November 2016, CAI acquired shares of stock in ABB amounting to ₱43.7 million. ABB is an entity incorporated in Singapore in 2016 to manage the ABB settlement system, which facilitates the settlement of sales proceeds between the issuing and carrying airlines, and of the transaction fee due to ABB.

The investment gave CAI a 15.00 % shareholding proportion to ABB. The Group accounts for its investment in ABB as an associate although the Group holds less than 20.00% of the issued share capital, as the Group has the ability to exercise significant influence over the investment, due to the Group's voting power (both through its equity holding and its representation in key decision - making committees) and the nature of the commercial relationship with ABB. However, since ABB is still non-operational as of December 31 2017 and 2016, the investment is recognized at cost. As of December 31, 2017 and 2016, the net carrying amount of the Group's investment in ABB amounted to ₱43.7 million.

*SIAEP and APPC*

SIAEP and APPC are jointly controlled entities which were established for the purpose of providing line, light and heavy maintenance services to foreign and local airlines, utilizing the facilities and services at airports in the Philippines, as well as aircraft maintenance and repair organizations.

SIAEP was incorporated on July 27, 2008 and started commercial operations on August 17, 2009, respectively. APPC was incorporated on May 24, 2005 and started commercial operations on July 1, 2005 while

*PAAT*

Investment in PAAT pertains to CAI's 60.00% investment in shares of the joint venture. However, the joint venture agreement between the CAI and CAE International Holdings Limited (CAE) states that CAI is entitled to 50.00% share on the net income/loss of PAAT. As such, the CAI recognizes equivalent 50.00% share in net income and net assets of the joint venture.



PAAT was created to address the Group's training requirements and to pursue business opportunities for training third parties in the commercial fixed wing aviation industry, including other local and international airline companies. PAAT was formally incorporated in the Philippines on January 27, 2012 and started commercial operations in December 2012.

As of December 31, 2017 and 2016, CAI's investment in PAAT amounted to ₱188.7 million and ₱166.1 million, respectively.

#### *CURCI*

On January 17, 2014, URC entered into a joint venture agreement with Calbee, Inc., a corporation duly organized in Japan to form CURCI, a corporation duly incorporated and organized in the Philippines to manufacture and distribute food products under the "Calbee Jack 'n Jill" brand name, which is under exclusive license to CURCI in the Philippines. URC contributed cash to CURCI upon its incorporation in 2014 amounting to ₱327.0 million representing its 50% interest in the joint venture.

#### *Oriente*

On July 14, 2017, the Company entered into a joint venture with ORT Company (Singapore) Private Limited to invest in Oriente Express Techsystem Corporation (the "JV Company") in order to assist the JV Company in the expansion of its business and distribution of its products and services. The joint venture is setting up a digital financial services marketplace that will enable Filipinos to tap into credit facilities to bridge their ever-growing needs, whether to pay for tuition, unexpected medical expenses or even finance a small business. The Company contributed 50.00% interest in the joint venture amounting to ₱100.00 million.

#### *HURC*

URC has an equity interest in HURC, a domestic joint venture which is a jointly controlled entity. HURC manufactures and distributes food products under the "Hunt's" brand name, which is under exclusive license to HURC in the Philippines. In 2017, URC entered into certain agreements with a third party to sell its rights, title, and interest in the assets used in manufacturing the Hunt's business, well as pre-termination of the right to manufacture, sell, and distribute Hunt's products (see Note 16). Subsequent to the sale HURC remains to exist as a jointly controlled entity.

#### *VURCI*

On October 4, 2016, URC entered into a joint venture agreement with Vita International Holdings Limited, a corporation duly organized in Hong Kong to form VURCI, a corporation duly incorporated and organized in the Philippines to manufacture and distribute food products under the "Vitasoy" brand name, which is under exclusive license to VURCI in the Philippines.

In 2017, the Parent Company made additional subscriptions to the unissued authorized capital stock of VURCI consisting of 12,600,000 common shares for a total cost of ₱126.0 million.

#### *Paloo Financing, Inc.*

On November 16, 2017, the Company entered into a joint venture agreement with ORT Company (Singapore) Private Limited to form Paloo Financing, Inc., a company organized to extend facilities to consumers and to industrial, commercial or agricultural enterprises. The Company contributed 50.00% interest in the joint venture amounting to ₱6.00 million.

#### *DURBI*

On May 23, 2014, URC entered into a joint venture agreement with Danone Asia Holdings, Pte. Ltd., a corporation duly organized in the Republic of Singapore to form DURBI, a corporation duly incorporated and organized in the Philippines to manufacture and distribute food products under the "B'lue" brand name, which is under exclusive license to DURBI in the Philippines. URC contributed



cash to DURBI upon its incorporation in 2014 amounting to ₱180.8 million representing its 50% interest in the joint venture. In 2016 and 2015, URC contributed an additional cash of ₱103.3 million and ₱129.0 million, respectively, to DURBI and maintained its 50% ownership.

*PSFL*

On June 30, 2017, Griffin's Food Limited (Griffin's) purchased 50.1% of the shares in Proper Snack Foods Ltd (a Nelson, New Zealand based business with the 49.9% shareholder being an individual) for a total consideration of approximately NZ\$8.0 million, or ₱282.1 million. PSFL manufactures and distributes crisps.

Aggregate information of associates and joint ventures that are not individually material follows:

|   | 2017                |                       | 2016         |                |
|---|---------------------|-----------------------|--------------|----------------|
|   | Associates          | Joint Venture         | Associates   | Joint Venture  |
| Group's share of:                         |                     |                       |              |                |
| Profit for the year                       | <b>₱209,494</b>     | <b>(₱173,279,785)</b> | (₱173,638)   | ₱11,589,523    |
| Other comprehensive income for the year   | –                   | <b>805,768</b>        | 626,713      | –              |
| Total comprehensive income for the year   | <b>₱209,494</b>     | <b>(₱172,474,017)</b> | ₱453,075     | ₱11,589,523    |
| Group's share of dividends for the year   | <b>₱4,000,000</b>   | <b>₱123,659,585</b>   | ₱–           | ₱140,750,375   |
| Group's carrying amount of the investment | <b>₱111,916,567</b> | <b>₱1,426,183,739</b> | ₱115,707,073 | ₱1,067,445,556 |

Investment in Subsidiaries

As of December 31, 2017 and 2016, the Parent Company has the following percentage ownership of shares in its wholly-owned and partially-owned subsidiaries as follows:

| Name of Subsidiaries                              | Country of Incorporation | Effective Percentage of Ownership |                   |
|---|--------------------------|-----------------------------------|-------------------|
|   |                          | December 31, 2017                 | December 31, 2016 |
| <b>Food</b>                                       |                          |                                   |                   |
| Universal Robina Corporation and Subsidiaries     | Philippines              | <b>55.25</b>                      | 55.25             |
| <b>Air Transportation</b>                         |                          |                                   |                   |
| CP Air Holdings, Inc. and Subsidiaries            | -do-                     | <b>100.00</b>                     | 100.00            |
| Cebu Air, Inc. (CAI) and Subsidiaries             | -do-                     | <b>67.23</b>                      | 67.23             |
| Pacific Virgin Islands Holdings, Co., Ltd.        | British Virgin Islands   | -                                 | -                 |
| <b>Real Estate and Hotels</b>                     |                          |                                   |                   |
| Robinsons Land Corporation and Subsidiaries       | Philippines              | <b>60.97</b>                      | 60.97             |
| <b>Petrochemicals</b>                             |                          |                                   |                   |
| JG Summit Petrochemical Corporation (JGSPC)       | -do-                     | <b>100.00</b>                     | 100.00            |
| JG Summit Olefins Corporation                     | -do-                     | <b>100.00</b>                     | 100.00            |
| <b>Banking</b>                                    |                          |                                   |                   |
| Robinsons Bank Corporation                        | -do-                     | <b>60.00</b>                      | 60.00             |
| <b>Supplementary Businesses</b>                   |                          |                                   |                   |
| Express Holdings, Inc. and Subsidiaries           | -do-                     | <b>100.00</b>                     | 100.00            |
| Summit Forex Brokers Corporation                  | -do-                     | <b>100.00</b>                     | 100.00            |
| JG Summit Capital Services Corp. and Subsidiaries | -do-                     | <b>100.00</b>                     | 100.00            |
| JG Summit Capital Markets Corp.                   | -do-                     | <b>100.00</b>                     | 100.00            |
| Summit Point Services, Ltd.                       | -do-                     | <b>100.00</b>                     | 100.00            |
| Summit Internet Investments, Inc.                 | -do-                     | <b>100.00</b>                     | 100.00            |
| JG Summit Cayman, Ltd. (JGSCL)                    | Cayman Islands           | <b>100.00</b>                     | 100.00            |
| JG Summit Philippines, Ltd. And Subsidiaries      | -do-                     | <b>100.00</b>                     | 100.00            |
| JG Summit Holdings Philippines, Ltd.              | British Virgin Islands   | <b>100.00</b>                     | 100.00            |
| JG Summit Infrastructure Holdings Corporation     | Philippines              | <b>100.00</b>                     | -                 |
| Merbau Corporation                                | do-                      | <b>100.00</b>                     | -                 |



| Name of Subsidiaries  | Country of Incorporation | Effective Percentage of Ownership |                   |
|---|--------------------------|-----------------------------------|-------------------|
|   |                          | December 31, 2017                 | December 31, 2016 |
| Multinational Finance Group, Ltd.   | British Virgin Islands   | 100.00                            | 100.00            |
| Telegraph Development, Ltd.   | -do-                     | 100.00                            | 100.00            |
| Summit Top Investment, Ltd.   | -do-                     | 100.00                            | 100.00            |
| JG Summit Limited (JGSL)  | -do-                     | 100.00                            | 100.00            |
| Batangas Agro-Industrial Development Corporation (BAID and Subsidiaries.) | Philippines              | 100.00                            | 100.00            |
| Fruits of the East, Inc.  | -do-                     | 100.00                            | 100.00            |
| Hometel Integrated Management Corporation                                 | -do-                     | 100.00                            | 100.00            |
| King Leader Philippines, Inc.   | -do-                     | 100.00                            | 100.00            |
| Samar Commodities Trading and Industrial Corporation                      | -do-                     | 100.00                            | 100.00            |
| Tropical Aqua Resources   | -do-                     | 100.00                            | 100.00            |
| United Philippines Oil Trading, Inc.                                      | -do-                     | 100.00                            | 100.00            |
| Unicon Insurance Brokers Corporation                                      | -do-                     | 100.00                            | 100.00            |

Financial information of subsidiaries that have material non-controlling interest is provided below:

- Portion of equity interest held by non-controlling interest

| Name of Subsidiary                 | Country of Incorporation and Operation | December 31, 2017 | December 31, 2016 |
|------------------------------------|--|-------------------|-------------------|
| Universal Robina Corporation (URC) | Philippines                            | 44.75             | 44.75             |
| Robinsons Land Corporation (RLC)   | Philippines                            | 39.03             | 39.03             |
| Cebu Air, Inc. (CAI)               | Philippines                            | 32.77             | 32.77             |
| Robinsons Bank Corporation (RBC)   | Philippines                            | 40.00             | 40.00             |

- Accumulated balances of material non-controlling interest:

| Name of Subsidiary | 2017            | 2016            |
|--------------------|-----------------|-----------------|
| URC                | ₱36,198,230,247 | ₱34,800,613,250 |
| RLC                | 26,469,695,942  | 24,656,704,510  |
| CAI                | 13,035,790,451  | 10,978,040,752  |
| RBC                | 4,702,194,676   | 4,656,693,545   |

- Profit allocated to material non-controlling interest:

| Name of Subsidiary | 2017           | 2016           |
|--------------------|----------------|----------------|
| URC                | ₱5,137,050,094 | ₱5,910,692,782 |
| RLC                | 2,298,547,742  | 2,240,325,255  |
| CAI                | 2,591,014,962  | 3,195,953,844  |
| RBC                | 122,883,854    | 102,659,711    |

The summarized financial information of subsidiaries with material non-controlling interest are provided below. This information is based on amounts before inter-company eliminations.

- Summarized statement of financial position as at December 31, 2017:

|                        | URC             | RLC             | CAI             | RBC             |
|------------------------|-----------------|-----------------|-----------------|-----------------|
| Current assets         | ₱53,681,316,532 | ₱40,290,382,217 | ₱21,691,072,624 | ₱63,263,622,500 |
| Noncurrent assets      | 93,790,615,905  | 107,085,341,092 | 87,385,595,654  | 41,662,962,335  |
| Current liabilities    | 27,802,881,167  | 35,156,889,557  | 29,245,857,666  | 75,948,085,919  |
| Noncurrent liabilities | 38,004,399,804  | 44,834,917,280  | 40,045,231,246  | 16,885,343,284  |



- Summarized statement of financial position as at December 31, 2016:

|                        | URC             | RLC             | CAI             | RBC             |
|------------------------|-----------------|-----------------|-----------------|-----------------|
| Current assets         | ₱51,812,773,909 | ₱39,635,922,449 | ₱15,151,137,743 | ₱48,795,008,436 |
| Noncurrent assets      | 90,857,202,047  | 83,694,490,383  | 85,363,204,540  | 29,059,960,771  |
| Current liabilities    | 27,794,826,668  | 29,096,687,075  | 27,827,484,688  | 61,637,667,405  |
| Noncurrent liabilities | 35,982,502,891  | 31,490,105,325  | 39,181,585,076  | 4,237,898,998   |

- Summarized statements of comprehensive income for 2017:

|  | URC              | RLC             | CAI             | RBC            |
|--|------------------|-----------------|-----------------|----------------|
| Revenue  | ₱124,740,211,838 | ₱22,539,608,260 | ₱67,760,353,876 | ₱5,203,953,347 |
| Profit for the year from continuing operations | 11,152,921,333   | 5,884,437,957   | 7,907,833,230   | 311,137,769    |
| Total comprehensive income                     |                  | 6,103,133,145   | 7,946,665,111   | 5,330,803,110  |
| Dividends paid to non-controlling interests    | 3,123,891,519    | 575,177,717     | 545,988,573     | -              |

- Summarized statements of comprehensive income for 2016:

|  | URC              | RLC             | CAI             | RBC            |
|--|------------------|-----------------|-----------------|----------------|
| Revenue  | ₱112,458,063,518 | ₱22,875,513,363 | ₱59,909,327,246 | ₱3,830,510,373 |
| Profit for the year from continuing operations | 13,082,873,919   | 5,744,373,694   | 9,745,687,660   | 298,777,409    |
| Total comprehensive income                     | 13,232,239,647   | 5,613,769,735   | 9,753,535,488   | 6,929,890      |
| Dividends paid to non-controlling interests    | 3,203,718,761    | 575,177,717     | 397,082,599     | -              |

- Summarized statements of comprehensive income for 2015:

|  | URC              | RLC             | CAI             | RBC            |
|--|------------------|-----------------|-----------------|----------------|
| Revenue  | ₱111,779,086,215 | ₱20,371,237,379 | ₱54,414,821,819 | ₱3,259,453,923 |
| Profit for the year from continuing operations | 14,005,436,425   | 5,952,941,214   | 4,387,213,429   | (50,126,756)   |
| Total comprehensive income                     | 15,749,452,489   | 5,950,166,519   | 4,325,308,518   | (316,052,601)  |
| Dividends paid to non-controlling interests    | 3,049,810,705    | 575,177,717     | 297,811,949     | -              |

- Summarized statements of cash flows for 2017:

|                | URC             | RLC              | CAI             | RBC             |
|----------------|-----------------|------------------|-----------------|-----------------|
| Operating      | 14,271,726,970  | 15,283,487,273   | 17,853,155,512  | 4,749,143,471   |
| Investing      | (8,407,662,532) | (24,438,297,427) | (8,788,669,399) | (3,922,909,374) |
| Financing      | (6,714,248,567) | 9,794,054,100    | (3,747,183,911) | 4,182,320,000   |
| Net cash flows | (850,184,129)   | 639,243,946      | 5,317,302,202   | 5,008,554,097   |

- Summarized statements of cash flows for 2016:

|                | URC             | RLC             | CAI              | RBC             |
|----------------|-----------------|-----------------|------------------|-----------------|
| Operating      | 5,661,726,391   | 3,768,887,539   | 19,583,851,457   | 8,082,499,376   |
| Investing      | (2,045,083,670) | (4,573,585,334) | (17,059,884,283) | (4,365,060,088) |
| Financing      | (4,387,967,343) | 1,091,743,424   | (3,066,185,076)  | -               |
| Net cash flows | (771,324,622)   | 287,045,629     | (542,217,902)    | 3,717,439,288   |

- Summarized statements of cash flows for 2015:

|                | URC              | RLC              | CAI              | RBC             |
|----------------|------------------|------------------|------------------|-----------------|
| Operating      | 16,719,075,027   | 853,098,851      | 12,507,549,329   | (1,474,807,756) |
| Investing      | (28,767,045,587) | (11,335,760,210) | (11,805,043,905) | (2,043,984,282) |
| Financing      | 9,868,617,661    | 10,438,872,289   | (908,929,995)    | 6,360,702,260   |
| Net cash flows | (2,179,352,899)  | (43,789,070)     | (206,424,571)    | 2,841,910,222   |



## 15. Investment Properties

Movements in this account follow:

|  | 2017                       |                            |                          |                        |
|--|----------------------------|----------------------------|--------------------------|------------------------|
|  | Land and Land Improvements | Buildings and Improvements | Construction In-Progress | Total                  |
| <b>Cost</b>                                      |                            |                            |                          |                        |
| Balance at beginning of year                     | ₱30,364,482,183            | ₱65,903,480,098            | ₱4,717,861,720           | ₱100,985,824,001       |
| Additions  | 2,913,598,389              | 1,367,205,964              | 11,118,424,504           | 15,399,228,857         |
| Disposals/transfers and other adjustments        | 547,786,538                | 7,589,100,647              | (6,414,292,028)          | 1,722,595,157          |
| Balance at end of year                           | 33,825,867,110             | 74,859,786,709             | 9,421,994,196            | 118,107,648,015        |
| <b>Accumulated Depreciation and Amortization</b> |                            |                            |                          |                        |
| Balance at beginning of year                     | 167,454,607                | 25,371,578,108             | –                        | 25,539,032,715         |
| Depreciation and amortization                    | 18,574,350                 | 3,263,230,277              | –                        | 3,281,804,627          |
| Disposals/transfers and other adjustments        | 42,625,499                 | (45,676,781)               | –                        | (3,051,282)            |
| Balance at end of year                           | 228,654,456                | 28,589,131,604             | –                        | 28,817,786,060         |
| <b>Allowance for Impairment Losses</b>           |                            |                            |                          |                        |
| Balance at beginning of year                     | 30,418,916                 | –                          | –                        | 30,418,916             |
| Provision for impairment losses (Note 34)        | –                          | 1,885,207                  | –                        | 1,885,207              |
| Transfers/other adjustments                      | 3,163,082                  | 9,559,489                  | –                        | 12,722,571             |
| Balance at end of year                           | 33,581,998                 | 11,444,696                 | –                        | 45,026,694             |
| <b>Net Book Value at End of Year</b>             | <b>₱33,563,630,656</b>     | <b>₱46,259,210,409</b>     | <b>₱9,421,994,196</b>    | <b>₱89,244,835,261</b> |

|  | 2016                       |                            |                          |                        |
|--|----------------------------|----------------------------|--------------------------|------------------------|
|  | Land and Land Improvements | Buildings and Improvements | Construction In-Progress | Total                  |
| <b>Cost</b>                                      |                            |                            |                          |                        |
| Balance at beginning of year                     | ₱28,900,492,180            | ₱55,614,107,941            | ₱5,191,790,071           | ₱89,706,390,192        |
| Additions  | 1,405,006,727              | 3,583,300,768              | 6,100,656,140            | 11,088,963,635         |
| Retirements/disposals                            | (26,328,645)               | –                          | –                        | (26,328,645)           |
| Transfers/other adjustments                      | 85,311,921                 | 6,706,071,389              | (6,574,584,491)          | 216,798,819            |
| Balance at end of year                           | 30,364,482,183             | 65,903,480,098             | 4,717,861,720            | 100,985,824,001        |
| <b>Accumulated Depreciation and Amortization</b> |                            |                            |                          |                        |
| Balance at beginning of year                     | 218,253,576                | 22,227,011,026             | –                        | 22,445,264,602         |
| Depreciation and amortization                    | 64,213,326                 | 3,083,925,983              | –                        | 3,148,139,309          |
| Transfers/other adjustments                      | (115,012,295)              | 60,641,099                 | –                        | (54,371,196)           |
| Balance at end of year                           | 167,454,607                | 25,371,578,108             | –                        | 25,539,032,715         |
| <b>Allowance for Impairment Losses</b>           |                            |                            |                          |                        |
| Balance at beginning of year                     | 2,690,919                  | –                          | –                        | 2,690,919              |
| Provision for impairment losses (Note 34)        | 16,148,392                 | –                          | –                        | 16,148,392             |
| Transfers/other adjustments                      | 11,579,605                 | –                          | –                        | 11,579,605             |
| Balance at end of year                           | 30,418,916                 | –                          | –                        | 30,418,916             |
| <b>Net Book Value at End of Year</b>             | <b>₱30,166,608,660</b>     | <b>₱40,531,901,990</b>     | <b>₱4,717,861,720</b>    | <b>₱75,416,372,370</b> |

Investment properties consist mainly of land held for appreciation, and shopping malls or commercial centers and office buildings that are held to earn rentals. Also included under this account are the properties acquired by the Group's banking segment through foreclosures. Most of the Group's properties are in prime locations across the Philippines.

Construction in progress amounting to ₱9.4 billion and ₱4.7 billion as of December 31, 2017 and 2016, respectively, represents the cost of ongoing construction and development of malls and office buildings for lease.

Borrowing costs capitalized amounted to ₱0.47 billion and ₱0.48 billion in 2017 and 2016, respectively. These amounts were included in the consolidated statements of cash flows under additions to investment properties. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization in 2017 and 2016 were 4.02% and 3.87%, respectively.



Consolidated rent income from investment properties included under 'Real estate and hotels revenue' in the consolidated statements of comprehensive income amounted to ₱11.6 billion, ₱10.7 billion and ₱9.6 billion in 2017, 2016 and 2015, respectively.

Property operations and maintenance costs arising from investment properties amounted to ₱710.0 million, ₱504.0 million and ₱395.0 for the year ended December 31, 2017, 2016 and 2015, respectively.

Gain on sale or retirement and disposal of investment properties amounted to ₱5.3 million, ₱7.3 million, and nil for the year ended December 31, 2017, 2016, and 2015, respectively.

#### Depreciation and Amortization

The breakdown of consolidated depreciation and amortization on investment properties follows:

|   | <u>2017</u>           | <u>2016</u>    | <u>2015</u>    |
|---|-----------------------|----------------|----------------|
| Depreciation and amortization expense included under: |                       |                |                |
| Cost of services (Note 33)                            | <b>₱3,252,290,952</b> | ₱3,087,950,727 | ₱2,668,560,740 |
| General and administrative expenses (Note 33)         | <b>29,513,675</b>     | 60,188,582     | 17,031,688     |
|   | <b>₱3,281,804,627</b> | ₱3,148,139,309 | ₱2,685,592,428 |

#### Collaterals

As of December 31, 2017 and 2016, the Group has no investment properties that are pledged as collateral.



## 16. Property, Plant and Equipment

The composition of and movements in this account follow:

|  | December 31, 2017        |                               |                            |  |   |                             |                         |                         |
|--|--------------------------|-------------------------------|----------------------------|--|---|-----------------------------|-------------------------|-------------------------|
|  | Land and<br>Improvements | Buildings and<br>Improvements | Machinery<br>and Equipment | Transportation,<br>Furnishing and<br>Other Equipment | Passenger Aircraft<br>and Other Flight<br>Equipment | Construction<br>In-progress | Equipment<br>In-transit | Total                   |
| <b>Cost</b>                                      |                          |                               |                            |  |   |                             |                         |                         |
| Balance at beginning of year                     | ₱6,765,742,667           | ₱26,852,152,074               | ₱115,044,806,328           | ₱9,332,218,575                                       | ₱90,798,387,471                                     | ₱20,163,665,563             | ₱1,794,350,119          | ₱270,751,322,797        |
| Additions  | 265,575,198              | 2,128,929,472                 | 3,099,455,469              | 1,291,681,840  | 6,625,238,707                                       | 13,164,726,074              | 1,545,065,003           | 28,120,671,763          |
| Transfers, disposals and other adjustments       | 71,520,245               | 800,885,877                   | 3,324,691,054              | (40,055,167)   | (11,515,267,930)                                    | (8,461,531,687)             | (156,384,630)           | (15,976,142,238)        |
| Balance at end of year                           | 7,102,838,110            | 29,781,967,423                | 121,468,952,851            | 10,583,845,248                                       | 85,908,358,248                                      | 24,866,859,950              | 3,183,030,492           | 282,895,852,322         |
| <b>Accumulated Depreciation and Amortization</b> |                          |                               |                            |  |   |                             |                         |                         |
| Balance at beginning of year                     | 918,194,444              | 11,425,573,747                | 52,030,829,341             | 6,357,201,741  | 24,339,093,589                                      | –                           | –                       | 95,070,892,862          |
| Depreciation and amortization                    | 232,318,477              | 1,320,786,079                 | 6,217,492,513              | 1,016,897,653  | 6,576,619,362                                       | –                           | –                       | 15,364,114,084          |
| Disposals, transfers and other adjustments       | 106,083,153              | 211,205,070                   | (201,094,800)              | 185,317,965  | (9,531,143,070)                                     | –                           | –                       | (9,229,631,682)         |
| Balance at end of year                           | 1,256,596,074            | 12,957,564,896                | 58,047,227,054             | 7,559,417,359  | 21,384,569,881                                      | –                           | –                       | 101,205,375,264         |
| <b>Allowance for impairment losses</b>           |                          |                               |                            |  |   |                             |                         |                         |
| Balance at beginning of year                     | –                        | –                             | 17,716,473                 | –  | –   | –                           | –                       | 17,716,473              |
| Provision for impairment losses (Note 34)        | –                        | 4,434,696                     | –                          | 279,328  | –   | –                           | –                       | 4,714,024               |
| Disposals, transfers and other adjustments       | 7,742,527                | 139,715                       | –                          | –  | –   | –                           | –                       | 7,882,242               |
| Balance at end of year                           | 7,742,527                | 4,574,411                     | 17,716,473                 | 279,328  | –   | –                           | –                       | 30,312,739              |
| <b>Net Book Value at End of Year</b>             | <b>₱5,838,499,509</b>    | <b>₱16,819,828,116</b>        | <b>₱63,404,009,324</b>     | <b>₱3,024,148,561</b>                                | <b>₱64,523,788,367</b>                              | <b>₱24,866,859,950</b>      | <b>₱3,183,030,492</b>   | <b>₱181,660,164,319</b> |





December 31, 2016

|   | Land and<br>Improvements | Buildings and<br>Improvements | Machinery<br>and Equipment | Transportation,<br>Furnishing and<br>Other Equipment | Passenger Aircraft<br>and Other Flight<br>Equipment | Construction<br>In-progress | Equipment<br>In-transit | Total                   |
|---|--------------------------|-------------------------------|----------------------------|--|---|-----------------------------|-------------------------|-------------------------|
| <b>Cost</b>   |                          |                               |                            |  |   |                             |                         |                         |
| Balance at beginning of year                                    | ₱5,882,980,325           | ₱23,398,924,976               | ₱99,289,012,170            | ₱8,645,193,765                                       | ₱83,830,528,666                                     | ₱21,849,803,705             | ₱1,353,469,831          | ₱244,249,913,438        |
| Additions   | 156,437,164              | 1,770,345,824                 | 3,745,359,329              | 1,083,931,526  | 10,430,364,773                                      | 11,228,547,868              | 1,025,488,294           | 29,440,474,778          |
| Additions from acquisition of a subsidiary<br>(Note 44)         | –                        | 186,272,233                   | 1,686,772,953              | –  | –   | 498,424,492                 | –                       | 2,371,469,678           |
| Acquisition of assets that qualified as a business<br>(Note 44) | 304,217,000              | 197,496,500                   | 473,847,117                | 348,029,757  | –   | –                           | –                       | 1,323,590,374           |
| Disposals and other adjustments                                 | 422,108,178              | 1,299,112,541                 | 9,849,814,759              | (744,936,473)  | (3,462,505,968)                                     | (13,413,110,502)            | (584,608,006)           | (6,634,125,471)         |
| Balance at end of year  | 6,765,742,667            | 26,852,152,074                | 115,044,806,328            | 9,332,218,575  | 90,798,387,471                                      | 20,163,665,563              | 1,794,350,119           | 270,751,322,797         |
| <b>Accumulated Depreciation and Amortization</b>                |                          |                               |                            |  |   |                             |                         |                         |
| Balance at beginning of year                                    | 680,309,593              | 9,774,490,469                 | 45,520,983,527             | 5,342,607,888  | 23,077,705,111                                      | –                           | –                       | 84,396,096,588          |
| Depreciation and amortization                                   | 176,680,352              | 1,338,565,895                 | 5,479,811,045              | 948,119,530  | 5,762,601,231                                       | –                           | –                       | 13,705,778,053          |
| Disposals, transfers and other adjustments                      | 61,204,499               | 312,517,383                   | 1,030,034,769              | 66,474,323   | (4,501,212,753)                                     | –                           | –                       | (3,030,981,779)         |
| Balance at end of year  | 918,194,444              | 11,425,573,747                | 52,030,829,341             | 6,357,201,741  | 24,339,093,589                                      | –                           | –                       | 95,070,892,862          |
| Allowance for impairment losses                                 | –                        | –                             | 17,716,473                 | –  | –   | –                           | –                       | 17,716,473              |
| <b>Net Book Value at End of Year</b>                            | <b>₱5,847,548,223</b>    | <b>₱15,426,578,327</b>        | <b>₱62,996,260,514</b>     | <b>₱2,975,016,834</b>                                | <b>₱66,459,293,882</b>                              | <b>₱20,163,665,563</b>      | <b>₱1,794,350,119</b>   | <b>₱175,662,713,462</b> |



Construction in-progress

*CAI*

Construction in-progress represents the cost of aircraft and engine modifications in progress and buildings and improvements and other ground property under construction. Construction in-progress is not depreciated until such time when the relevant assets are completed and available for use. As of December 31, 2017 and 2016, the Group's pre-delivery payments capitalized as construction in-progress amounted to ₱15.9 billion and ₱14.5 billion, respectively.

*URC*

Construction-in-progress amounting to ₱5.9 billion and ₱3.5 billion as of December 31, 2017 and 2016, respectively represents costs of ongoing expansion and constructions of plants.

*JGSOC*

Construction-in-progress amounting to ₱1.0 billion and ₱0.8 billion as of December 31, 2017 and 2016, respectively, represents the construction costs of the Naphtha Cracker Plant. The plant is intended for the production primarily of polymer grade ethylene, polymer grade propylene, partially hydrogenated pyrolysis gasoline and pyrolysis fuel oil.

*JGSPC*

Construction in progress amounting to ₱1.9 billion and ₱1.2 billion as of December 31, 2017 and 2016, respectively, represents the expansion and rehabilitation of polypropylene and polyethylene plant.

Depreciation and Amortization

The breakdown of consolidated depreciation and amortization on property, plant and equipment follows:

|   | 2017                   | 2016            | 2015            |
|---|------------------------|-----------------|-----------------|
| General and administrative expenses (Note 33) | <b>₱7,970,903,733</b>  | ₱6,849,226,440  | ₱5,667,790,503  |
| Cost of sales (Note 33)                       | <b>6,731,387,202</b>   | 6,170,348,732   | 5,475,444,437   |
| Cost of services (Note 33)                    | <b>661,823,149</b>     | 686,202,881     | 534,792,607     |
|   | <b>₱15,364,114,084</b> | ₱13,705,778,053 | ₱11,678,027,547 |

Sale of Assets to Century Pacific Food Inc.

In May 2017, CNPF entered into an asset purchase agreement with the URC to purchase the machineries and equipment used in manufacturing the Hunt's branded products for a total consideration of ₱145.1 million, net of tax. As of date of sale, the net book value of these assets amounts to ₱28.1 million. The Group recognized gain on disposal amounting to ₱117.0 million, under 'Other income (losses)' in the consolidated statements of income. The sale was completed on August 31, 2017.

CNPF also entered into a Compensation Agreement with URC to acquire the exclusive right to manufacture and sell Hunt's branded products amounting to ₱214.2 million. The Group recognized gain of the same amount under 'Other income (losses)' in the consolidated statements of comprehensive income.



Property, Plant and Equipment Pledged as Collateral

*Passenger aircraft held as securing assets under various loans*

CAI entered into various Export Credit Agency (ECA) loans and commercial loan facilities to finance the purchase of its aircraft and engines. As of December 31, 2017 and 2016, the Group's passenger aircraft and engines held as securing assets under various loans are as follows:

|             | 2017      |                  | 2016      |                  |
|-------------|-----------|------------------|-----------|------------------|
|             | ECA Loans | Commercial Loans | ECA Loans | Commercial Loans |
| Airbus A320 | 6         | 17               | 10        | 19               |
| ATR 72-500  | 7         | –                | 7         | –                |
| Airbus A319 | –         | –                | 4         | –                |
| ATR 72-600  | –         | 8                | –         | 2                |
| Airbus A330 | –         | 2                | –         | 1                |
| Engines     | –         | 5                | –         | 5                |
|             | <b>13</b> | <b>32</b>        | 21        | 27               |

Under the terms of the ECA loan and commercial loan facilities (Note 23), upon the event of default, the outstanding amount of loan (including accrued interest) will be payable by the SPEs or by the guarantors, which are CPAHI and JGSHI. CPAHI and JGSHI are guarantors to loans entered into by CALL, BLL and SLL. Under the terms of commercial loan facilities from local banks, upon event of default, the outstanding amount of loan will be payable, including interest accrued by the Parent Company. Failure to pay the obligation will allow the respective lenders to foreclose the securing assets.

As of December 31, 2017 and 2016, the carrying amounts of the securing assets (included under the 'Property and equipment' account) amounted to ₱54.9 billion and ₱56.9 billion, respectively.

Forward Sale Agreement

On February 23, 2015, CAI signed a forward sale agreement with a subsidiary of Allegiant Travel Company (collectively known as "Allegiant") covering CAI's sale of six (6) Airbus A319 aircraft. The aircrafts were delivered on various dates in 2015 until 2016.

In 2015, CAI delivered the first two out of six Airbus A319 aircraft to Allegiant and recognized ₱80.3 million loss on sale recorded under 'Other expenses' in the consolidated statements of comprehensive income (Note 29).

In 2016, CAI delivered the remaining four out of six airbus A319 aircraft to Allegiant and recognized ₱962.6 million loss on sale recorded under 'Other expenses' in the consolidated statements of comprehensive income (Note 29).

In 2016, CAI signed another forward sale agreement with Allegiant covering the last remaining four A319 aircraft. The aircraft are scheduled for delivery on various dates in 2017 and 2018.

In 2017, CAI delivered the first three out of four Airbus A319 to Allegiant and recognized ₱532.9 million loss on sale in the consolidated statements of comprehensive income (Note 29).

Sale and Operating Leaseback

In May and November 2017, the Group entered into a sale and operating leaseback transactions with Ibon Leasing Limited (ILL) and JPA No. 78/79/80/81 Co., Ltd. covering two and four Airbus A320, respectively. The sale of aircraft required the prepayment of outstanding balance of the loan facility attributed to the sold Airbus A320 aircraft. The total amount of loans and breakage costs paid amounted



to ₱4,162.6 million and ₱12.32 million, respectively. The Group recognized gain on sale of aircraft amounting to ₱635.5 million from these transactions.

### Operating Fleet

As of December 31, 2017 and 2016, the Group's operating fleet follows:

|                                  | 2017      | 2016      |
|----------------------------------|-----------|-----------|
| Owned (Note 23):                 |           |           |
| Airbus A320                      | 23        | 29        |
| ATR 72-500                       | 8         | 8         |
| ATR 72-600                       | 8         | 2         |
| Airbus A330                      | 2         | 1         |
| Airbus A319                      | 1         | 4         |
| Under operating lease (Note 42): |           |           |
| Airbus A320                      | 13        | 7         |
| Airbus A330                      | 6         | 6         |
|                                  | <b>61</b> | <b>57</b> |

Gain (loss) on sale or retirement of property, plant and equipment amounted to ₱357.6 million, (₱361.7 million) and (₱19.5 million) in 2017, 2016 and 2015, respectively.

As of December 31, 2017 and 2016, the gross amount of fully depreciated property and equipment which are still in use by the Group amounted to ₱2.9 billion and ₱2.4 billion, respectively.

## 17. **Biological Assets**

Total biological assets shown in the consolidated statements of financial position follow:

|                    | 2017                  | 2016           |
|--------------------|-----------------------|----------------|
| Current portion    | <b>₱1,180,266,509</b> | ₱920,226,312   |
| Noncurrent portion | <b>498,309,880</b>    | 463,152,936    |
|                    | <b>₱1,678,576,389</b> | ₱1,383,379,248 |

These biological assets consist of:

|                | 2017                  | 2016           |
|----------------|-----------------------|----------------|
| <b>Swine</b>   |                       |                |
| Commercial     | <b>₱1,137,959,568</b> | ₱897,048,298   |
| Breeder        | <b>435,698,306</b>    | 411,356,528    |
| <b>Poultry</b> |                       |                |
| Commercial     | <b>42,306,941</b>     | 23,178,014     |
| Breeder        | <b>62,611,574</b>     | 51,796,408     |
|                | <b>₱1,678,576,389</b> | ₱1,383,379,248 |



The rollforward analysis of this account follows:

|   | 2017                   | 2016            |
|---|------------------------|-----------------|
| Balance at beginning of year  | <b>₱1,383,379,248</b>  | ₱1,557,794,946  |
| Additions   | <b>3,113,809,005</b>   | 2,752,445,408   |
| Disposals   | <b>(2,937,452,936)</b> | (2,831,264,288) |
| Gains (loss) arising from changes in fair value less<br>estimated costs to sell | <b>118,841,072</b>     | (95,596,818)    |
|   | <b>₱1,678,576,389</b>  | ₱1,383,379,248  |

As of December 31, 2017 and 2016, the Group has about 239,438 and 229,582 heads of swine, respectively, and about 488,218 and 443,635 heads of poultry, respectively.

## 18. Intangible Assets

The composition and movements in this account follow:

|   | 2017                |                          |                     |                       |                     |                       | Total                  |
|---|---------------------|--------------------------|---------------------|-----------------------|---------------------|-----------------------|------------------------|
|   | Technology Licenses | Bank licenses and others | Software Costs      | Trademarks and Brands | Product Formulation | Customer Relationship |                        |
| <b>Cost</b>   |                     |                          |                     |                       |                     |                       |                        |
| Balance at beginning of year                          | ₱552,331,752        | ₱1,763,344,748           | ₱714,445,807        | ₱9,564,461,252        | ₱425,000,000        | ₱2,201,281,165        | ₱15,220,864,724        |
| Additions   | -                   | 1,814,157                | 280,658,820         | -                     | -                   | -                     | 282,472,977            |
| Disposals/reclassification/ others                    | -                   | (200,000)                | (103,359,680)       | -                     | -                   | -                     | (103,559,680)          |
| Balance at end of year                                | 552,331,752         | 1,764,958,905            | 891,744,947         | 9,564,461,252         | 425,000,000         | 2,201,281,165         | 15,399,778,021         |
| <b>Accumulated Amortization and Impairment Losses</b> |                     |                          |                     |                       |                     |                       |                        |
| Balance at beginning of year                          | 552,331,752         | -                        | 189,483,985         | 201,524,581           | -                   | 118,520,913           | 1,061,861,231          |
| Amortization  | -                   | -                        | 126,801,991         | -                     | -                   | 77,381,982            | 204,183,973            |
| Disposals/reclassifications                           | -                   | -                        | 110,367,527         | -                     | -                   | 2,334,094             | 112,701,621            |
| Balance at end of year                                | 552,331,752         | -                        | 426,653,503         | 201,524,581           | -                   | 198,236,989           | 1,378,746,825          |
| <b>Net Book Value at End of Year</b>                  | <b>₱-</b>           | <b>₱1,764,958,905</b>    | <b>₱465,091,444</b> | <b>₱9,362,936,671</b> | <b>₱425,000,000</b> | <b>₱2,003,044,176</b> | <b>₱14,021,031,196</b> |
| <b>2016</b>   |                     |                          |                     |                       |                     |                       |                        |
|   | Technology Licenses | Bank licenses and others | Software Costs      | Trademarks and Brands | Product Formulation | Customer Relationship | Total                  |
| <b>Cost</b>   |                     |                          |                     |                       |                     |                       |                        |
| Balance at beginning of year                          | ₱552,331,752        | ₱1,718,744,748           | ₱157,039,729        | ₱5,198,501,291        | ₱425,000,000        | ₱1,885,972,092        | ₱9,937,589,612         |
| Additions   | -                   | 44,600,000               | 555,048,596         | -                     | -                   | -                     | 599,648,596            |
| Additions due to business combination (Note 44)       | -                   | -                        | -                   | 4,365,959,961         | -                   | 315,309,073           | 4,681,269,034          |
| Disposals/others                                      | -                   | -                        | 2,357,482           | -                     | -                   | -                     | 2,357,482              |
| Balance at end of year                                | 552,331,752         | 1,763,344,748            | 714,445,807         | 9,564,461,252         | 425,000,000         | 2,201,281,165         | 15,220,864,724         |
| <b>Accumulated Amortization and Impairment Losses</b> |                     |                          |                     |                       |                     |                       |                        |
| Balance at beginning of year                          | 552,331,752         | -                        | 96,057,927          | 201,524,581           | -                   | 54,917,799            | 904,832,059            |
| Amortization  | -                   | -                        | 91,433,676          | -                     | -                   | 56,418,608            | 147,852,284            |
| Disposals/reclassifications                           | -                   | -                        | 1,992,382           | -                     | -                   | 7,184,506             | 9,176,888              |
| Balance at end of year                                | 552,331,752         | -                        | 189,483,985         | 201,524,581           | -                   | 118,520,913           | 1,061,861,231          |
| <b>Net Book Value at End of Year</b>                  | <b>₱-</b>           | <b>₱1,763,344,748</b>    | <b>₱524,961,822</b> | <b>₱9,362,936,671</b> | <b>₱425,000,000</b> | <b>₱2,082,760,252</b> | <b>₱14,159,003,493</b> |

### Technology Licenses

Technology licenses represent the cost of JGSPC's technology and licensing agreements which cover the construction, manufacture, use and sale of PE and PP lines. JGSPC's technology licenses were fully impaired in 2006.



#### Bank Licenses and Others

Bank licenses pertain to RBC's bank licenses amounting to ₱1.2 billion and ₱911.2 million in 2017 and 2016, respectively. Others include intangible assets representing CAI's costs to establish brand and market opportunities under the strategic alliance with Cebgo, Inc.

Bank licenses have been allocated to the cash-generating units (CGU)/branches for impairment testing.

The recoverable amount of the CGU has been determined based on value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period.

Key assumptions in value-in-use calculation of CGUs follow:

- **Balance sheet items**  
Deposit levels are based on projected bank-wide plan, with varying growth of 5.0% to 20.0% depending on product type. Cash on hand is based on 3.0% of total deposits derived from historical average. Loan levels are based on historical growth, assuming a linear trend function. Past due receivables and/or real and other properties required are a function of loan levels, while other assets are a function of fund source levels. Reserve requirements include 18.0% of peso deposits.
- **Income statement items**  
Historical or average interest rates are used for loan interest income. For theoretical income from branch funds, peso-denominated accounts are pegged on the average high cost rate while foreign currency-denominated accounts use average interest derived from blended foreign currency-denominated funds. Other income is based on incremental growth ratios derived from the market's perceived response and assumed marketing efforts on the bank's products and services. Interest expense is computed using 0.3% for current and savings accounts, 4.8% for time deposits and special savings accounts, and 0.9% for foreign currency deposits. Operating expenses have 7% benchmark for increments.
- **Net present value computation**  
Terminal value is the growth rate based on the bank-wide average balance sheet spread, plus weighted average cost of capital. The discount rate is the weighted average cost of capital derived using actual levels.

Bank licenses and others include other assets representing costs to establish brand and market opportunities under the strategic alliance with Cebgo, Inc. amounting to ₱852.2 million (see Note 44).

#### Trademarks, Product Formulation, Brands and Customer Relationships

Trademarks and product formulation were acquired from General Milling Corporation in 2008. Total intangible assets acquired from the acquisition of CSPL and NZSFHL in 2016 and 2015, respectively, were composed of brands of ₱9.3 billion, customer relationships of ₱2.2 billion and software costs of ₱56.3 million.



## 19. Goodwill

Movements in the Group's goodwill account follow:

|  | 2017                   | 2016            |
|--|------------------------|-----------------|
| <b>Cost</b>                                      |                        |                 |
| Balance at beginning of year                     | ₱32,276,536,238        | ₱15,771,272,280 |
| Additions due to business combinations (Note 44) | –                      | 16,505,263,958  |
| Balance at end of year                           | <b>32,276,536,238</b>  | 32,276,536,238  |
| <b>Accumulated Impairment Losses</b>             |                        |                 |
| Balance at beginning and end of year             | <b>253,352,295</b>     | 253,352,295     |
| <b>Net Book Value at End of Year</b>             | <b>₱32,023,183,943</b> | ₱32,023,183,943 |

The Group's goodwill pertains to: (a) the acquisition of LSB in December 2012, (b) the acquisition of Advanson in December 2007, (c) the acquisition of Acesfood in May 2007, (d) the excess of the acquisition cost over the fair values of the net assets acquired by Hongkong China Foods Co., Ltd. (HCFCL) and URC Asean Brands Co., Ltd. (UABCL) in 2000, (e) the acquisition of Southern Negros Development Corporation (SONEDCO) in 1998, (f) the acquisition of Cebgo, Inc. (formerly Tiger Airways Philippines (TAP)) and NZSFHL in 2014, (g) acquisition of Balayan Sugar Mill and Snack Brands Australia in 2016.

Goodwill is not amortized and is non-deductible for tax purposes.

### *Acquisition of CSPL/Griffin's*

Goodwill arising from the acquisition of CSPL (amounting to ₱16.5 billion) and Griffin's (amounting ₱13.9 billion) is mainly attributable to synergies formed between URC and CSPL, and URC and NZSFHL, respectively.

Key assumptions used to determine the recoverable amounts of the aforementioned significant CGUs as at December 31, 2017 and 2016 are as follows:

|  | December 31, 2017 |           | December 31, 2016 |           |
|--|-------------------|-----------|-------------------|-----------|
|  | CSPL              | Griffin's | CSPL              | Griffin's |
| Forecast period                          | 5 years           | 5 years   | –                 | 5 years   |
| Long-term growth rate                    | 2.5%              | 2.0%      | –                 | 2.0%      |
| Revenue and operating margin growth rate | 3.0%              | 13.4%     | –                 | 13.4%     |
| Discount rate                            | 9.5%              | 7.8%      | –                 | 7.8%      |

### *Acquisition of Cebgo*

Goodwill arising from the acquisition of Cebgo is attributable to the following:

#### Achievement of Economic Scale

Using CAI's network of suppliers and other partners to improve cost and efficiency of Cebgo, thus, improving Cebgo's overall profit, given its existing market share.

#### Defensive Strategy

Acquiring a competitor enables CAI to manage overcapacity in certain geographical areas/markets.

The goodwill arising from the acquisitions of HCFCL, UABCL, Acesfood and Advanson was translated at the applicable year-end exchange rate.



## 20. Other Noncurrent Assets

This account consists of:

|   | 2017                  | 2016           |
|---|-----------------------|----------------|
| Deferred tax assets (Note 38)                   | <b>₱1,443,214,144</b> | ₱2,070,533,318 |
| Advances to suppliers - net of current portion  | <b>3,502,139,815</b>  | 941,864,046    |
| Security and miscellaneous deposits             | <b>915,984,716</b>    | 847,186,323    |
| Utility deposits                                | <b>874,345,792</b>    | 616,948,137    |
| Advances to lot owners - net of current portion | <b>190,078,577</b>    | 190,078,577    |
| Others  | <b>1,579,614,352</b>  | 1,855,667,895  |
|   | <b>₱8,505,377,396</b> | ₱6,522,278,296 |

### Security Deposits

Security deposits include deposits provided to lessors and maintenance providers for aircraft under operating lease.

### Advances to Suppliers

Advances to suppliers pertain to RLC's advance payments to suppliers or contractors which will be applied against the final billing. As of December 31, 2017 and 2016, these advances amount to ₱819.6 million and ₱941.9 million, respectively.

As of December 31, 2017, advances to suppliers include pre-purchase of Airbus A330 life limited engine parts amounting to ₱2.7 billion.

### Utility Deposits

Utility deposits consist primarily of bid bonds and meter deposits.

### Advances to Lot Owners

Advances to lot owners consist of advance payments to land owners which will be applied against the acquisition cost of the real properties that will be acquired.

### Others

As of December 31, 2017, others include deferred input VAT, prepaid rent, deposits to various joint venture partners, and repossessed chattels amounting to ₱666.0 million, ₱382.8 million, ₱133.4 million, and ₱90.0 million, respectively.

As of December 31, 2016, others include bills payment, prepaid rent, repossessed chattels, and deposits to various joint venture partners amounting to ₱626.4 million, ₱422.8 million, ₱98.7 million, and ₱90.8 million, respectively.





## 21. Accounts Payable and Accrued Expenses

This account consists of:

|  | 2017                    | 2016            |
|--|-------------------------|-----------------|
| Deposit liabilities                    | <b>₱63,756,016,649</b>  | ₱53,176,102,052 |
| Trade payables                         | <b>22,949,510,709</b>   | 19,099,938,293  |
| Accrued expenses                       | <b>18,837,213,636</b>   | 16,180,422,862  |
| Airport and other related fees payable | <b>3,255,283,618</b>    | 2,434,975,392   |
| Output VAT                             | <b>1,410,700,196</b>    | 416,976,865     |
| Withholding taxes payable              | <b>804,782,841</b>      | 289,365,215     |
| Due to related parties (Note 40)       | <b>104,073,070</b>      | 136,118,258     |
| Dividends payable                      | <b>40,990,210</b>       | 248,503,402     |
| Other payables                         | <b>3,440,466,898</b>    | 4,316,499,875   |
|  | <b>₱114,599,037,827</b> | ₱96,298,902,214 |

### Deposit Liabilities

Deposit liabilities represent the savings, demand and time deposit liabilities of RBC and LSB. Of the total deposit liabilities of the RBC and LSB as of December 31, 2017 and 2016, 57.04% and 52.12%, respectively, are subject to periodic interest repricing. Remaining deposit liabilities of the RBC and LBC bear annual fixed interest rates ranging from nil to 4.50% in 2017 and from nil to 2.88% in 2016.

On March 27, 2014, the BSP through Circular 830 approved the 1.00% increase in reserve requirements effective April 11, 2014, thereby increasing the reserve requirements on non-FCDU deposit liabilities of the Parent Company and LSB from 18.00% to 19.00% and 6.00% to 7.00% respectively. As mandated by the Circular, only demand deposit accounts maintained by the bank with the BSP are eligible for compliance with reserve requirements, thereby excluding government securities and cash in vault as eligible reserves. Further, deposits maintained with the BSP in compliance with the reserve requirement shall no longer be paid interest. On May 8, 2014, the BSP, through BSP Circular 832, approved the 1.00% increase in reserve requirement effective May 30, 2014, thereby further increasing the reserve requirements on non-FCDU deposit liabilities of the Parent Company and LSB from 19.00% to 20.00% and from 7.00% to 8.00%, respectively.

As of December 31, 2017 and 2016, the liquidity and statutory reserves of RBC and LSB amounted to ₱15.2 billion in 2017 and ₱11.0 billion in 2016.

As of December 31, 2017 and 2016, RBC and LSB are in compliance with the regulations.

The details of 'Interest expense' on 'Deposit liabilities', which are included in the 'Cost of services - Banking' in profit or loss in the consolidated statements of comprehensive income are as follows (see Note 30):

|         | 2017                  | 2016         | 2015         |
|---------|-----------------------|--------------|--------------|
| Savings | <b>₱707,442,241</b>   | ₱327,306,744 | ₱287,391,613 |
| Time    | <b>415,621,367</b>    | 319,618,028  | 274,848,318  |
| Demand  | <b>2,456,744</b>      | 1,938,352    | 1,785,501    |
|         | <b>₱1,125,520,352</b> | ₱648,863,124 | ₱564,025,432 |



Long-Term Negotiable Certificates of Deposit (LTNCD)

On May 4, 2017, the BSP approved RBC's issuance of the ₱3.00 billion LTNCD. On June 16, 2017, RBC listed its LTNCD issuance amounting to ₱4.18 billion through the Philippine Dealing and Exchange Corporation. The minimum investment was ₱50,000 with increments of ₱10,000 thereafter. The peso-denominated issue will mature on December 16, 2022 with nominal interest rate of 4.125% and EIR of 4.29%, payable every quarter. The proceeds was used to diversify RBC's maturity profile and funding sources and general corporate purposes.

Trade Payables

Trade payables are noninterest-bearing and are normally settled on 30- to 60-day terms. Trade payables arise mostly from purchases of inventories, which include raw materials and indirect materials (i.e., packaging materials) and supplies, for use in manufacturing and other operations. Trade payables also include importation charges related to raw materials purchases, as well as occasional acquisitions of production equipment and spare parts. Obligations arising from purchase of inventories necessary for the daily operations and maintenance of aircraft which include aviation fuel, expendables and consumables, equipment and in-flight supplies, and unpaid billings from suppliers and contractors related to construction activities, are also charged to this account.

Accrued Expenses

This account consists of accruals for the following:

|   | 2017                   | 2016                   |
|---|------------------------|------------------------|
| Advertising and promotions  | ₱5,465,609,049         | ₱4,605,661,535         |
| Landing and take-off, navigational charges, and other aircraft-related expenses | 2,846,666,677          | 2,454,928,921          |
| Compensation and benefits   | 2,475,275,937          | 2,416,449,248          |
| Accrued interest payable  | 2,169,637,990          | 2,018,859,767          |
| Rental expense  | 1,356,665,739          | 1,003,369,623          |
| Contracted services   | 1,140,269,273          | 970,430,471            |
| Taxes and licenses  | 1,076,004,287          | 489,361,168            |
| Import bills payable  | 1,065,641,006          | 1,132,410,067          |
| Utilities   | 375,918,613            | 284,420,702            |
| Freight and handling costs  | 336,634,916            | 493,055,041            |
| Insurance   | 79,038,159             | 99,427,394             |
| Royalties   | 17,179,354             | 11,125,092             |
| Other accrued expenses  | 432,672,636            | 200,923,833            |
|   | <b>₱18,837,213,636</b> | <b>₱16,180,422,862</b> |

Other accrued expenses include accruals for travel and transportation, repairs and maintenance and other professional services.

Airport and Other Related Fees Payable

Airport and other related fees payable are amounts payable to the Philippine Tourism Authority and Air Transportation Office Mactan-Cebu International Airport and Manila International Airport Authority arising from aviation security, terminal fees and travel taxes.

Other Payables

As of December 31, 2017 and 2016, 'Other payables' consist of management bonus and other non-trade payables.



## 22. Other Current Liabilities

This account consists of:

|  | 2017                   | 2016            |
|--|------------------------|-----------------|
| Unearned transportation revenue            | <b>₱9,050,351,455</b>  | ₱8,141,752,727  |
| Deposit from lessees (Notes 24 and 42)     | <b>2,356,241,519</b>   | 1,770,955,616   |
| Deposits from real estate buyers (Note 24) | <b>1,397,065,724</b>   | 1,838,572,591   |
| Advances from agents and others            | <b>483,419,341</b>     | 676,600,363     |
| Customer's deposits                        | <b>402,157,793</b>     | 474,910,512     |
| Derivative liabilities                     | <b>5,904,377</b>       | 5,947,386       |
| Redeemable preference shares               | -                      | 1,700,000       |
|  | <b>₱13,695,140,209</b> | ₱12,910,439,195 |

### Unearned Transportation Revenue

Passenger ticket and cargo waybill sales are initially recorded under 'Unearned transportation revenue' in the consolidated statements of financial position, until these are recognized under 'Air transportation revenue' in profit or loss in the consolidated statements of comprehensive income, when the transportation service is rendered by the Group (or once tickets are flown).

### Advances from Agents and Others

Advances from agents and others represent cash bonds required from major sales and ticket offices or agents. This account also includes commitment fees received for the sale and purchase agreement of aircraft.

## 23. Short-term and Long-term Debts

### Short-term Debts

Short-term debts consist of:

|  | 2017                   | 2016            |
|--|------------------------|-----------------|
| Parent Company:  |                        |                 |
| Philippine Peso - with interest rates ranging from 2.5% to 3.0% in 2017 and 2016                                   | <b>₱12,445,000,000</b> | ₱13,167,000,000 |
|  | <b>12,445,000,000</b>  | 13,167,000,000  |
| Subsidiaries:  |                        |                 |
| Foreign currencies - unsecured with interest rates ranging from 0.8% to 4.4% in 2017 and from 1.3% to 4.4% in 2016 | <b>10,502,408,274</b>  | 30,273,201,690  |
| Philippine Peso - with interest rates of 2.6% to 3.0% in 2017 and 1.85% to 2.5% in 2016                            | <b>22,900,405,187</b>  | 18,444,312,887  |
|  | <b>33,402,813,461</b>  | 48,717,514,577  |
|  | <b>₱45,847,813,461</b> | ₱61,884,514,577 |

As of December 31, 2017 and 2016, short-term debt of certain subsidiaries denominated in foreign currency and peso include trust receipts payable amounting to ₱5.6 billion and ₱11.5 billion, respectively. The trust receipts payable are secured by the trusted inventories for the same amount (see Note 12).

In 2017, 2016 and 2015, the Group has incurred interest expense on short-term notes amounting to ₱780.4 million, ₱407.4 million and ₱268.5 million, respectively (see Note 35).



Long-term Debts

Long-term debts (net of debt issuance costs) consist of:

|  | Maturities | Interest Rates            | 2017                    | 2016             | Condition  |
|--|------------|---------------------------|-------------------------|------------------|------------|
| <b>Parent Company:</b>                       |            |                           |                         |                  |            |
| Fixed Rate Retail Bonds:                     |            |                           |                         |                  |            |
| <b>₱30.0 billion Fixed Rate Retail Bonds</b> |            |                           |                         |                  |            |
| ₱24.5 billion bonds                          | 2019       | 5.23%                     | <b>₱24,451,863,188</b>  | ₱24,404,360,690  | Unsecured  |
| ₱5.3 billion bonds                           | 2021       | 5.24%                     | <b>5,288,516,867</b>    | 5,281,565,626    | Unsecured  |
| ₱0.2 billion bonds                           | 2024       | 5.30%                     | <b>175,228,915</b>      | 175,080,780      | Unsecured  |
| <b>Term Loans</b>                            |            |                           |                         |                  |            |
| ₱5.0 billion Term Loan                       | 2022       | 4.65%                     | <b>4,977,185,221</b>    | –                | Unsecured  |
| ₱5.0 billion Term Loan                       | 2024       | 4.93%                     | <b>4,976,415,465</b>    | –                | Unsecured  |
|  |            |                           | <b>39,869,209,656</b>   | 29,861,007,096   |            |
| <b>Subsidiaries:</b>                         |            |                           |                         |                  |            |
| Foreign currencies:                          |            |                           |                         |                  |            |
| <b>JGSPL</b>                                 |            |                           |                         |                  |            |
| US\$750.0 million guaranteed notes           | 2023       | 4.38%                     | <b>₱31,948,269,716</b>  | ₱31,788,240,411  | Guaranteed |
| <b>CAI</b>                                   |            |                           |                         |                  |            |
| ECA loans (Note 15)                          | 2024       | 2-6%; 1-2% (US\$ Libor)   | <b>6,491,078,408</b>    | 12,402,011,468   | Secured    |
| Commercial loan from foreign banks           | 2025       | 3-6%; 1-2% (US\$ Libor)   | <b>20,945,327,844</b>   | 24,829,936,162   | - do -     |
| <b>URC</b>                                   |            |                           |                         |                  |            |
| NZ\$420.0 million term loan                  | 2019       | NZ BKBM+1.60%             | <b>14,703,928,540</b>   | 14,311,677,913   | Guaranteed |
| AU\$484.2 million term loan                  | 2021       | AU 3.04% (BBSY BID+1.25%) | <b>18,522,033,848</b>   | 17,054,914,872   | - do -     |
| <b>RLC</b>                                   |            |                           |                         |                  |            |
| RMB60 million term loan                      | 2022       | RMB 4.75%                 | <b>458,325,660</b>      | –                | Secured    |
| RMB50 million term loan                      | 2019       | RMB 4.75%                 | <b>381,938,050</b>      | –                | Unsecured  |
|  |            |                           | <b>93,450,902,066</b>   | 100,386,780,826  |            |
| <b>Philippine Peso:</b>                      |            |                           |                         |                  |            |
| <b>RLC</b>                                   |            |                           |                         |                  |            |
| ₱10.6 billion loan facility                  | 2022       | 4.80%                     | <b>10,572,734,836</b>   | 10,560,505,235   | Unsecured  |
| ₱1.4 billion loan facility                   | 2025       | 4.93%                     | <b>1,354,785,206</b>    | 1,354,882,882    | - do -     |
| ₱4.5 billion loan facility                   | 2027       | 4.95%                     | <b>4,479,057,874</b>    | –                | - do -     |
| ₱7.0 billion loan facility                   | 2024       | 4.75%                     | <b>6,968,413,235</b>    | –                | - do -     |
| ₱6.5 billion loan facility                   | 2021       | 3.83%                     | <b>6,475,938,594</b>    | 6,469,690,891    | - do -     |
| ₱5.0 billion loan facility                   | 2023       | 3.89%                     | <b>4,969,968,699</b>    | 4,976,398,670    | - do -     |
| <b>CAI</b>                                   |            |                           |                         |                  |            |
| Commercial loans                             | 2027       | 2-3% (PDST-R2)            | <b>13,545,804,500</b>   | 5,578,490,000    | Guaranteed |
|  |            |                           | <b>48,366,702,944</b>   | 28,939,967,678   |            |
|  |            |                           | <b>181,686,814,666</b>  | 159,187,755,600  |            |
| <b>Less current portion</b>                  |            |                           | <b>5,728,469,720</b>    | 6,826,230,309    |            |
|  |            |                           | <b>₱175,958,344,946</b> | ₱152,361,525,291 |            |

The foreign exchange rate used to revalue the foreign currency borrowings was ₱49.93 to US\$1.00 and ₱49.72 to US\$1.00 as of December 31, 2017 and 2016, respectively.

Long-term debt to foreign banks is shown net of unamortized debt issuance costs totaling ₱520.8 million and ₱634.6 million as of December 31, 2017 and 2016, respectively. Unamortized debt issuance cost related to peso-denominated long-term debt amounted to ₱299.9 million and ₱277.5 million as of December 31, 2017 and 2016, respectively.

Repayments of the long-term debt (gross of debt issuance costs) follow:

|            | 2017                    | 2016             |
|------------|-------------------------|------------------|
| Due in:    |                         |                  |
| 2017       | <b>₱–</b>               | ₱7,040,253,460   |
| 2018       | <b>5,969,257,624</b>    | 5,962,465,277    |
| Thereafter | <b>176,538,250,996</b>  | 147,097,131,332  |
|            | <b>₱182,507,508,620</b> | ₱160,099,850,069 |



The details of the Group's long-term debt follow:

Subsidiaries' Foreign Currency Loans

*JGSPL 4.375% Senior Unsecured Notes Due 2023*

On January 24, 2013, JGSHPL issued US\$750.0 million, 4.375% senior unsecured notes due 2023. The notes are unconditionally and irrevocably guaranteed by the Parent Company.

*JGSPL 5-year Guaranteed Notes*

On January 16, 2013, JGSHPL, a wholly owned subsidiary of JGSPL, issued US\$250.0 million, US\$ LIBOR plus 2.2% margin, 5-year guaranteed notes. The notes are unconditionally and irrevocably guaranteed by the Parent Company. These notes are hedged items in a cash flow hedge. In October 2016, JGSHPL prepaid the notes under Clause 7.1 of the underlying Term Loan Facility Agreement. Total payment amounted to US\$251.8 million (₱12.5 billion).

*CAI Commercial Loans From Foreign Banks*

On various dates from 2007 to 2016, CAI entered into a commercial loan facility to partially finance the purchase of 19 Airbus A320 aircraft, one CFM 565B4/P engine, two CFM 565B5/P engines and one QEC Kit. The security trustee of the commercial loan facility established SPEs, namely ILL, PTALL, PTHALL, SAALL, SBALL and SCALL, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to a: (a) 10-year finance lease arrangement for the Airbus A320 aircraft, (b) six-year finance lease arrangement for the engines and (c) five-year finance lease arrangement for the QEC Kit. The quarterly and semi-annual rental payments of CAI to those SPEs correspond to the principal and interest payments made by these SPEs to the commercial lenders and are guaranteed by CAI. CAI has the option to purchase the aircraft, the engines and the QEC Kit for a nominal amount at the end of such leases.

The terms of the CAI commercial loans from foreign banks follow:

- Term of ten years starting from the delivery date of each aircraft.
- Combination of annuity style and equal principal repayments made on a quarterly and semi-annual basis for the aircraft and engines.
- Interests on loans are a mix of fixed and variable rates. Interest rates ranges from 2.00% to 5.00%.
- The facilities provide for material breach as an event of default, upon which, the outstanding amount of loan will be payable, including interest accrued. The lenders will foreclose on secured assets, namely the aircraft.

As of December 31, 2017 and 2016, the total outstanding balance of the US dollar commercial loans amounted to ₱20.9 billion (US\$419.5 million) and ₱24.8 billion (US\$499.4 million), respectively. Interest expense amounted to ₱780.6 million, ₱751.9 million and ₱585.4 million in 2017, 2016 and 2015, respectively.

*CAI's ECA Loans*

On various dates from 2005 to 2012, CAI entered into ECA-backed loan facilities to partially finance the purchase of ten Airbus A319 aircraft, seven ATR 72-500 turboprop aircraft and ten Airbus A320 aircraft. The security trustee of the ECA loans established SPEs, namely CALL, BLL, SLL, SALL, VALL and POALL, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to (a) ten-year finance lease arrangement for the ATR 72-500 turboprop aircraft and (b) twelve-year finance lease arrangement for the Airbus A319 and A320 aircraft. The quarterly and semi-annual rental payments made by CAI to these SPEs correspond to the principal and interest payments made by the SPEs to the ECA-backed lenders. The quarterly and semi-annual lease rentals to the SPEs are



guaranteed by CPAHI and CAI. CAI has the option of purchasing the aircraft for a nominal amount at the end of such leases.

In 2017 and 2016, CAI exercised the option to purchase three and four of the ten Airbus A319 aircraft, respectively, which were subsequently sold to a third party as part of a forward sale arrangement (see Note 16). The purchase required the prepayment of the balance of the loan facility attributed to the sold Airbus A319 aircraft. The total amount of loans paid amounted to ₱494.1 million and ₱870.5 million in 2017 and 2016, respectively. The breakage cost for the related loan prepayments amounted to ₱12.0 million and ₱45.6 million in 2017 and 2016, respectively.

The terms of the remaining ECA-backed facilities, which are the same for the six (6) Airbus A320 aircraft and seven (7) ATR 72-500 turboprop aircraft, follow:

- Term of 12 years starting from the delivery date of each Airbus A320 aircraft and ten years for each ATR 72-500 turboprop aircraft.
- Combination of annuity style and equal principal repayments for the ATR 72-500 turboprop aircraft and Airbus A320 aircraft. Principal repayments shall be made on a semi-annual basis for ATR 72-500 turboprop aircraft. Principal repayments shall be made on a quarterly basis for A320 aircraft.
- Interest on loans from the ECA lenders are a mix of fixed and variable rates. Fixed annual interest rates ranges from 2.00% to 5.00% and variable rates are based on US dollar LIBOR plus margin.
- As provided under the ECA-backed facility, the SPEs cannot create or allow to exist any security interest, other than what is permitted by the transaction documents or the ECA administrative parties. SPEs must not allow impairment of first priority nature of the lenders' security interests.
- The ECA-backed facilities also provide for the following events of default: (a) nonpayment of the loan principal or interest or any other amount payable on the due date, (b) breach of negative pledge, covenant on preservation of transaction documents, (c) misrepresentation, (d) commencement of insolvency proceedings against SPEs becomes insolvent, (e) failure to discharge any attachment or sequestration order against SPEs' assets, (f) entering into an undervalued transaction, obtaining preference or giving preference to any person, contrary to the laws of the Cayman Islands, (g) sale of any aircraft under ECA financing prior to discharge date, (h) cessation of business, (i) revocation or repudiation by the SPEs, the Group, JGSHI or CPAHI of any transaction document or security interest, and (j) occurrence of an event of default under the lease agreement with the Parent Company.
- Upon default, the outstanding amount of loan will be payable, including interest accrued. Also, the ECA lenders will foreclose on secured assets, namely the aircraft (Note 13).
- An event of default under any ECA loan agreement will occur if an event of default as enumerated above occurs under any other ECA loan agreement.

The Group is not in breach of any terms on the ECA and commercial loans.

The total future minimum lease payments of the operating aircraft leases guaranteed by the Parent Company amounted to ₱29.8 billion and ₱31.9 billion in 2017 and 2016, respectively.



*URC NZ Finance Company Limited NZD420 Million Term Loan due 2019*

On November 13, 2014, URC New Zealand Holding Finance Company, Ltd. (URC NZ Finco) entered into a secured term loan facility agreement payable in five (5) years, amounting to NZD420.0 million (₱12.6 billion), with various banks for payment of acquisition costs and to refinance certain indebtedness of an acquired company, NZ Snack Foods Holdings Limited. The loan obtained bears a market rate plus a certain spread, payable quarterly, maturing on November 13, 2019. This long-term loan is guaranteed by URC Parent Company.

*URC Oceania Company Limited NZD322 Million Term Loan due 2019*

On November 13, 2014, URC Oceania entered into a secured term loan facility agreement payable in five (5) years, amounting to NZD322.0 million (₱9.6 billion), with various banks for payment of acquisition costs and to refinance certain indebtedness of an acquired company, NZ Snack Foods Holdings Limited. The loan obtained bears a market rate plus a certain spread, payable quarterly, maturing on November 13, 2019.

On February 16, 2016, URC Oceania prepaid its 5-year term loan under Clause 7.1 of the underlying Facility Agreement. Total payment amounted NZ\$326.0 million (approximately ₱10.1 billion), including interest.

*URC Australia Finance Company Limited Term Loan US\$484.2 Million*

On September 30, 2016, URC AU FinCo entered into a secured syndicated term loan facility agreement payable in five (5) years, amounting to AU\$484.2 million (₱17.9 billion), with various banks for payment of acquisition costs and to refinance certain indebtedness of an acquired company, CSPL. The loan obtained bears a market rate plus a certain spread, payable quarterly, maturing on September 30, 2021. This long-term loan is guaranteed by URC Parent Company.

*RLC Five-year loan from Agricultural Bank of China (ABC) maturing in August 2022*

In 2017, Chengdu Xin Yao entered into a facility loan agreement with ABC amounting to RMB500.0 million. On August 22, 2017, RLC made a drawdown amount to ₱459.6 million or RMB60.0 million which is payable after a period of 5 years. Interest on the loan shall be based on the rates released by the People's Bank of China which is 4.75% per annum as of loan agreement date. This long-term loan is guaranteed with RLC's land use rights in China under Chengdu Xin Yao.

*Three-year entrusted loan from Chengdu Ding Feng Real Estate Development Co. Ltd. Maturing in December 2019*

In 2017, Chengdu Xin Yao entered into a loan agreement with Chengdu Ding Feng Real Estate Development Co. Ltd. amounting to RMB50.0 million. Interest on the loan is 4.75%.

Parent Company's Philippine Peso Loans

*Parent Company ₱30.0 Billion Fixed Rate Retail Bonds*

On February 28, 2014, the Parent Company issued a ₱30.0 billion fixed rate retail bond. The bond was issued in three series: (1) Five-year bond amounting to ₱24.5 billion fixed at 5.23% due 2019; (2) Seven-year bond amounting to ₱5.3 billion fixed at 5.24% due 2021; and (3) Ten year bond amounting to ₱176.3 million fixed at 5.30% due 2024. Interest is calculated on a 30/360-day count basis and is payable semi-annually starting August 27, 2014 and the 27th day of February and August of each year thereafter. Net proceeds from the bond issuance were used to partially finance its acquisition of Meralco shares and for general corporate purposes.



*Parent Company ₱7.5 Billion and ₱1.5 Billion Term Loan Facilities*

On December 10 and 11, 2014, the Parent Company entered into a ₱7.5 billion and a ₱1.5 billion term loan facility, respectively. The loans bear a floating interest rate based on the applicable three (3)-month PDST-R1 plus 0.75% spread. The interest is calculated based on the actual number of days lapsed over a 365-day calendar year count and are payable quarterly starting December 10, 2015 until December 10, 2016, the maturity of the loans.

On June 10, 2015, the Parent Company prepaid the ₱1.5 billion loan facility. The interest rate basis for the ₱7.5 billion loan was also changed to the current SDA rates. The Parent Company deemed the change as not a substantial modification of the previous loan terms.

On June 10, 2016, the Parent Company partially prepaid the ₱2.0 billion of the ₱7.5 billion term loan facility. The Parent Company paid ₱2.05 billion representing ₱2.0 billion for principal and ₱48.6 million for interest. On December 10, 2016, the Parent Company settled the remaining ₱5.5 billion term loan facility. The Parent Company paid ₱5.5 billion representing ₱5.5 billion for principal and ₱36.1 million for interest.

*Parent Company ₱9.0 Billion Term Loan Facility*

On November 20, 2014, the Parent Company entered into a ₱9.0 billion term loan facility. The loan bears a fixed rate of 4.5% calculated based on the actual number of days lapsed over a 365-day calendar year count and is payable quarterly starting November 20, 2014 until November 20, 2019, the maturity of the loans.

On December 14, 2015, the Parent Company partially prepaid the ₱4.1 billion term loan facility. The Parent Company paid ₱4.2 billion representing ₱4.1 billion for principal, ₱26.1 million for interest and ₱41.0 million as prepayment fee.

On May 20, 2016, the Parent Company prepaid the remaining balance of ₱4.9 billion. The Parent Company paid ₱4.98 billion representing ₱4.9 billion for principal, ₱53.3 million for interest and ₱24.5 million as prepayment fee. The related loss on the derecognition of the loan that was partially prepaid was included under “Financing Cost and Other Charges” in the consolidated statement of comprehensive income.

*Parent Company ₱5.0 Billion Term Loan with BPI due in July 2022*

On July 6, 2017, the Company borrowed ₱5.0 billion under Term Loan Facility Agreement with BPI with a fixed rate at 4.65% per annum and shall be payable quarterly in arrears.

*Parent Company ₱5.0 Billion Term Loan with MBTC due in July 2024*

On July 13, 2017, the Company borrowed ₱5.0 billion under Term Loan Facility Agreement with MBTC with a fixed rate at 4.93% per annum and shall be payable quarterly in arrears.

Subsidiaries’ Philippine Peso Loans

*RLC ₱10.0 Billion Term Loan due in July 2019*

On July 8, 2014, RLC borrowed ₱9.0 billion and ₱1.0 billion under a Term Loan Facility Agreement with BDO Unibank, Inc. and BDO Leasing and Finance, Inc., respectively.

The ₱9.0 billion loan was released in two tranches amounting to ₱5.0 billion and ₱4.0 billion on July 14, 2014 and August 27, 2014, respectively. The interest rate is at 5.04% per annum and shall be payable quarterly, computed on the basis of a year of 365 calendar days for the actual number of days elapsed.





The ₱1.0 billion loan was released on July 14, 2014 with interest rate at 5.04% per annum and shall be payable quarterly, computed on the basis of a year of 365 calendar days for the actual number of days elapsed.

The interest rate for both loans was fixed based on the applicable five (5) - year PDSTF plus 1% spread determined one (1) banking day prior to the initial borrowing and inclusive of gross receipts tax, but subject to a floor rate of 4.50% per annum. The market rate at the date of inception is above the floor rate of 4.50% and management assessed that the interest rate floor is clearly and closely related to the host contract and is not required to be separately valued.

RLC may, subject to the penalty of one percent (1.00%), prepay the loan in part or in full together with accrued interest thereof to prepayment date. RLC has assessed that the embedded derivative related to this prepayment option is clearly and closely related to the host contract thus was not separately valued. On October 17, 2016, RLC pre-terminated the outstanding balance of the ₱10.0 billion loan and paid a prepayment charge amounting to ₱147 million.

*RLC ₱10.6 Billion Term Loan due in February 2022*

On February 23, 2015, RLC issued ₱10.6 billion bonds constituting direct, unconditional, unsubordinated, and unsecured obligation obligations of RLC and shall at all times rank pari-passu and without preference among themselves and among any present and future unsubordinated and unsecured obligations of RLC, except for any statutory preference or priority established under Philippine law. The net proceeds of the issue shall be used by RLC to refinance existing debt obligations and to partially fund investment capital expenditures.

Interest on the bonds shall be calculated on a 30/360-day count basis and shall be paid semi-annually in arrears on February 23 and August 23 of each year at which the bonds are outstanding. Interest rate is 4.80% per annum.

*RLC ₱1.4 Billion Term Loan due in February 2025*

On February 23, 2015, RLC issued ₱1.4 billion bonds constituting direct, unconditional, unsubordinated, and unsecured obligation obligations of RLC and shall at all times rank pari-passu and without preference among themselves and among any present and future unsubordinated and unsecured obligations of RLC, except for any statutory preference or priority established under Philippine law. The net proceeds of the issue shall be used by RLC to refinance existing debt obligations and to partially fund investment capital expenditures.

Interest on the bonds shall be calculated on a 30/360-day count basis and shall be paid semi-annually in arrears on February 23 and August 23 of each year at which the bonds are outstanding. Interest rate is 4.93% per annum.

*RLC ₱6.5 Billion Term Loan due in July 2021*

On July 8, 2016, RLC borrowed ₱6.5 billion under Term Loan Facility Agreements with BDO Unibank, Inc.

The loan was released on July 8, 2016 amounting to ₱3.0 billion and on September 27, 2016 amounting to ₱3.5 billion with interest rate at 3.83% per annum and shall be payable quarterly, computed on the basis of a year of 365 calendar days for the actual number of days elapsed.

*RLC ₱5.0 Billion Term Loan due in August 2023*

On August 10, 2016, RLC borrowed ₱5.0 billion under Term Loan Facility Agreements with Bank of the Philippine Islands. The ₱5.0 billion loan was released on August 10, 2016 with interest rate at



3.89% per annum and shall be payable quarterly, computed on the basis of a 360-day year and on the actual number of days elapsed.

*RLC ₱7.0 Billion Term Loan due in March 2024*

On March 15, 2017, RLC borrowed ₱7.0 billion million under Term Loan Facility Agreements with Metropolitan Bank & Trust Company. The loan was released on March 15, 2017 amounting to ₱7.0 billion with interest rate at 4.75% per annum and shall be payable quarterly, computed on the basis of a year of 365 calendar days for the actual number of days elapsed.

*RLC ₱4.5 Billion Term Loan due February 2027*

On February 10, 2017, RLC borrowed ₱4.5 billion under Term Loan Facility Agreements with Bank of the Philippine Islands. The loan was released on February 10, 2017 amounting to ₱4.5 billion with interest rate at 4.95% per annum and shall be payable quarterly, computed on the basis of a year of 365 calendar days for the actual number of days elapsed.

*CAI Philippine Peso Commercial Loans*

In 2016, CAI entered into a Philippine peso commercial loan facility to partially finance the acquisition of two ATR 72-600 aircraft and one Airbus A330 aircraft.

In 2017, CAI entered into a Philippine peso commercial loan facility to partially finance the acquisition of six ATR 72-600 aircraft and one Airbus A330 aircraft.

The terms of the commercial loans follow:

- Term of ten years starting from the delivery date of each aircraft.
- Forty equal consecutive principal repayments made on a quarterly basis
- Interests on loans are variable rates. Interest rates ranges from 2.00% to 3.00%.
- The facilities provide that, upon event of default, the outstanding amount of loan will be payable, including interest accrued. The lenders will foreclose mortgaged assets, namely the aircraft.

In 2017, 2016 and 2015, total interest expense on long-term debt amounted to ₱6.6 billion, ₱6.5 billion and ₱6.1 billion, respectively (see Note 35).

In 2017, 2016 and 2015, the Group recognized amortization of bond issue costs amounting to ₱84.2 million, ₱209.3 million and ₱147.2 million, respectively (see Note 35).

Debt Covenants

Certain loan agreements contain provisions which, among others, require the maintenance of specified financial ratios at certain levels and impose negative covenants which, among others, prohibit a merger or consolidation with other entities, dissolution, liquidation or winding-up, except with any of its subsidiaries; and prohibit the purchase or redemption of any issued shares or reduction of registered and paid-up capital or distribution of assets resulting in capital base impairment.

For the Parent Company's ₱9.0 Billion, ₱5.0 Billion and ₱5.0 Billion Term Loan Facilities, the Group is required to maintain a financial ratio of Group's total borrowings to Group's shareholders' equity not exceeding 2.0:1.0.

For the Parent Company's ₱30.0 Billion Fixed Rate Retail Bonds, the Group is required to maintain the following financial ratios:

- the Group's current ratio of not less than 0.5:1.0;
- the Group's debt-to-equity ratio of not greater than 2.0:1.0



For the RLC's ₱10.6 Billion Retail Bonds due in February 2022, ₱1.4 Billion Retail Bonds due in February 2025, ₱10.0 Billion Term Loan due in July 2019, ₱6.5 Billion Term Loan due in July 2021, ₱5.0 Billion Term Loan due in August 2023, ₱4.5 Billion Term Loan due in February 2027 and ₱7.0 Billion Term Loan due in March 2024, RLC is required to maintain a debt-to-equity ratio not exceeding 2:1 as referenced from its consolidated financial statement as of its year end December 31 and consolidated interim financial statements as of March 31. These loans were not guaranteed by the Parent Company.

For the RLC's RMB60 million loan from Agricultural Bank of China (ABC) maturing in August 2022, Chengdu Xin Yao is required to maintain the following financial indicators: (a) actual revenue in its operating period which should not be lower than 20%; (b) asset-liability ratio should not equal or exceed 70%; (c) the borrower should not have a bad credit; and (d) borrower contingent liability ratio should not exceed 4%. Chengdu Xin Yao has complied with the debt covenant as of December 31, 2017.

For CEB's ECA loans, the Group is required to maintain the following financial ratios:

- Consolidated EBITDA to consolidated interest payable ratio should not be less than 3:1 ratio;
- Consolidated total borrowings to consolidated equity should not exceed 2:1 ratio; and
- Consolidated current liabilities should not exceed consolidated current assets.

The agreements for the ECA loans also include conditions that has to be met prior to declaring CAI or the Parent Company in default or in breach of the related debt covenants, such as but not limited to, written notice of default and lapse of the relevant grace period.

For JGSPL's US\$750.0 million Senior Unsecured Notes due in 2023, the guarantor shall procure:

- Consolidated Current Assets to Consolidated Current Liabilities is not at any time less than 0.5:1.0; and
- Consolidated Total Borrowings to Consolidated Stockholders' Equity does not at any time exceed 2:1.

For JGSPL's US\$250.0 million loans due in 2018, the guarantor shall procure that the ratio of Consolidated Total Borrowings to Consolidated Shareholders' Equity does not at any time exceed 2:1.

For the NZ and AU Term loans, these loans contain negative covenants which include, among others, maintenance of a debt to equity ratio of not greater than 2.5 to 1.0.

The Group has complied with all of its debt covenants as of December 31, 2017 and 2016.



## 24. Other Noncurrent Liabilities

This account consists of:

|  | 2017                   | 2016            |
|--|------------------------|-----------------|
| Deposit liabilities - net of current portion                 | <b>₱16,803,718,389</b> | ₱4,188,393,891  |
| ARO  | <b>3,824,447,419</b>   | 2,606,050,631   |
| Deposit from lessees - net of current portion<br>(Note 42)   | <b>2,341,568,583</b>   | 2,262,502,350   |
| Accrued rent expense   | <b>1,458,843,803</b>   | 1,577,720,784   |
| Pension liabilities (Note 37)                                | <b>1,431,166,804</b>   | 1,275,276,439   |
| Deposits from real estate buyers - net of current<br>portion | <b>1,443,705,475</b>   | 296,427,485     |
| Others   | <b>887,316,583</b>     | 999,928,126     |
|  | <b>₱28,190,767,056</b> | ₱13,206,299,706 |

### Deposit Liabilities

Deposit liabilities represent time deposit liabilities of RBC and LSB with maturities of beyond 12 months from reporting date.

### ARO

CAI is legally required under certain lease contracts to restore certain leased passenger aircraft to stipulated return conditions and to bear the costs of restoration at the end of the contract period. These costs are accrued based on estimates made by CAI's engineers, which include estimates of future aircraft utilization and certain redelivery costs at the end of the lease period (see Note 3).

URC also has obligations to restore the leased manufacturing sites, warehouses and offices at the end of the respective lease terms. These provisions are calculated as the present value of the estimated expenditures required to remove any leasehold improvements. These costs are currently capitalized as part of the cost of the plant and equipment and are amortized over the shorter of the lease term and the useful life of assets.

The rollforward analysis of the Group's ARO follows:

|                              | 2017                  | 2016           |
|------------------------------|-----------------------|----------------|
| Balance at beginning of year | <b>₱2,606,050,631</b> | ₱1,344,571,000 |
| Provision for ARO            | <b>1,218,396,788</b>  | 1,261,479,631  |
| Balance at end of year       | <b>₱3,824,447,419</b> | ₱2,606,050,631 |

In 2017, 2016 and 2015, ARO expenses included as part of repairs and maintenance under 'Cost of Sales' amounted to ₱1.2 billion, ₱1.3 billion and ₱0.9 billion, respectively (Note 30).

### Deposits from Lessees

Deposits from lessees (including the current portion shown in Note 22) represent cash received from tenants representing three to six months' rent which shall be refunded to tenants at the end of the lease term. These are initially recorded at fair value, which is obtained by discounting its future cash flows using the applicable rates of similar types of instruments. The accretion expense on these deposits recorded as part of cost of rental services on the discount amounted to ₱56.0 million, ₱88.1 million and ₱63.9 million in 2017, 2016 and 2015, respectively (Note 30). The deposits from lessees were discounted using PDST-F rate plus 2.0% spread.



The unearned rental income (included under ‘Deposit from lessees’) amounted to ₱373.0 million and ₱282.0 million as of December 31, 2017 and 2016, respectively. The rental income on amortization of unearned rental income amounted to ₱64.0 million, ₱83.0 million and ₱62.5 million in 2017, 2016 and 2015, respectively.

#### Accrued Rent

Accrued rent expense represents the portion of the lease as a consequence of recognizing expense on a straight-line basis. These pertain to various lease of land entered by the Group where the malls are located.

#### Deposits from Real Estate Buyers

Deposits from real estate buyers (including the current portion shown in Note 22) represent cash received in advance from buyers which shall be applied against the total contract price of the subdivision land, condominium and residential units that are for sale as soon as the contractual obligation of the real estate buyer has begun. The deposits from buyers which are expected to be applied to the contract price within one year are classified as current (see Note 22).

Deposits from real estate buyers also include cash collections in excess of the installment contract receivables recognized under the percentage-of-completion method.

#### Others

Others include retention payable which represents amounts withheld from payments to contractors as guaranty for any claims against them. These are noninterest-bearing and will be remitted to contractors at the end of the contracted work.

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## 25. Equity

Details of the Parent Company’s authorized capital stock as of December 31, 2017 and 2016 follow:

|                             | Par Value | Shares         | Amount          |
|-----------------------------|-----------|----------------|-----------------|
| Common shares               | ₱1.00     | 12,850,800,000 | ₱12,850,800,000 |
| Preferred voting shares     | 0.01      | 4,000,000,000  | 40,000,000      |
| Preferred non-voting shares | 1.00      | 2,000,000,000  | 2,000,000,000   |
|                             |           | 18,850,800,000 | ₱14,890,800,000 |

The paid-up capital of the Group consists of the following:

|   |                        |
|---|------------------------|
| Capital stock:                            |                        |
| Common shares - ₱1 par value              | ₱7,162,841,657         |
| Preferred voting shares - ₱0.01 par value | 40,000,000             |
|   | 7,202,841,657          |
| Additional paid-in capital                | 23,553,025,157         |
| <b>Total paid-up capital</b>              | <b>₱30,755,866,814</b> |



Preferred Voting Shares

The preferred voting shares have, among others, the following rights, privileges and preferences:

- a. Entitled to vote on all matters involving the affairs of the Parent Company requiring the approval of the stockholders. Each share shall have the same voting rights as a common share.
- b. The shares shall be non-redeemable.
- c. Entitled to dividends at the rate of 1/100 of common shares, such dividends shall be payable out of the surplus profits of the Parent Company so long as such shares are outstanding.
- d. In the event of liquidation, dissolution, receivership or winding up of affairs of the Parent Company, holders shall be entitled to be paid in full at par, or ratably, in so far as the assets of the Parent Company will permit, for each share held before any distribution is made to holders of the common shares.

Preferred Non-voting Shares

The preferences, privileges and voting powers of the preferred non-voting shares shall be as follows:

- a. May be issued by the BOD of the Parent Company for such amount (not less than par), in such series, and purpose or purposes as shall be determined by the BOD of the Parent Company.
- b. The shares shall be non-convertible, non-voting, cumulative and non-participating.
- c. May be redeemable at the option of the Parent Company at any time, upon payment of their aggregate par or issue value, plus all accrued and unpaid dividends, on such terms as the BOD of the Parent Company may determine at the time of issuance. Shares so redeemed may be reissued by the Parent Company upon such terms and conditions as the BOD of the Parent Company may determine.
- d. The holders of shares will have preference over holders of common stock in the payment of dividends and in the distribution of corporate assets in the event of dissolution, liquidation or winding up of the Parent Company, whether voluntary or involuntary. In such an event, the holders of the shares shall be paid in full or ratably, insofar as the assets of the Parent Company will permit, the par or issue value of each share held by them, as the BOD of the Parent Company may determine upon their issuance, plus unpaid cumulated dividends up to the current period, before any assets of the Parent Company shall be paid or distributed to the holders of the common shares.
- e. The holders of shares shall be entitled to the payment of current as well as any accrued or unpaid dividends on the shares before any dividends can be paid to the holders of common shares.
- f. The holders of shares shall not be entitled to any other or further dividends beyond that specifically payable on the preferred non-voting shares.
- g. The holders of shares shall not be entitled to vote (except in those cases specifically provided by law) or be voted for.
- h. The holders of shares shall have no pre-emptive rights, options or any other similar rights to subscribe or receive or purchase any or all issues or other disposition of common or other preferred shares of the Parent Company.
- i. The shares shall be entitled to receive dividends at a rate or rates to be determined by the Parent Company's BOD upon their issuance.



Record of Registration of Securities with the SEC

Summarized below is the Parent Company's track record of registration of securities under the Securities Regulation Code.

| Date of offering | Type of offering                                   | No. of shares offered       | Par value | Offer price | Authorized number of shares  | Issued and outstanding shares |
|------------------|--|-----------------------------|-----------|-------------|--|-------------------------------|
| June 30, 1993    | Registration of authorized capital stock           | -                           | ₱1.00     | ₱-          | 12,850,800,000 common shares and 2,000,000,000 preferred non-voting shares | -                             |
| June 30, 1993    | Initial public offering (IPO)                      | 1,428,175,000 common shares | 1.00      | 4.40        | -  | 1,428,175,000 common shares   |
| June 30, 1994    | Conversion of convertible bonds into common shares | 428,175,000 common shares   | 1.00      | 13.75       | -  | 3,725,457 common shares       |
| July 3, 1998     | Stock rights offering (1:2)                        | 2,060,921,728 common shares | 1.00      | 2.00        | -  | 2,060,921,728 common shares   |

The table below provides information regarding the number of stockholders of the Parent Company as of December 31, 2017, 2016 and 2015:

|                         | 2017  | 2016  | 2015  |
|-------------------------|-------|-------|-------|
| Common shares           | 1,033 | 1,043 | 1,054 |
| Preferred voting shares | 1     | 1     | 1     |

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities. No changes have been made in the objective, policies and processes as they have been applied in previous years.

The Group monitors its use of capital structure using a debt-to-capital ratio which is gross debt divided by total capital. The Group includes within gross debt all interest-bearing loans and borrowings and derivative liabilities, while capital represents total equity.

The Group's computation of debt-to-capital ratio follows:

|  | 2017                    | 2016                    |
|--|-------------------------|-------------------------|
| (a) Gross debt                                   |                         |                         |
| Short-term debt (Note 23)                        | ₱45,847,813,461         | ₱61,884,514,577         |
| Current portion of long-term debt (Note 23)      | 5,728,469,720           | 6,826,230,309           |
| Long-term debt, net of current portion (Note 23) | 175,958,344,946         | 152,361,525,291         |
| Derivative liabilities (Note 8)                  | 5,904,377               | 5,947,386               |
| Redeemable preferred shares (Note 22)            | -                       | 1,700,000               |
|  | <b>₱227,540,532,504</b> | <b>₱221,079,917,563</b> |
| (b) Capital                                      | <b>₱346,419,548,001</b> | <b>₱312,783,855,201</b> |
| (c) Debt-to-capital ratio (a/b)                  | <b>0.66:1</b>           | <b>0.71:1</b>           |



The Group's policy is to ensure that the debt-to-capital ratio would not exceed the 2.0:1.0 level.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of RBC's compliance with regulatory requirements and ratios is based on the amount of the parent company's 'unimpaired capital' (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies. In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent company and subsidiaries engaged in financial allied undertakings). Qualifying capital and risk-weighted assets are computed based on BSP regulations.

The regulatory Gross Qualifying Capital of RBC consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprises share capital, retained earnings (including current year profit) and non-controlling interest less required deductions such as deferred tax and unsecured credit accommodations to directors, officers, stockholders, and their related interests (DOSRI). Tier 2 capital includes unsecured subordinated note, revaluation reserves and general loan loss provision. Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to equity investments in unconsolidated subsidiary banks and other financial allied undertakings, but excluding investments in debt capital instruments of unconsolidated subsidiary banks (for solo basis) and equity investments in subsidiary nonfinancial allied undertakings.

Risk-weighted assets are determined by assigning defined risk weights to statement of financial position exposures and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0.00% to 125.00% depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors.

Following is a summary of risk weights and selected exposure types:

| Risk weight | Exposure/Asset type*   |
|-------------|--|
| 0%          | Cash on hand; claims collateralized by securities issued by the non-government, BSP; loans covered by the Trade and Investment Development Corporation of the Philippines; real estate mortgages covered by the Home Guarantee Corporation   |
| 20%         | Checks and other cash items (COCI), claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality; claims guaranteed by foreign incorporated banks with the highest credit quality; loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation |
| 50%         | Housing loans fully secured by first mortgage on residential property; Local Government Unit (LGU) bonds which are covered by Deed of Assignment of Internal Revenue allotment of the LGU and guaranteed by the LGU Guarantee Corporation  |
| 75%         | Direct loans of defined Small Medium Enterprise and microfinance loans portfolio; nonperforming housing loans fully secured by first mortgage  |
| 100%        | All other assets (e.g., real estate assets) excluding those deducted from capital (e.g., deferred tax)   |
| 125%        | All non-performing loans (NPLs) (except nonperforming housing loans fully secured by first mortgage) and all nonperforming debt securities   |

\* Not all-inclusive

With respect to off-balance sheet exposures, the exposure amount is multiplied by a credit conversion factor (CCF), ranging from 0.00% to 100.00%, to arrive at the credit equivalent amount, before the risk weight factor is multiplied to arrive at the risk-weighted exposure. Direct credit substitutes (e.g., guarantees) have a CCF of 100.00%, while items not involving credit risk has a CCF of 0.00%.





In the case of derivatives, the credit equivalent amount (against which the risk weight factor is multiplied to arrive at the risk-weighted exposure) is generally the sum of the current credit exposure or replacement cost (the positive fair value or zero if the fair value is negative or zero) and an estimate of the potential future credit exposure or add-on. The add-on ranges from 0.00% to 1.50% (interest rate-related) and from 1.00% to 7.50% (exchange rate-related), depending on the residual maturity of the contract. For credit-linked notes (CLNs) and similar instruments, the risk-weighted exposure is the higher of the exposure based on the risk weight of the issuer's collateral or the reference entity or entities.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for total capital adequacy ratio (CAR) remains unchanged at 10.0% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

On June 27, 2014, the BSP issued Circular No. 839, *REST Limit for Real Estate Exposures* which provides the implementing guidelines on the prudential REST limit for universal, commercial, and thrift banks on their aggregate real estate exposures. The Circular sets out a minimum REST limit of 6.0% CET1 capital ratio and 10% risk-based CAR, on a solo and consolidated basis, under a prescribed write-off rate of 25% on the Group's real estate exposure. These limits shall be complied with at all times.

On October 29, 2014, the BSP issued amendments to Circular No. 854, *Minimum Capitalization of Banks*. Based on the amendments, RBC, as a commercial bank with more than 100 branches, is required to increase its capitalization to ₱15.00 billion.

RBC has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.



The CAR of RBC as reported to the BSP as of December 31, 2017 and 2016 follows:

|                                   | 2017           | 2016    |
|-----------------------------------|----------------|---------|
| CET 1 Capital                     | <b>₱10,475</b> | ₱10,270 |
| Additional Tier 1 Capital         | -              | -       |
| Tier 1 capital                    | <b>10,475</b>  | 10,270  |
| Tier 2 capital                    | <b>491</b>     | 318     |
| Total qualifying capital          | <b>₱10,966</b> | ₱10,588 |
| Credit risk-weighted assets (RWA) | <b>₱49,862</b> | ₱38,931 |
| Market RWA                        | <b>1,340</b>   | 223     |
| Operational RWA                   | <b>4,696</b>   | 4,224   |
| Total RWA                         | <b>₱55,898</b> | ₱43,378 |
| Common Equity Tier 1 Ratio 1      | <b>18.74%</b>  | 23.68%  |
| Additional Tier 1 Ratio           | <b>0.00%</b>   | 0.00%   |
| Tier 1 capital ratio              | <b>18.74%</b>  | 23.68%  |
| Tier 2 capital ratio              | <b>0.88%</b>   | 0.73%   |
| Risk-based CAR                    | <b>19.62%</b>  | 24.41%  |

As of December 31, 2017 and 2016, RBC was in compliance with the required CAR.

On January 28, 2015 and February 25, 2015, in relation to BSP Circular No. 854, the BOD of RBC and the stockholders representing at least two-thirds (2/3) of the outstanding capital stock, respectively, approved the issuance of the remaining 46,070,226 unissued preferred shares (A and B) of RBC at ₱10.00 par value in favor of the JGSCSC and Robinsons Retail Holdings, Inc. (RRHI) as follows:

| Stockholder | Types of Shares | No. of Shares<br>Subscribed | Par<br>Value | Amount       |
|-------------|-----------------|-----------------------------|--------------|--------------|
| JGSCSC      | Preferred A     | 27,404,962                  | ₱10          | ₱274,049,620 |
|             | Preferred B     | 237,174                     | 10           | 2,371,740    |
| RRHI        | Preferred A     | 18,269,974                  | 10           | 182,699,740  |
|             | Preferred B     | 158,116                     | 10           | 1,581,160    |
| Total       |                 | 46,070,226                  |              | ₱460,702,260 |

Furthermore, the BOD and stockholders of RBC also approved the following resolutions:

- Conversion of all preferred shares of RBC, whether issued or unissued, particularly the 356,316,500 preferred shares A and the 210,000,000 preferred shares B, into common shares, and removal of all the other class of shares of RBC, except common shares.
- Increase in RBC's authorized capital stock from ₱6.10 billion to ₱15.00 billion divided into 1.50 billion common shares with a par value of ₱10.00 each.
- The total authorized stock of RBC is ₱15.00 billion divided into 1.50 billion common shares with a par value of ₱10.00 each.



On March 15, 2015, JGSCSC acquired additional 27,404,962 preferred shares A and 237,174 preferred shares B amounting to ₱274.05 million and ₱2.37 million, respectively.

On July 8, 2015, JGSCSC subscribed to an additional 292,905,882 common shares at ₱10.00 per share. JGSCSC paid the whole additional subscription amounting to ₱2.93 billion on the same date.

On July 9, 2015, RBC's BOD approved the increase in authorized capital stock amounting to ₱8.90 billion composed of 890.00 million common shares at 10.00 per share. Out of the ₱8.90 billion increase, ₱5.90 billion was paid-up and subscribed as follows:

| <b>Stockholder</b> | <b>No. of Shares</b> |               |
|--------------------|----------------------|---------------|
|                    | <b>Subscribed</b>    | <b>Amount</b> |
| JGSCSC             | 292,905,882          | 2,929,058,820 |
| RRHI               | 297,094,118          | 2,970,941,180 |
| Total              | 590,000,000          | 5,900,000,000 |

On November 15, 2015, the BSP also approved RBC's capital build-up program as follows:

1. Capital infusion from unissued shares up to the existing authorized capital stock of ₱6.10 billion.
2. Capital infusion from the increase in authorized capital stock from ₱6.10 billion to ₱15.00 billion of which ₱12.00 billion is paid up.
3. Internally generated capital based on RBC financial projections for the period 2015 to 2019.

The approval of BSP to the capital build-up program further provides that RBC shall:

1. Refrain from declaring and distributing cash dividends until the ₱15.00 billion minimum capital requirement is attained;
2. Call on its stockholders to infuse additional capital in case of shortfall in internally-generated income to meet the target capital levels; and
3. Submit progress reports with supporting documents, duly noted by its BOD, to the Central Point of Contact Department II, within 20 banking days from end of December of each year until the Bank is deemed by the BSP to have fully complied with its capital build-up program.

On December 15, 2015, RBC filed its application for the increase in its authorized shares as approved by the BOD and the BSP with the SEC.

As of December 31, 2017 and 2016, JGSCSC's deposit for the additional subscription amounting to ₱2.93 billion in RBC's common shares is presented under 'Investments in subsidiaries' in the consolidated statement of financial position.

On January 29, 2016, the SEC approved RBC's application for the increase in authorized capital stock from ₱6.10 billion divided into ₱43.68 million common shares, ₱356.32 million preferred shares A and ₱210.00 million preferred shares B of ₱10.00 par value each, to ₱12.00 billion divided into 633.64 million common shares, 356.32 million preferred shares A and 210.00 million preferred shares B of ₱10.00 par value each.

In 2016, RBC has issued 590.00 million common shares amounting to ₱5.90 billion in exchange for the deposits for future subscriptions.

In 2016, RBC removed all the other classes of shares, except common shares, and converted its ₱356.32 million preferred shares A and ₱210.00 million preferred shares B to ₱566.32 million common shares with ₱10.00 par value.



Retained Earnings

As of December 31, 2017 and 2016, the Group has a total retained earnings of ₱207.7 billion and ₱180.4 billion, respectively. Out of this, ₱117.8 billion and ₱114.1 billion were restricted as of December 31, 2017 and 2016, respectively.

Details of the Group's restricted retained earnings follow:

*Parent Company*

In April 2003, the Parent Company's BOD approved the appropriation of retained earnings amounting to ₱8.0 billion. On December 29, 2014, December 30, 2010 and December 28, 2009, the Parent Company's BOD approved the additional appropriation of retained earnings amounting to ₱39.0 billion, ₱19.0 billion and ₱15.0 billion, respectively.

On December 18, 2015, the BOD approved the appropriation of retained earnings amounting to ₱47.0 billion and the reversal of the appropriation made during 2014 amounting to ₱41.4 billion.

On November 20, 2016, the BOD approved the appropriation of retained earnings amounting to ₱10.4 billion.

On December 14, 2017, the BOD approved the appropriation of retained earnings amounting to ₱3.7 billion.

As of December 31, 2017, the Parent Company's restricted retained earnings amounted to ₱100.7 billion.

As of December 31, 2017, the ₱100.7 billion restricted retained earnings of the Parent Company is earmarked for the following: (a) settlement of a certain subsidiary's loan obligations guaranteed by the Parent Company; (b) funding of capital expenditure commitments of certain wholly owned subsidiaries; (c) and general corporate purposes.

The details of the loan obligations follow:

|                               | <b>Subsidiary</b>         | <b>Amount</b>     | <b>Settlement</b>               |
|-------------------------------|---------------------------|-------------------|---------------------------------|
| <b>Loan obligations:</b>      |                           |                   |                                 |
| 4.375% senior unsecured notes | JGSH Philippines, Limited | US\$750.0 million | 10 years maturing in 2023       |
| Term Loans                    | Parent Company            | ₱10.0 billion     | Maturing in 2022 and 2024       |
| Retail Bonds                  | Parent Company            | ₱30.0 billion     | Maturing in 2019, 2021 and 2024 |
| Short-term loans              | Parent Company            | ₱12.7 billion     | Maturing in 2018                |

As part of its debt covenant, the Parent Company has to maintain certain financial ratios such as: (a) the Group's current ratio of not lesser than 1.0:1.0; and (b) the Group's debt-to-equity ratio of not greater than 2.0:1.0. A portion of the Parent Company's retained earnings is restricted to maintain these financial ratios.

*URC*

In 2003, URC's BOD approved the appropriation of retained earnings amounting to ₱3.0 billion for URC's expansion plans.



In April 2011, as approved by the BOD, URC has appropriated retained earnings amounting to ₱5.0 billion for URC's expansion plans. On the same date, URC's BOD also approved the reversal of the previously appropriated retained earnings amounting to ₱3.0 billion.

URC's expansion plans include investments and capital expenditures for existing and on-going projects. Out of the ₱5.0 billion, around ₱4.3 billion was allocated to branded consumer foods group for Polyethylene terephthalate bottle projects and snack food facilities in the Philippines; expansion of chocolates, biscuits and wafer lines in Thailand and Malaysia; and expansion of beverage, biscuits, cake and candy lines in Vietnam, which were completed in the first half of fiscal year 2013. The rest of the appropriation were used for farm expansion, handling facilities of the feeds division and maintenance capital expenditures of the commodity group in the first half of fiscal year 2013.

On February 11, 2013, the BOD approved the reversal of the previously appropriated retained earnings amounting to ₱5.0 billion. On the same date, the BOD approved the appropriation of retained earnings amounting to ₱6.0 billion for the purposes of the URC's plant expansion. On September 18, 2013, the BOD approved the reversal of the previously appropriated retained earnings amounting to ₱6.0 billion.

On September 18, 2015, as approved by the BOD, URC has appropriated retained earnings amounting to ₱2.0 billion for the URC's capital expenditure commitments to expand capacities in the snack foods and beverage businesses across branded food operations which is expected to be completed within the next two years.

On September 27, 2016, the BOD approved the reversal of the previously appropriated retained earnings amounting to ₱1.0 billion, which has been used to complete portions of the snack foods and beverage business projects across branded foods group. On the same date, the BOD approved the additional appropriation of retained earnings amounting to ₱2.0 billion for capital expenditure commitments to expand capacities across branded consumer and commodity foods businesses, which are expected to be completed within the next two years.

#### *RLC*

On December 12, 2017, the BOD approved the reversal of the retained earnings it appropriated in 2016 amounting to ₱16.0 billion as the related projects to which the retained earnings were earmarked were completed already. The amount was originally earmarked for the continuing capital expenditures of the Group for subdivision land, condominium and residential units for sale, investment properties and property and equipment.

On the same date, the BOD also approved the appropriation of ₱24.5 billion, out of the unappropriated retained earnings, to support the capital expenditure requirements of the Group for various projects approved by the Executive Committee during meetings held in September 2016. These projects and acquisitions are expected to be completed in various dates in 2018 to 2022.

On September 27, 2016, the BOD approved the reversal of the retained earnings it appropriated in 2015 amounting to ₱17.0 billion as the related projects to which the retained earnings were earmarked were completed already. The amount was originally earmarked for the continuing capital expenditures of RLC for subdivision land, condominium and residential units for sale, investment properties and property and equipment.

On the same date, the BOD also approved the appropriation of ₱16.0 billion, out of the unappropriated retained earnings, to support the capital expenditure requirements of RLC for various projects approved by the Executive Committee during meetings held in September 2016.

These projects and acquisitions are expected to be completed in various dates in 2017 to 2021.



On September 10, 2015, the BOD approved the reversal of the retained earnings it has appropriated in 2014 amounting to ₱17.0 billion as the related projects to which the retained earnings were earmarked were completed already. The amount was originally earmarked for the continuing capital expenditures of the RLC for subdivision land, condominium and residential units for sale, investment properties and property and equipment.

On the same date, the BOD also approved the appropriation of ₱17.0 billion, out of the unappropriated retained earnings, to support the capital expenditure requirements of RLC for various projects approved by the Executive Committee during meetings held in September 2015. These projects and acquisitions are expected to be completed in various dates in 2016 to 2018.

#### *CAI*

On December 15, 2017, November 10, 2016 and December 3, 2015, CAI's BOD appropriated ₱18.3 billion, ₱6.6 billion and ₱1.0 billion, respectively, from its unrestricted retained earnings for purposes of CAI's re-fleeting program. The appropriated amount will be used for the settlement of pre-delivery payments and aircraft lease commitments. As of December 31, 2017 and 2016, CAI has appropriated retained earnings totaling ₱18.3 billion and ₱14.5 billion, respectively.

| Project name               | BOD approval             | Expected Receipt Date |
|----------------------------|--------------------------|-----------------------|
| <b>Re-fleeting program</b> |                          |                       |
| <b>2017</b>                | <b>December 15, 2017</b> | <b>2018-2021</b>      |
| 2016                       | November 10, 2016        | 2017-2021             |
| 2015                       | December 3, 2015         | 2016-2021             |

#### *RBC*

As of December 31, 2013 and 2012, RBC's surplus reserve amounted to ₱133.7 million and ₱112.2 million, respectively, which were appropriated for self-insurance and for its trust operations.

In 2017 and 2016, RBC's BOD approved to appropriate reserves for trust reserves amounting to ₱0.64 million and ₱0.93 million, respectively. In 2017, the Parent Company's BOD approved to reverse appropriation of reserves for self-insurance amounting to ₱106.95 million.

#### *Accumulated equity in net earnings of the subsidiaries and associates*

A portion of the Group's retained earnings corresponding to the net earnings of the subsidiaries and accumulated equity in net earnings of the associates and joint ventures amounting to ₱86.7 billion, ₱71.5 billion and ₱58.8 billion as of December 31, 2017, 2016 and 2015, respectively, is not available for dividend declaration. The accumulated equity in net earnings becomes available for dividends upon receipt of cash dividends from the investees.

#### Cash Dividends

##### *Parent Company*

Details of the Parent Company's dividend declarations on its common stock follow:

|                     | 2017                   | 2016          | 2015          |
|---------------------|------------------------|---------------|---------------|
| Date of declaration | <b>June 27, 2017</b>   | June 9, 2016  | June 10, 2015 |
| Dividend per share  | <b>₱0.28</b>           | ₱0.25         | ₱0.22         |
| Total dividends     | <b>₱2.0 billion</b>    | ₱1.8 billion  | ₱1.6 billion  |
| Date of record      | <b>July 17, 2017</b>   | June 29, 2016 | June 25, 2015 |
| Date of payment     | <b>August 10, 2017</b> | July 25, 2016 | July 21, 2015 |



Details of the Parent Company's dividend declarations on its preferred stock follow:

|                     | 2017                   | 2016          | 2015          |
|---------------------|------------------------|---------------|---------------|
| Date of declaration | <b>June 27, 2017</b>   | June 9, 2016  | June 10, 2015 |
| Dividend per share  | <b>₱0.0028</b>         | ₱0.0025       | ₱0.0022       |
| Total dividends     | <b>₱11.2 million</b>   | ₱10.0 million | ₱8.8 million  |
| Date of record      | <b>July 17, 2017</b>   | June 29, 2016 | June 25, 2015 |
| Date of payment     | <b>August 10, 2017</b> | July 25, 2016 | July 21, 2015 |

The following tables summarize the dividends declared by significant subsidiaries of the Parent Company:

*URC*

Details of URC's dividend declarations follow:

|                     | 2017                     | 2016              | 2015              |
|---------------------|--------------------------|-------------------|-------------------|
| Date of declaration | <b>February 15, 2017</b> | February 9, 2016  | February 6, 2015  |
| Dividend per share  | <b>₱3.15</b>             | ₱3.15             | ₱3.00             |
| Total dividends     | <b>₱6.9 billion</b>      | ₱6.9 billion      | ₱6.5 billion      |
| Date of record      | <b>March 1, 2017</b>     | February 29, 2016 | February 26, 2015 |
| Date of payment     | <b>March 27, 2017</b>    | March 28, 2016    | March 24, 2015    |

*RLC*

Details of RLC's dividend declarations follow:

|                     | 2017                 | 2016           | 2015           |
|---------------------|----------------------|----------------|----------------|
| Date of declaration | <b>March 3, 2017</b> | March 9, 2016  | April 29, 2015 |
| Dividend per share  | <b>₱0.36</b>         | ₱0.36          | ₱0.36          |
| Total dividends     | <b>₱1.5 billion</b>  | ₱1.5 billion   | ₱1.5 billion   |
| Date of record      | <b>April 3, 2017</b> | March 29, 2016 | May 14, 2015   |
| Date of payment     | <b>May 2, 2017</b>   | April 22, 2016 | June 9, 2015   |

*CAI*

Details of CAI's dividend declarations follow:

|                              | 2017                    | 2016           | 2015            |
|------------------------------|-------------------------|----------------|-----------------|
| Date of declaration          | <b>May 19, 2017</b>     | May 20, 2016   | June 24, 2015   |
| Dividend per share - regular | <b>₱1.00</b>            | ₱1.00          | ₱1.00           |
| Total dividends - regular    | <b>₱606.0 million</b>   | ₱606.0 million | ₱606.0 million  |
| Dividend per share - special | <b>₱1.75</b>            | ₱1.00          | ₱0.50           |
| Total dividends - special    | <b>₱1,060.5 million</b> | ₱606.0 million | ₱303.0 million  |
| Date of record               | <b>June 9, 2017</b>     | June 9, 2016   | July 16, 2015   |
| Date of payment              | <b>July 5, 2017</b>     | July 5, 2016   | August 11, 2015 |

Treasury Shares

The Group had 98.1 million outstanding treasury shares amounting to ₱721.8 million as of December 31, 2012. On November 25, 2013, the Parent Company sold all of its 98.1 million treasury shares, with total cost of ₱721.8 million via an accelerated overnight equity placement at a price of ₱40.0 per share.



Equity Reserve

On September 27, 2016, URC reissued 22.7 million common shares previously held as treasury shares by way of block sale at a selling price of ₱193.45 per share, with a total selling price amounting to ₱4.4 billion, net of transaction costs amounting to ₱27.2 million. As a result of the sale, the equity interest of the Parent Company over URC changed from 55.83% to 55.25%. The excess of the total consideration received over the carrying value of the interest transferred to the non-controlling interest is included under “Equity Reserve” in the 2016 consolidated statements of changes in equity.

In December 2014, URC entered into a share purchase agreement with Nissin to sell 14.0% of its equity interest in NURC. As a result of the sale, the equity interest of URC changed from 65% to 51%. The gain from the sale amounting to ₱239.8 million is included under ‘Equity reserve’ in the 2014 consolidated statements of financial position.

Non-controlling Interests

Below is the rollforward of non-controlling interests:

|   | 2017                   | 2016            | 2015            |
|---|------------------------|-----------------|-----------------|
| Beginning balance   | <b>₱73,268,333,356</b> | ₱63,935,131,765 | ₱53,994,117,270 |
| Total comprehensive income:   |                        |                 |                 |
| Net income attributable to non-controlling interests                                  | <b>10,149,496,652</b>  | 11,449,631,592  | 10,065,386,384  |
| Other comprehensive income attributable to non-controlling interests:                 |                        |                 |                 |
| Net unrealized gains (losses) on AFS investments (Note 10)                            | <b>(80,951,614)</b>    | (115,159,763)   | (93,858,078)    |
| Cumulative translation adjustments  | <b>(554,608,529)</b>   | (150,702,267)   | 766,066,829     |
| Remeasurements due to defined benefit liability (Note 37)                             | <b>50,063,791</b>      | 24,244,127      | (27,639,789)    |
| Gain (loss) on cashflow hedge   | <b>(5,083,232)</b>     | 8,634,742       | (1,362,560)     |
|   | <b>9,558,917,068</b>   | 11,216,648,431  | 10,708,592,786  |
| Cash dividends paid to non-controlling interests                                      | <b>(4,245,057,809)</b> | (4,175,979,077) | (3,922,800,371) |
| Deposit for future subscription of shares by non-controlling interest in a subsidiary | -                      | -               | 3,155,222,080   |
| Sale of shares of subsidiary  | -                      | -               | -               |
| Decrease in subsidiaries' treasury shares   | -                      | 2,292,532,237   | -               |
|   | <b>₱78,582,192,615</b> | ₱73,268,333,356 | ₱63,935,131,765 |

Deposit for future subscription of shares by non-controlling interest in a subsidiary amounting to ₱3.2 billion pertain to the additional investment by RRHI in RBC.

**26. Banking Revenue**

This account consists of:

|   | 2017                  | 2016           | 2015           |
|---|-----------------------|----------------|----------------|
| Interest income (Note 27)                     | <b>₱4,109,285,854</b> | ₱3,092,862,946 | ₱2,705,799,538 |
| Service fees and commission income            | <b>181,649,418</b>    | 174,216,102    | 176,209,592    |
| Trading and securities gains (Notes 8 and 10) | <b>184,893,310</b>    | 145,108,071    | 86,931,176     |
|   | <b>₱4,475,828,582</b> | ₱3,412,187,119 | ₱2,968,940,306 |





## 27. Interest Income

This account consists of:

|   | 2017                  | 2016           | 2015           |
|---|-----------------------|----------------|----------------|
| Interest income from:                                       |                       |                |                |
| Finance receivables and sales contract receivable (Note 11) | <b>₱3,194,186,361</b> | ₱2,334,136,260 | ₱2,058,890,489 |
| AFS debt securities (Note 10)                               | <b>829,805,734</b>    | 532,874,580    | 500,478,245    |
| Cash and cash equivalents (Note 7)                          | <b>654,200,215</b>    | 574,695,922    | 677,762,510    |
| Financial assets at FVPL (Note 9)                           | <b>650,771,348</b>    | 639,122,921    | 726,063,019    |
| HTM investments (Note 10)                                   | <b>23,747,163</b>     | 170,428,187    | 109,230,854    |
| Others  | -                     | 2,850,129      | 766,907        |
|   | <b>₱5,352,710,821</b> | ₱4,254,107,999 | ₱4,073,192,024 |

Interest income are included in the following accounts in the consolidated statements of comprehensive income as follows:

|                           | 2017                  | 2016           | 2015           |
|---------------------------|-----------------------|----------------|----------------|
| Banking revenue (Note 26) | <b>₱4,109,285,854</b> | ₱3,092,862,946 | ₱2,705,799,538 |
| Finance income            | <b>1,243,424,967</b>  | 1,161,245,053  | 1,367,392,486  |
|                           | <b>₱5,352,710,821</b> | ₱4,254,107,999 | ₱4,073,192,024 |

## 28. Dividend Income

As a holding company, the Parent Company receives dividends from its strategic investments in companies that are neither consolidated nor equity-accounted in the group accounts.

This account includes dividends received from PLDT amounting to ₱1.3 billion, ₱1.8 billion and ₱2.6 billion in 2017, 2016 and 2015, respectively. Investment in PLDT is presented under AFS investments in the consolidated statements of financial position.

## 29. Other Operating Income (Expenses)

This account consists of:

|  | 2017                | 2016           | 2015          |
|--|---------------------|----------------|---------------|
| Gain (loss) on sale of aircraft (Note 16)          | <b>₱102,574,043</b> | (₱962,608,741) | (₱80,267,191) |
| Gain on insurance claims                           | <b>28,397,634</b>   | 208,713,905    | 20,410,473    |
| Realized gain on sale of AFS investments (Note 10) | <b>14,747,467</b>   | 452,510        | 898,183       |
| Others   | <b>96,152,440</b>   | 265,486,484    | 210,173,325   |
|  | <b>₱241,871,584</b> | (₱487,955,842) | ₱151,214,790  |

Others also include rent income and gain (loss) on sale of PPE.



### 30. Cost of Sales and Services

This account consists of:

|                                   | 2017                    | 2016             | 2015             |
|-----------------------------------|-------------------------|------------------|------------------|
| Raw materials used                | <b>₱83,764,786,696</b>  | ₱68,183,544,851  | ₱70,263,610,601  |
| Direct labor                      | <b>5,861,994,335</b>    | 4,913,509,312    | 4,430,994,387    |
| Overhead cost                     | <b>29,252,629,291</b>   | 25,784,489,519   | 20,548,206,319   |
| Total manufacturing cost          | <b>118,879,410,322</b>  | 98,881,543,682   | 95,242,811,307   |
| Work-in-process                   | <b>74,603,670</b>       | (123,486,411)    | 1,091,582,056    |
| Cost of goods manufactured        | <b>118,954,013,992</b>  | 98,758,057,271   | 96,334,393,363   |
| Finished goods                    | <b>222,298,225</b>      | (633,954,248)    | 1,287,269,878    |
| Cost of sales                     | <b>119,176,312,217</b>  | 98,124,103,023   | 97,621,663,241   |
| Cost of services                  | <b>52,378,128,769</b>   | 45,970,133,223   | 43,241,983,101   |
| <b>Cost of sales and services</b> | <b>₱171,554,440,986</b> | ₱144,094,236,246 | ₱140,863,646,342 |

Overhead costs consist of:

|  | 2017                   | 2016            | 2015            |
|--|------------------------|-----------------|-----------------|
| Utilities and fuel                         | <b>₱13,216,743,403</b> | ₱11,590,606,501 | ₱7,900,966,532  |
| Depreciation and amortization<br>(Note 33) | <b>6,818,023,778</b>   | 6,266,120,217   | 5,583,856,785   |
| Personnel (Note 32)                        | <b>3,492,390,785</b>   | 2,505,254,937   | 2,150,514,551   |
| Repairs and maintenance                    | <b>3,162,811,896</b>   | 3,286,778,957   | 2,778,894,150   |
| Rental                                     | <b>414,997,425</b>     | 722,979,186     | 900,526,771     |
| Handling and delivery charges              | <b>185,825,028</b>     | 147,726,876     | 148,713,483     |
| Research and development                   | <b>82,777,295</b>      | 78,903,939      | 68,809,570      |
| Others                                     | <b>1,879,059,681</b>   | 1,186,118,906   | 1,015,924,477   |
|  | <b>₱29,252,629,291</b> | ₱25,784,489,519 | ₱20,548,206,319 |

Cost of services is composed of:

|                    | 2017                   | 2016            | 2015            |
|--------------------|------------------------|-----------------|-----------------|
| Air transportation | <b>₱40,626,822,232</b> | ₱34,262,194,205 | ₱33,251,909,025 |
| Real estate        | <b>9,217,080,148</b>   | 9,702,256,952   | 8,053,837,238   |
| Hotel operations   | <b>1,350,512,369</b>   | 1,308,841,469   | 1,320,470,628   |
| Banking            | <b>1,183,714,020</b>   | 696,840,597     | 615,766,210     |
|                    | <b>₱52,378,128,769</b> | ₱45,970,133,223 | ₱43,241,983,101 |



Further breakdown of the 'Cost of services' account showing the nature of expenses follow:

|   | 2017                   | 2016            | 2015            |
|---|------------------------|-----------------|-----------------|
| Fuel and oil                                    | <b>₱19,594,980,725</b> | ₱15,821,328,265 | ₱17,659,066,442 |
| Maintenance costs                               | <b>6,836,779,366</b>   | 5,878,097,172   | 4,550,586,937   |
| Personnel (Note 32)                             | <b>5,270,242,234</b>   | 4,935,226,272   | 4,192,828,456   |
| Depreciation and amortization<br>(Note 33)      | <b>3,914,114,101</b>   | 3,774,153,608   | 3,203,353,347   |
| Landing and take-off                            | <b>3,487,271,164</b>   | 3,158,774,262   | 2,832,246,339   |
| Cost of real estate sales (Note 12)             | <b>3,143,037,387</b>   | 4,138,509,247   | 3,250,836,782   |
| Ground handling charges                         | <b>2,682,026,202</b>   | 2,105,087,686   | 1,887,062,871   |
| Reservation costs                               | <b>1,811,955,992</b>   | 1,522,455,857   | 1,266,652,869   |
| Interest expense (Note 21)                      | <b>1,126,827,599</b>   | 648,863,124     | 564,027,213     |
| Property operations and maintenance<br>costs    | <b>1,097,218,241</b>   | 780,823,807     | 665,699,155     |
| Film rentals expense - amusement<br>services    | <b>820,824,802</b>     | 751,257,456     | 746,273,093     |
| Cost of food and beverage - hotel<br>operations | <b>353,667,814</b>     | 346,871,025     | 239,910,716     |
| Contracted services                             | <b>307,231,516</b>     | 368,352,704     | 144,634,858     |
| Interrupted/delayed trips expense               | <b>287,708,265</b>     | 229,268,417     | 121,345,627     |
| Passenger liability insurance                   | <b>209,138,455</b>     | 215,957,012     | 320,065,462     |
| Travel and transportation                       | <b>190,585,490</b>     | 140,327,683     | 80,970,363      |
| Passenger food and supplies                     | <b>152,382,065</b>     | 193,893,235     | 204,018,446     |
| Pilot and crew meals                            | <b>61,731,718</b>      | 52,521,078      | 44,490,913      |
| Service charges and commission<br>expense       | <b>56,886,421</b>      | 47,919,379      | 51,738,997      |
| Customs, immigration and duties                 | <b>34,877,755</b>      | 30,562,641      | 147,512,446     |
| Others  | <b>938,641,457</b>     | 829,883,293     | 1,068,661,769   |
|   | <b>₱52,378,128,769</b> | ₱45,970,133,223 | ₱43,241,983,101 |

### 31. General and Administrative Expenses

This account consists of:

|  | 2017                   | 2016            | 2015            |
|--|------------------------|-----------------|-----------------|
| Outside services                                     | <b>₱10,537,048,072</b> | ₱8,766,844,452  | ₱7,816,265,383  |
| Advertising and promotions                           | <b>9,173,757,140</b>   | 8,658,542,014   | 7,942,500,312   |
| Depreciation and amortization<br>(Note 33)           | <b>8,204,601,381</b>   | 7,057,267,306   | 5,760,968,861   |
| Personnel (Note 32)                                  | <b>8,091,935,699</b>   | 6,542,791,378   | 5,502,889,794   |
| Aircraft and engine lease                            | <b>4,635,003,450</b>   | 4,253,724,294   | 4,024,599,732   |
| Rental (Note 42)                                     | <b>2,066,485,679</b>   | 1,901,708,524   | 1,536,638,847   |
| Taxes, licenses and fees                             | <b>1,398,172,998</b>   | 1,072,903,748   | 854,093,884     |
| Travel and transportation                            | <b>1,316,855,993</b>   | 1,183,698,971   | 1,028,625,335   |
| Utilities and supplies                               | <b>735,173,495</b>     | 645,701,612     | 586,457,081     |
| Sales commission                                     | <b>731,736,670</b>     | 738,284,393     | 951,090,219     |
| Insurance  | <b>635,478,465</b>     | 511,265,268     | 588,958,297     |
| Repairs and maintenance                              | <b>534,931,956</b>     | 498,762,284     | 467,983,749     |
| Communication  | <b>348,095,166</b>     | 277,733,808     | 240,500,923     |
| Entertainment, amusement and<br>recreation (Note 38) | <b>184,657,022</b>     | 198,317,165     | 129,884,589     |
| Others   | <b>1,316,114,551</b>   | 1,190,663,092   | 1,245,939,933   |
|  | <b>₱49,910,047,737</b> | ₱43,498,208,309 | ₱38,677,396,939 |



Others

Other expenses include royalties, donation and contribution, and membership and subscription dues.

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**32. Personnel Expenses**

This account consists of:

|                         | 2017                   | 2016                   | 2015                   |
|-------------------------|------------------------|------------------------|------------------------|
| Salaries and wages      | ₱13,558,842,741        | ₱11,443,919,120        | ₱9,678,699,199         |
| Other employee benefits | 2,872,204,576          | 2,165,028,871          | 1,833,467,599          |
| Pension expense         | 423,521,401            | 374,324,596            | 334,066,003            |
|                         | <b>₱16,854,568,718</b> | <b>₱13,983,272,587</b> | <b>₱11,846,232,801</b> |

The breakdown of personnel expenses follows:

|  | 2017                   | 2016                   | 2015                   |
|--|------------------------|------------------------|------------------------|
| Cost of sales and services (Note 30)             | ₱8,762,633,019         | ₱7,440,481,209         | ₱6,343,343,007         |
| General and administrative expenses<br>(Note 31) | 8,091,935,699          | 6,542,791,378          | 5,502,889,794          |
|  | <b>₱16,854,568,718</b> | <b>₱13,983,272,587</b> | <b>₱11,846,232,801</b> |

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**33. Depreciation and Amortization**

The breakdown of depreciation and amortization on property, plant and equipment, investment properties, biological assets and intangible assets follows:

|   | 2017                   | 2016                   | 2015                   |
|---|------------------------|------------------------|------------------------|
| Cost of sales and services<br>(Notes 15, 16 and 30)               | ₱10,732,137,879        | ₱10,040,273,825        | ₱8,787,210,132         |
| General and administrative expenses<br>(Notes 15, 16, 18, and 31) | 8,204,601,381          | 7,057,267,306          | 5,760,968,861          |
|   | <b>₱18,936,739,260</b> | <b>₱17,097,541,131</b> | <b>₱14,548,178,993</b> |

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**34. Impairment Losses and Others**

This account consists of:

|  | 2017                | 2016                | 2015                |
|--|---------------------|---------------------|---------------------|
| Provision for impairment losses on:                    |                     |                     |                     |
| Receivables (Note 11)                                  | ₱231,167,858        | ₱449,118,739        | ₱259,413,258        |
| Property, plant and equipment<br>(Note 16)             | 4,714,024           | —                   | —                   |
| Investment properties (Note 15)                        | 1,885,207           | 16,148,392          | —                   |
| Other noncurrent assets                                | 7,443,236           | —                   | 14,449,730          |
| Inventory obsolescence and<br>market decline (Note 12) | 2,870,047           | 175,449,919         | 104,202,866         |
|  | <b>₱248,080,372</b> | <b>₱640,717,050</b> | <b>₱378,065,854</b> |



### 35. Financing Costs and Other Charges

This account consists of:

|                         | 2017                  | 2016                  | 2015                  |
|-------------------------|-----------------------|-----------------------|-----------------------|
| Interest expense        | ₱7,635,388,645        | ₱7,298,442,812        | ₱6,682,291,317        |
| Bank charges and others | 200,749,289           | 163,554,058           | 197,527,102           |
|                         | <b>₱7,836,137,934</b> | <b>₱7,461,996,870</b> | <b>₱6,879,818,419</b> |

Sources of financing costs and other charges follow:

|  | 2017                  | 2016                  | 2015                  |
|--|-----------------------|-----------------------|-----------------------|
| Long-term debt (Note 23)                         | ₱6,642,940,617        | ₱6,545,503,576        | ₱6,130,913,522        |
| Short-term debt (Note 23)                        | 780,408,518           | 407,350,305           | 268,472,042           |
| Advances from affiliates                         | -                     | -                     | 32,054,925            |
| Others   | 328,574,778           | 299,876,101           | 301,179,116           |
|  | <b>7,751,923,913</b>  | <b>7,252,729,982</b>  | <b>6,732,619,605</b>  |
| Amortization of debt issuance costs<br>(Note 23) | 84,214,021            | 209,266,888           | 147,198,814           |
|  | <b>₱7,836,137,934</b> | <b>₱7,461,996,870</b> | <b>₱6,879,818,419</b> |

### 36. Components of Other Comprehensive Income

Below is the composition of the Group's 'Other comprehensive income':

|  | 2017                 |                              | Total                |
|--|----------------------|------------------------------|----------------------|
|  | Parent Company       | Non-controlling<br>Interests |                      |
| Net gains on AFS investments (Note 10):  |                      |                              |                      |
| Net changes in fair value of AFS<br>investments of the Parent Company<br>and its subsidiaries:           |                      |                              |                      |
| Net changes in fair value during<br>the period   | ₱1,855,132,262       | (₱80,951,614)                | ₱1,774,180,648       |
| Reclassification adjustment<br>included in profit or loss<br>arising from disposal of AFS<br>investments | (14,747,467)         | -                            | (14,747,467)         |
|  | <b>1,840,384,795</b> | <b>(80,951,614)</b>          | <b>1,759,433,181</b> |
| Share in net changes in fair value of AFS<br>investments of an associate                                 | 24,394,385           | -                            | 24,394,385           |
|  | <b>1,864,779,180</b> | <b>(80,951,614)</b>          | <b>1,783,827,566</b> |
| Net changes in fair value of cash flow<br>hedge (Note 8):  |                      |                              |                      |
| Net changes in fair value of derivatives<br>taken to OCI   | (6,276,428)          | (5,083,232)                  | (11,359,660)         |
|  | <b>1,858,502,752</b> | <b>(86,034,846)</b>          | <b>1,772,467,906</b> |
| Cumulative translation adjustments   | (629,187,834)        | (554,608,529)                | (1,183,796,363)      |
| Remeasurements due to defined benefit<br>liability, net of tax (Note 37)                                 |                      |                              |                      |
| Remeasurements of net DBL of<br>Parent and subsidiaries  | 66,750,379           | 50,063,791                   | 116,814,170          |
| Share in remeasurements of net<br>DBL of associates  | (326,973,548)        | -                            | (326,973,548)        |
|  | <b>₱969,091,749</b>  | <b>(₱590,579,584)</b>        | <b>₱378,512,165</b>  |



|   | 2016              |                           |                   |
|---|-------------------|---------------------------|-------------------|
|   | Parent Company    | Non-controlling Interests | Total             |
| Net gains on AFS investments (Note 10):   |                   |                           |                   |
| Net changes in fair value of AFS investments of the Parent Company and its subsidiaries:        |                   |                           |                   |
| Net changes in fair value during the period   | (P12,220,137,282) | (P115,159,763)            | (P12,335,297,045) |
| Reclassification adjustment included in profit or loss arising from disposal of AFS investments | (452,510)         | –                         | (452,510)         |
| Reclassification of unrealized loss to profit or loss due to impairment                         | 16,713,629,844    | –                         | 16,713,629,844    |
|   | 4,493,040,052     | (115,159,763)             | 4,377,880,289     |
| Share in net changes in fair value of AFS investments of an associate                           | (104,703,835)     | –                         | (104,703,835)     |
|   | 4,388,336,217     | (115,159,763)             | 4,273,176,454     |
| Net changes in fair value of cash flow hedge (Note 8):  |                   |                           |                   |
| Net changes in fair value of derivatives taken to OCI   | (26,697,367)      | 8,634,742                 | (18,062,625)      |
|   | 4,361,638,850     | (106,525,021)             | 4,255,113,829     |
| Cumulative translation adjustments  | 29,518,399        | (150,702,267)             | (121,183,868)     |
| Remeasurements due to defined benefit liability, net of tax (Note 37)                           |                   |                           |                   |
| Remeasurements of net DBL of Parent and subsidiaries  | 28,230,597        | 24,244,127                | 52,474,724        |
| Share in remeasurements of net DBL of associates  | 524,522,485       | –                         | 524,522,485       |
|   | P4,943,910,331    | (P232,983,161)            | P4,710,927,170    |
|   |                   |                           |                   |
|   | 2015              |                           |                   |
|   | Parent Company    | Non-controlling Interests | Total             |
| Net gains on AFS investments (Note 10):   |                   |                           |                   |
| Net changes in fair value of AFS investments of the Parent Company and its subsidiaries:        |                   |                           |                   |
| Net changes in fair value during the period   | (P14,837,369,077) | (P93,858,078)             | (P14,931,227,155) |
| Reclassification adjustment included in profit or loss arising from disposal of AFS investments | (898,183)         | –                         | (898,183)         |
|   | (14,838,267,260)  | (93,858,078)              | (14,932,125,338)  |
| Share in net changes in fair value of AFS investments of an associate                           | (1,730,644)       | –                         | (1,730,644)       |
|   | (14,839,997,904)  | (93,858,078)              | (14,933,855,982)  |
| Net changes in fair value of cash flow hedge (Note 8):  |                   |                           |                   |
| Net changes in fair value of derivatives taken to OCI   | (90,546,696)      | (1,362,560)               | (91,909,256)      |
|   | (14,930,544,600)  | (95,220,638)              | (15,025,765,238)  |
| Cumulative translation adjustments  | 1,005,444,798     | 766,066,829               | 1,771,511,627     |
| Remeasurements due to defined benefit liability, net of tax (Note 37)                           | (95,398,077)      | (27,639,789)              | (123,037,866)     |
|   | (P14,020,497,879) | P643,206,402              | (P13,377,291,477) |



The income tax effects relating to other comprehensive income are as follows:

|  | 2017                     |                      |                          |
|--|--------------------------|----------------------|--------------------------|
|  | Before tax               | Tax benefit          | Net of tax               |
| Net gains on AFS investments of Parent                                 |                          |                      |                          |
| Company and its subsidiaries   | <b>₱1,759,433,181</b>    | <b>₱-</b>            | <b>₱1,759,433,181</b>    |
| Cumulative translation adjustments                                     | <b>(1,183,796,363)</b>   | -                    | <b>(1,183,796,363)</b>   |
| Net movement in cash flow hedge  | <b>(11,359,660)</b>      | -                    | <b>(11,359,660)</b>      |
| Remeasurements due to defined benefit liability                        | <b>(160,096,162)</b>     | <b>(50,063,216)</b>  | <b>(210,159,378)</b>     |
| Net changes in fair value of AFS investments of an associate (Note 10) | <b>24,394,385</b>        | -                    | <b>24,394,385</b>        |
|  | <b>₱428,575,381</b>      | <b>(₱50,063,216)</b> | <b>₱378,512,165</b>      |
|  |                          |                      |                          |
|  | 2016                     |                      |                          |
|  | Before tax               | Tax benefit          | Net of tax               |
| Net gains on AFS investments of Parent                                 |                          |                      |                          |
| Company and its subsidiaries   | <b>₱4,377,880,289</b>    | <b>₱-</b>            | <b>₱4,377,880,289</b>    |
| Cumulative translation adjustments                                     | <b>(121,183,868)</b>     | -                    | <b>(121,183,868)</b>     |
| Net movement in cash flow hedge  | <b>(18,062,625)</b>      | -                    | <b>(18,062,625)</b>      |
| Remeasurements due to defined benefit liability                        | <b>599,486,376</b>       | <b>(22,489,167)</b>  | <b>576,997,209</b>       |
| Net changes in fair value of AFS investments of an associate (Note 10) | <b>(104,703,835)</b>     | -                    | <b>(104,703,835)</b>     |
|  | <b>₱4,733,416,337</b>    | <b>(₱22,489,167)</b> | <b>₱4,710,927,170</b>    |
|  |                          |                      |                          |
|  | 2015                     |                      |                          |
|  | Before tax               | Tax benefit          | Net of tax               |
| Net gains on AFS investments of Parent                                 |                          |                      |                          |
| Company and its subsidiaries   | <b>(₱14,932,125,338)</b> | <b>₱-</b>            | <b>(₱14,932,125,338)</b> |
| Cumulative translation adjustments                                     | <b>1,771,511,627</b>     | -                    | <b>1,771,511,627</b>     |
| Net movement in cash flow hedge  | <b>(91,909,256)</b>      | -                    | <b>(91,909,256)</b>      |
| Remeasurements due to defined benefit liability                        | <b>(175,768,380)</b>     | <b>52,730,514</b>    | <b>(123,037,866)</b>     |
| Net changes in fair value of AFS investments of an associate (Note 10) | <b>(1,730,644)</b>       | -                    | <b>(1,730,644)</b>       |
|  | <b>(₱13,430,021,991)</b> | <b>₱52,730,514</b>   | <b>(₱13,377,291,477)</b> |

### 37. Employee Benefits

#### Pension Plans

The Group has funded, noncontributory, defined benefit pension plans covering substantially all of their regular employees, except for JGSPC that has an unfunded, noncontributory defined benefit pension plan.

The pension funds are being administered and managed through JG Summit Multi-Employer Retirement Plan (the “Plan”), with RBC as Trustee. The plans provide for retirement, separation, disability and death benefits to their members. The Group, however, reserves the right to discontinue, suspend or change the rates and amounts of their contributions at any time on account of business necessity or adverse economic conditions. The retirement plan has an Executive Retirement Committee, that is mandated to approve the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the Plan. Certain members of the BOD of



the Parent Company are represented in the Executive Retirement Committee. RBC manages the plan based on the mandate as defined in the trust agreement.

The amounts recognized as pension liabilities included under 'Other noncurrent liabilities' in the consolidated statements of financial position follow:

|   | 2017           | 2016           |
|---|----------------|----------------|
| Present value of defined benefit obligation | P4,205,872,266 | P4,098,485,361 |
| Fair value of plan assets                   | 2,774,705,462  | 2,823,208,922  |
| Pension liabilities (Note 24)               | P1,431,166,804 | P1,275,276,439 |

Changes in net defined benefit liability of funded funds in 2017 and 2016 follows:

|  | 2017  |                              |  |
|--|---|------------------------------|--|
|  | Present value of<br>defined benefit<br>obligation | Fair value of<br>plan assets | Net defined benefit<br>liability/(asset) |
| Balance at beginning of year   | P4,098,485,361                                    | P2,823,208,922               | P1,275,276,439                           |
| Net benefit cost in consolidated statement<br>of income:                           |   |                              |  |
| Current service cost   | 392,543,353                                       | -                            | 392,543,353                              |
| Net interest cost  | 237,689,709                                       | 139,080,003                  | 98,609,706                               |
| Subtotal   | 630,233,062                                       | 139,080,003                  | 491,153,059                              |
| Benefits paid  | (327,226,096)                                     | (292,293,276)                | (34,932,820)                             |
| Remeasurements in other comprehensive<br>income:                                   |   |                              |  |
| Return on plan assets  | -   | (23,294,759)                 | 23,294,759                               |
| Actuarial changes arising from<br>experience adjustments                           | 62,858,628  | (5,447,916)                  | 68,306,544                               |
| Actuarial changes arising from<br>changes in financial/<br>demographic assumptions | (258,478,689)                                     | -                            | (258,478,689)                            |
| Subtotal   | (195,620,061)                                     | (28,742,675)                 | (166,877,386)                            |
| Contributions paid   | -   | 133,452,488                  | (133,452,488)                            |
| Balance at end of year   | P4,205,872,266                                    | P2,774,705,462               | P1,431,166,804                           |

|  | 2016  |                              |  |
|--|---|------------------------------|--|
|  | Present value of<br>defined benefit<br>obligation | Fair value of<br>plan assets | Net defined benefit<br>liability/(asset) |
| Balance at beginning of year   | P3,821,647,448                                    | P2,573,433,993               | P1,248,213,455                           |
| Net benefit cost in consolidated statement<br>of income:                           |   |                              |  |
| Current service cost   | 347,001,937                                       | -                            | 347,001,937                              |
| Net interest cost  | 190,476,269                                       | 127,824,448                  | 62,651,821                               |
| Subtotal   | 537,478,206                                       | 127,824,448                  | 409,653,758                              |
| Benefits paid  | (177,975,816)                                     | (147,111,611)                | (30,864,205)                             |
| Remeasurements in other comprehensive<br>income:                                   |   |                              |  |
| Return on plan assets  | -   | (42,335,053)                 | 42,335,053                               |
| Actuarial changes arising from<br>experience adjustments                           | 82,718,416  | -                            | 82,718,416                               |
| Actuarial changes arising from<br>changes in financial/<br>demographic assumptions | (165,382,893)                                     | -                            | (165,382,893)                            |
| Subtotal   | (82,664,477)                                      | (42,335,053)                 | (40,329,424)                             |
| Contributions paid   | -   | 311,397,145                  | (311,397,145)                            |
| Balance at end of year   | P4,098,485,361                                    | P2,823,208,922               | P1,275,276,439                           |





The fair value of plan assets by each classes as at the end of the reporting period are as follow:

|                                | 2017                  | 2016           |
|--------------------------------|-----------------------|----------------|
| <b>ASSETS</b>                  |                       |                |
| Cash and cash equivalents      | <b>₱854,815,813</b>   | ₱2,322,421,302 |
| Debt instruments               | <b>1,299,099,679</b>  | 332,493,436    |
| Available-for-sale investments | <b>487,489,404</b>    | 71,747,005     |
| Equity investments             | <b>12,891,549</b>     | -              |
| Receivable                     | <b>2,345,903</b>      | 31,588,500     |
| Accrued interest receivable    | <b>8,093,229</b>      | 6,232,553      |
| Prepayments                    | <b>198,129</b>        | 179,905        |
| Land                           | <b>143,201,000</b>    | 91,448,525     |
|                                | <b>2,808,134,706</b>  | 2,856,111,226  |
| <b>LIABILITY</b>               |                       |                |
| Current liabilities            | <b>33,429,244</b>     | 32,902,304     |
|                                | <b>₱2,774,705,462</b> | ₱2,823,208,922 |

The overall expected rates of return on assets are based on the market expectations prevailing as at the reporting date, applicable to the period over which the obligation is settled.

The average duration of the defined benefit obligation of the Group as of December 31, 2017 is 9.2 years.

The Group expects to contribute ₱139.0 million into the pension fund in 2018.

The assumptions used to determine the pension benefits of the Group follow:

| 2017           |                   |  |                         |                  |
|----------------|-------------------|--|-------------------------|------------------|
|                | Retirement<br>Age | Average<br>Remaining<br>Working Life<br>(in years) | Salary Rate<br>Increase | Discount<br>Rate |
| Parent Company | 60                | 13   | 5.7%                    | 5.77%            |
| URC            | 60                | 8 to 11  | 5.7%                    | 5.23 to 5.76%    |
| RLC            | 60                | 8 to 13  | 5.5%                    | 5.63 to 5.80%    |
| CAI            | 60                | 7 to 9   | 5.5 to 5.7%             | 5.73 to 5.76%    |
| RBC            | 60                | 6  | 5.7%                    | 5.74%            |
| JGSPC          | 60                | 10   | 5.7%                    | 5.75%            |
| JGSOC          | 60                | 10   | 5.7%                    | 5.75%            |
| Unicon         | 60                | 10   | 5.7%                    | 5.72%            |
| LSB            | 60                | 8  | 5.7%                    | 5.79%            |
| 2016           |                   |  |                         |                  |
|                | Retirement<br>Age | Average<br>Remaining<br>Working Life<br>(in years) | Salary Rate<br>Increase | Discount<br>Rate |
| Parent Company | 60                | 14   | 5.7%                    | 5.16%            |
| URC            | 60                | 9  | 5.7%                    | 5.26%            |
| RLC            | 60                | 15   | 5.0%                    | 3.93 to 4.85%    |
| CAI            | 60                | 11 - 18  | 5.5%                    | 5.44 to 5.60%    |
| RBC            | 60                | 6  | 5.7%                    | 5.27%            |
| JGSPC          | 60                | 10   | 5.7%                    | 5.40%            |
| Unicon         | 60                | 18   | 5.7%                    | 5.62%            |
| LSB            | 60                | 10   | 5.7%                    | 5.54%            |



| 2015           |                |   |                      |               |
|----------------|----------------|---|----------------------|---------------|
|                | Retirement Age | Average Remaining Working Life (in years) | Salary Rate Increase | Discount Rate |
| Parent Company | 60             | 15  | 5.5%                 | 4.97%         |
| URC            | 60             | 15  | 5.7%                 | 4.68 to 4.91% |
| RLC            | 60             | 15  | 5.0%                 | 4.65%         |
| CAI            | 60             | 12  | 5.7%                 | 5.00%         |
| RBC            | 60             | 11  | 5.7%                 | 4.99%         |
| JGSPC          | 60             | 20  | 5.7%                 | 4.82%         |
| Unicon         | 60             | 18  | 5.7%                 | 5.04%         |
| LSB            | 60             | 11  | 5.0%                 | 5.09%         |

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the retirement benefit obligation as of December 31, 2017 and 2016, assuming if all other assumptions were held constant:

| 2017                           |                |                  |                |                |                |              |                |              |
|--------------------------------|----------------|------------------|----------------|----------------|----------------|--------------|----------------|--------------|
|                                | Parent Company | URC              | RLC            | CAI            | RBC            | LSB          | JGSPC          | Unicon       |
| <b>Discount rates</b>          |                |                  |                |                |                |              |                |              |
| +1.00%                         | (P32,556,970)  | (P2,076,567,749) | (P437,240,855) | (P944,306,805) | (P142,031,508) | (P4,931,832) | (P185,510,227) | (P5,358,432) |
| (-1.00%)                       | 40,068,563     | 2,450,630,129    | 514,048,806    | 1,124,639,036  | 167,448,823    | 6,292,335    | 221,825,314    | 6,492,899    |
| <b>Future salary increases</b> |                |                  |                |                |                |              |                |              |
| +1.00%                         | 40,285,672     | 2,463,372,088    | 516,880,298    | 1,131,113,532  | 168,315,856    | 6,323,403    | 223,053,180    | 6,527,526    |
| (-1.00%)                       | (32,313,712)   | (2,062,363,264)  | (434,131,727)  | (937,242,141)  | (141,067,257)  | (4,896,076)  | (184,164,171)  | (5,319,152)  |

| 2016                           |                |                  |               |                |                |              |                |              |
|--------------------------------|----------------|------------------|---------------|----------------|----------------|--------------|----------------|--------------|
|                                | Parent Company | URC              | RLC           | CAI            | RBC            | LSB          | JGSPC          | Unicon       |
| <b>Discount rates</b>          |                |                  |               |                |                |              |                |              |
| +1.00%                         | (P27,562,377)  | (P2,046,618,113) | (P41,523,152) | (P876,336,520) | (P116,194,738) | (P3,936,763) | (P148,770,921) | (P4,352,050) |
| (-1.00%)                       | 34,521,378     | 2,405,643,412    | 48,094,773    | 1,084,771,639  | 137,576,236    | 5,294,508    | 179,773,132    | 5,913,595    |
| <b>Future salary increases</b> |                |                  |               |                |                |              |                |              |
| +1.00%                         | 34,688,010     | 2,417,016,459    | 44,969,563    | 1,089,891,204  | 138,240,060    | 5,315,427    | 180,635,089    | 5,935,611    |
| (-1.00%)                       | (27,366,842)   | (2,033,571,105)  | (39,848,946)  | (870,361,689)  | (115,434,562)  | (3,909,854)  | (147,785,389)  | (4,322,236)  |

Shown below is the maturity analysis of the undiscounted benefit payments of the Group:

|                                | 2017                 | 2016          |
|--------------------------------|----------------------|---------------|
| Less than 1 year               | <b>P392,473,008</b>  | P340,259,831  |
| More than 1 years to 5 years   | <b>1,460,087,261</b> | 1,233,837,108 |
| More than 5 years to 10 years  | <b>2,834,398,468</b> | 2,477,623,576 |
| More than 10 years to 15 years | <b>3,375,054,827</b> | 3,057,851,827 |
| More than 15 years to 20 years | <b>3,408,180,497</b> | 3,244,848,254 |
| More than 20 years             | <b>9,015,819,777</b> | 8,719,979,909 |



### 38. Income Taxes

Provision for income tax from continuing operations consists of:

|           | 2017                  | 2016           | 2015            |
|-----------|-----------------------|----------------|-----------------|
| Corporate | <b>₱4,751,400,034</b> | ₱4,598,138,288 | ₱5,631,658,297  |
| Final     | <b>161,281,024</b>    | 137,761,179    | 143,694,114     |
| Deferred  | <b>588,787,833</b>    | 702,007,166    | (1,286,369,938) |
|           | <b>₱5,501,468,891</b> | ₱5,437,906,633 | ₱4,488,982,473  |

The Group recognized benefit (provision) for income tax in 'Other comprehensive income' for 'Other comprehensive income items' amounting to (₱50.1 million), (₱22.5 million) and ₱52.7 million in 2017, 2016 and 2015, respectively (see Note 36).

#### Republic Act (RA) No. 9337

Current tax regulations provide that the RCIT rate shall be 30.0% and interest expense allowed as a deductible expense is reduced by 33.0% of interest income subjected to final tax.

The NIRC of 1997 also provides for rules on the imposition of a 2.0% MCIT on the gross income as of the end of the taxable year beginning on the fourth taxable year immediately following the taxable year in which the Company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three immediately succeeding taxable years.

Starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT.

#### Entertainment, Amusement and Recreation (EAR) Expenses

Current tax regulations define expenses to be classified as EAR expenses and set a limit for the amount that is deductible for tax purposes. EAR expenses are limited to 0.5% of net sales for sellers of goods or properties or 1.0% of net revenue for sellers of services. For sellers of both goods or properties and services, an apportionment formula is used in determining the ceiling on such expenses. The Group recognized EAR expenses (included under 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounting to ₱184.7 million, ₱198.3 million and ₱129.9 million in 2017, 2016 and 2015, respectively (see Note 31).

Compositions of the Group's net deferred tax assets (included in the 'Other noncurrent assets' in the consolidated statements of financial position) follow (see Note 20):

|  | 2017                  | 2016          |
|--|-----------------------|---------------|
| Deferred tax assets on:  |                       |               |
| Asset retirement obligation  | <b>₱1,102,526,240</b> | ₱739,701,342  |
| Unrealized forex loss  | <b>924,946,386</b>    | 1,408,847,720 |
| MCIT carryforward  | <b>559,759,559</b>    | 350,196,959   |
| Net operating loss carry-over  | <b>504,740,026</b>    | 1,588,489,361 |
| Allowance for impairment losses on receivables<br>and property and equipment | <b>502,182,129</b>    | 312,572,463   |
| Unfunded pension liabilities   | <b>368,277,163</b>    | 458,453,212   |

(Forward)



|  | 2017                   | 2016                   |
|--|------------------------|------------------------|
| Foreign subsidiaries   | ₱33,866,361            | ₱28,124,182            |
| Past service cost  | 1,018,700              | 88,736,185             |
| Others   | 338,621,378            | 383,151,924            |
| <b>Total</b>   | <b>4,335,937,942</b>   | <b>5,358,273,348</b>   |
| Deferred tax liabilities on:   |                        |                        |
| Double depreciation  | (2,186,122,651)        | (2,624,040,175)        |
| Unrealized gain from changes in fair value less<br>estimated point-of-sale costs of swine stocks | (151,215,472)          | (115,563,150)          |
| Others   | (555,385,675)          | (548,136,705)          |
|  | <b>(2,892,723,798)</b> | <b>(3,287,740,030)</b> |
| <b>Net deferred tax asset</b>  | <b>₱1,443,214,144</b>  | <b>₱2,070,533,318</b>  |

As of December 31, 2017, other deferred tax liabilities under net deferred tax asset include deferred revenue and accrued rent amounting to ₱216.1 million and ₱17.4 million, respectively.

As of December 31, 2016, other deferred tax liabilities under net deferred tax asset include deferred revenue and accrued rent amounting to ₱113.1 million and ₱112.7million, respectively.

Compositions of the Group's net deferred tax liabilities reported in the consolidated statements of financial position follow:

|   | 2017                    | 2016                    |
|---|-------------------------|-------------------------|
| Deferred tax assets on:   |                         |                         |
| Accrued rent  | ₱488,680,529            | ₱473,351,227            |
| Unfunded pension benefits   | 234,460,210             | 101,560,016             |
| Accrued interest expense  | 220,795,887             | 203,908,709             |
| Foreign subsidiaries  | 91,431,560              | -                       |
| Allowance for impairment losses on receivables<br>and property, plant and equipment                               | 14,302,980              | 14,302,980              |
| MCIT carryforward   | 2,168,956               | 2,709,020               |
| Others  | 161,782,012             | 11,298,712              |
| <b>Total</b>  | <b>1,213,622,134</b>    | <b>807,130,664</b>      |
| Deferred tax liabilities on:  |                         |                         |
| Intangibles   | (3,348,400,019)         | (3,222,461,373)         |
| Unamortized capitalized interest  | (1,878,456,323)         | (1,691,225,616)         |
| Excess of real estate revenue based on<br>percentage-of-completion over real estate<br>revenue based on tax rules | (1,277,103,559)         | (1,320,956,069)         |
| Undistributed income of foreign subsidiaries  | (651,315,255)           | (606,682,516)           |
| Accelerated depreciation  | (543,986,501)           | (434,349,328)           |
| Accrued rent income   | (330,627,337)           | (266,949,776)           |
| Prepaid rent  | (143,707,812)           | (147,569,124)           |
| Borrowing cost  | (71,832,394)            | (71,832,394)            |
| Others  | (174,073,030)           | (96,386,753)            |
|   | <b>(8,419,502,230)</b>  | <b>(7,858,412,949)</b>  |
| <b>Net deferred tax liability</b>   | <b>(₱7,205,880,096)</b> | <b>(₱7,051,282,285)</b> |



The following are the temporary differences on which the Group did not recognize deferred tax assets:

|  | 2017                  | 2016           |
|--|-----------------------|----------------|
| Allowance for credit and impairment losses                     | <b>₱3,107,733,302</b> | ₱1,613,720,165 |
| NOLCO  | <b>2,768,990,723</b>  | 2,239,424,709  |
| Unrealized loss on AFS investments                             | <b>1,026,656,867</b>  | 562,948,094    |
| Net pension liability  | <b>157,562,867</b>    | 41,076,082     |
| Excess MCIT over RCIT  | <b>94,880,453</b>     | 82,770,619     |
| Unrealized foreign exchange losses                             | <b>71,655,305</b>     | 100,702,598    |
| Allowance for inventory write-down                             | <b>64,488,572</b>     | 19,346,572     |
| Unearned income  | <b>34,061,408</b>     | 15,594,527     |
| Unamortized contribution of past service costs                 | <b>25,237,968</b>     | 9,165,367      |
| Depreciation of investment properties and repossessed chattels | <b>20,252,729</b>     | 20,095,457     |
| Accrued rent   | <b>4,751,226</b>      | 3,556,937      |
|  | <b>₱7,376,271,420</b> | ₱4,708,401,127 |

Under Section 11 of R. A. No. 7151 (CAI's Congressional Franchise) and under Section 15 of R. A. No. 9517 (Cebgo, Inc.'s Congressional Franchise) known as the "ipso facto clause" and the "equality clause", respectively, the CAI and Cebgo, Inc. are allowed to benefit from the tax privileges being enjoyed by competing airlines. CAI's and Cebgo, Inc.'s major competitor, by virtue of PD No. 1590, is enjoying tax exemptions which are likewise being claimed by the CAI and Cebgo, Inc., if applicable, including but not limited to the following:

- a.) To depreciate its assets to the extent of not more than twice as fast the normal rate of depreciation; and
- b.) To carry over as a deduction from taxable income any net loss (NOLCO) incurred in any year up to five years following the year of such loss. Included in the Group's NOLCO and MCIT are CAI's NOLCO and MCIT as follows:

#### NOLCO

| Year Incurred | Amount                | Applied                 | Balance   | Expiry Year |
|---------------|-----------------------|-------------------------|-----------|-------------|
| 2014          | ₱1,028,184,259        | (₱1,028,184,259)        | ₱-        | 2019        |
| 2015          | 955,474,545           | (955,474,545)           | -         | 2020        |
|               | <b>₱1,983,658,804</b> | <b>(₱1,983,658,804)</b> | <b>₱-</b> |             |

#### MCIT

| Year Incurred | Amount              | Expired/Applied      | Balance             | Expiry Year |
|---------------|---------------------|----------------------|---------------------|-------------|
| 2014          | ₱61,319,704         | (₱61,319,704)        | ₱-                  | 2017        |
| 2015          | 117,297,005         | -                    | 117,297,005         | 2018        |
| 2016          | 148,442,253         | -                    | 148,442,253         | 2019        |
| 2017          | 125,331,691         | -                    | 125,331,691         | 2020        |
|               | <b>₱452,390,653</b> | <b>(₱61,319,704)</b> | <b>₱391,070,949</b> |             |



Included in the Group's NOLCO and MCIT is Cebgo, Inc.'s NOLCO and MCIT as follows:

NOLCO

| Year Incurred | Amount                | Applied               | Expired               | Balance               | Expiry Year |
|---------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------|
| 2012          | ₱1,106,443,070        | (₱411,476,400)        | (₱694,966,670)        | ₱-                    | 2017        |
| 2013          | 853,571,166           | -                     | -                     | 853,571,166           | 2018        |
| 2014          | 685,506,938           | -                     | -                     | 685,506,938           | 2019        |
|               | <b>₱2,645,521,174</b> | <b>(₱411,476,400)</b> | <b>(₱694,966,670)</b> | <b>₱1,539,078,104</b> |             |

MCIT

| Year Incurred | Amount             | Expired/Applied | Balance            | Expiry Year |
|---------------|--------------------|-----------------|--------------------|-------------|
| 2015          | ₱8,632,361         | ₱-              | ₱8,632,361         | 2018        |
| 2016          | 14,152,299         | -               | 14,152,299         | 2019        |
| 2017          | 9,021,420          | -               | 9,021,420          | 2020        |
|               | <b>₱31,806,080</b> | <b>₱-</b>       | <b>₱31,806,080</b> |             |

CAI has outstanding registrations with the BOI as a new operator of air transport on a pioneer and non-pioneer status under the Omnibus Investments Code of 1987 (Executive Order 226).

On 22 out of 23 registrations, CAI can avail of bonus years in certain specified cases but the aggregate ITH availment (basic and bonus years) shall not exceed eight (8) years.

As of December 31, 2017 and 2016, CAI has complied with externally imposed capital requirements set by the BOI in order to avail of the ITH incentives for aircraft of registered activity.

The components of the CAI and Cebgo, Inc.'s deferred tax assets and liabilities follow:

|   | 2017                  | 2016           |
|---|-----------------------|----------------|
| Deferred tax assets on:                     |                       |                |
| ARO – liability                             | <b>₱1,102,526,240</b> | ₱739,701,340   |
| Unrealized foreign exchange loss – net      | <b>903,411,993</b>    | 1,154,300,719  |
| NOLCO                                       | <b>461,723,431</b>    | 1,388,753,997  |
| MCIT  | <b>422,877,029</b>    | 349,843,621    |
| Deferred revenue - Customer Loyalty Program | <b>216,068,873</b>    | 113,088,138    |
| Accrued retirement costs                    | <b>191,088,323</b>    | 170,630,795    |
| Allowance for credit losses                 | <b>101,397,202</b>    | 99,398,977     |
|   | <b>3,399,093,091</b>  | 4,015,717,587  |
| Deferred tax liabilities on:                |                       |                |
| Double depreciation                         | <b>2,186,122,651</b>  | 2,624,040,175  |
| Business combination (Note 44)              | <b>185,645,561</b>    | 185,645,561    |
| Unrealized gain on net derivative assets    | <b>136,320,026</b>    | 132,532,172    |
|   | <b>2,508,088,238</b>  | 2,942,217,908  |
| Net deferred tax assets (liabilities)       | <b>₱891,004,853</b>   | ₱1,073,499,679 |

Movement in accrued retirement cost amounting ₱16.6 million and ₱3.4 million in 2017 and 2016, respectively, is presented under other comprehensive income.

CAI and Cebgo, Inc.'s recognized deferred tax assets and deferred tax liabilities are expected to recovered and reversed, respectively, more than twelve months after the reporting date.



As of December 31, 2016, CEBGO has recognized its previously unrecognized deferred tax assets arising from deductible temporary differences, NOLCO and MCIT. Details follow:

|                                  |                     |
|----------------------------------|---------------------|
| NOLCO                            | <b>₱793,656,352</b> |
| MCIT                             | <b>22,784,660</b>   |
| Allowance for credit losses      | <b>20,553,023</b>   |
| Retirement benefit obligation    | <b>11,874,373</b>   |
| Customer loyalty program         | <b>5,348,762</b>    |
| Unrealized foreign exchange loss | <b>391,094</b>      |
|                                  | <b>₱854,608,264</b> |

Reconciliation between the Group's statutory income tax rate and the effective income tax rate follows:

|   | 2017          | 2016    | 2015   |
|---|---------------|---------|--------|
| Statutory income tax rate                           | <b>30.00%</b> | 30.00%  | 30.00% |
| Tax effects of:                                     |               |         |        |
| Income exempt from tax                              | <b>(1.53)</b> | (2.19)  | (2.30) |
| Equity in net earnings of affiliates                | <b>(6.60)</b> | (8.82)  | (5.90) |
| Net income of subsidiaries with different tax rates | <b>(2.56)</b> | (5.92)  | (6.67) |
| Income subjected to BOI, PEZA and ITH               | <b>(9.50)</b> | (16.89) | (6.37) |
| Changes in unrecognized deferred tax assets         | <b>(2.30)</b> | 3.91    | 0.16   |
| Interest income subject to final tax                | <b>(0.33)</b> | (0.06)  | (0.55) |
| Non-deductible items                                | <b>0.58</b>   | 18.94   | 0.60   |
| Taxable gain on sale to a subsidiary                | <b>4.33</b>   | -       | -      |
| Others  | <b>0.13</b>   | 0.59    | 3.11   |
| Effective income tax rate                           | <b>12.22%</b> | 19.56%  | 12.08% |

### 39. Earnings Per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to equity holders of the Parent Company divided by the weighted average number of common shares outstanding during the year (adjusted for any stock dividends).

The following tables reflect the net income and share data used in the basic/dilutive EPS computations:

#### Earnings per share attributable to equity holders of the Parent Company

|   | 2017                   | 2016            | 2015            |
|---|------------------------|-----------------|-----------------|
| Income attributable to equity holders of the Parent Company           | <b>₱29,369,537,456</b> | ₱10,917,978,925 | ₱22,610,016,306 |
| Less: Dividends on preferred shares (Note 25)                         | <b>11,200,000</b>      | 10,000,000      | 8,800,000       |
| Income attributable to holders of common shares of the Parent Company | <b>₱29,358,337,456</b> | ₱10,907,978,925 | ₱22,601,216,306 |
| Weighted average number of common shares                              | <b>7,162,841,657</b>   | 7,162,841,657   | 7,162,841,657   |
| Basic/diluted earnings per share                                      | <b>₱4.10</b>           | ₱1.52           | ₱3.16           |

There were no potential dilutive common shares in 2017, 2016 and 2015.



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**40. 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 or if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties and are generally settled in cash. Due from and due to related parties are collectible/payable on demand.





In addition to the related party information disclosed elsewhere in the consolidated financial statements, the year-end balances in respect of related parties follow:

| Related Party            | Category/Transaction                | Amount/Volume    | 2017                            |                     | Terms   | Conditions              |
|--------------------------|-------------------------------------|------------------|---------------------------------|---------------------|---|-------------------------|
|                          |                                     |                  | Statement of Financial Position | Outstanding Balance |   |                         |
| <b>Subsidiaries:</b>     |                                     |                  |                                 |                     |   |                         |
| Due from related parties | Settlement of advances              | ₱350,490,176     | ₱1,245,477,181                  | ₱-                  | On demand; Non-interest bearing   | Unsecured; Not impaired |
|                          | Rent receivable                     | 49,583,786       | 77,485,069                      | -                   | On demand; Non-interest bearing   | Unsecured; Not impaired |
|                          | Receivable                          | 4,842,826,400    | 4,842,826,400                   | -                   | On demand; Non-interest bearing   | Unsecured; Not impaired |
|                          | Rent income                         | 176,088,179      | -                               | 176,088,179         |   |                         |
|                          | Other income                        | 241,130,242      | -                               | 241,130,242         |   |                         |
|                          | Rent expense                        | 39,675,747       | -                               | 39,675,747          |   |                         |
|                          | Management fees                     | 105,074,286      | -                               | 105,074,286         |   |                         |
|                          | Gain on sale of investment property | 6,491,059,867    | -                               | 6,491,059,867       |   |                         |
| Due to related parties   | Settlement of advances              | (11,690,874,584) | 2,537,388,955                   | -                   | On demand; Non-interest bearing   | Unsecured; Not impaired |
| Cash in bank             | Deposits                            | 4,131,669        | 4,271,369                       | -                   | On demand   | Unsecured               |
| Cash equivalents         | Money market placements             | (151,273,367)    | 162,427,470                     | -                   | 2 to 41 days; Interest bearing with interest rate ranging from 1.50% to 2.04% | Unsecured               |
|                          | Interest income                     | 3,273,543        | -                               | 3,273,543           | 2 to 33 days; Interest bearing with interest rate ranging from 0.5% to 1.5%   |                         |
| Dividends                | Dividend receivable                 | 367,901,000      | 576,156,465                     | -                   | On demand   | Unsecured               |
|                          | Dividend income                     | 9,628,984,655    | -                               | 9,628,984,655       |   |                         |
| <b>Associate:</b>        |                                     |                  |                                 |                     |   |                         |
| Due from related parties | Settlement of advances              | (108,850)        | 360,436                         | -                   | On demand; Non-interest bearing   | Unsecured; Not impaired |
|                          | Dividend income                     | 6,476,626,760    | -                               | 6,476,626,760       |   |                         |
|                          | Rent income                         | 588,853          | -                               | 588,853             |   |                         |
|                          | Rent receivable                     | (103,263)        | 56,995                          | -                   |   |                         |
|                          | Utilities expense                   | 7,913,620        | -                               | 7,913,620           |   |                         |

(Forward)



2017

| Related Party   | Category/Transaction   | Amount/Volume | Outstanding Balance             |                                   | Terms                           | Conditions              |
|---|------------------------|---------------|---------------------------------|-----------------------------------|---------------------------------|-------------------------|
|   |                        |               | Statement of Financial Position | Statement of Comprehensive Income |                                 |                         |
| <b>Other Related Parties:</b>   |                        |               |                                 |                                   |                                 |                         |
| Due from related parties  | Settlement of advances | (₱4,151,841)  | ₱420,316,960                    | ₱-                                | On demand; Non-interest bearing | Unsecured; Not impaired |
|   | Rent receivable        | 24,392,795    | 24,392,795                      | -                                 | On demand; Non-interest bearing | Unsecured; Not impaired |
|   | Other income           | 61,411,050    | -                               | 61,411,050                        |                                 |                         |
|   | Rent income            | 35,977,368    | -                               | 35,977,368                        |                                 |                         |
| Due to related parties  | Settlement of advances | (202,512)     | 1,217,665                       | -                                 | On demand; Non-interest bearing | Unsecured; Not impaired |
| Director's fees (included under 'Management and other professional fees' account in the parent company statement of comprehensive income) | Expenses               | 8,500,000     | -                               | 8,500,000                         |                                 |                         |



2016

| Related Party                 | Category/Transaction    | Amount/Volume  | Outstanding Balance             |                                   | Terms   | Conditions              |
|-------------------------------|-------------------------|----------------|---------------------------------|-----------------------------------|---|-------------------------|
|                               |                         |                | Statement of Financial Position | Statement of Comprehensive Income |   |                         |
| <b>Subsidiaries:</b>          |                         |                |                                 |                                   |   |                         |
| Due from related parties      | Settlement of advances  | (₱300,376,218) | ₱894,987,005                    | ₱-                                | On demand; Non-interest bearing   | Unsecured; Not impaired |
|                               | Rent receivable         | 4,117,582      | 27,901,283                      |                                   |   |                         |
|                               | Rent income             | 178,757,461    | -                               | 178,757,461                       |   |                         |
|                               | Other income            | 57,450,321     | -                               | 57,450,321                        |   |                         |
|                               | Rent expense            | 34,715,145     | -                               | 34,715,145                        |   |                         |
| Due to related parties        | Advances                | 444,690,266    | 14,228,263,539                  | -                                 | On demand; Non-interest bearing   | Unsecured; Not impaired |
|                               | Management fees         | 102,074,286    | -                               | 102,074,286                       |   |                         |
|                               | Interest expense        | -              | -                               | -                                 | Interest bearing  |                         |
| Cash in bank                  | Deposits                | 105,014        | 139,700                         | -                                 | On demand   | Unsecured               |
| Cash equivalents              | Money market placements | 313,700,837    | 313,700,837                     | -                                 | 2 to 41 days; Interest bearing with interest rate ranging from 1.50% to 2.04% | Unsecured               |
|                               | Interest income         |                |                                 |                                   | 2 to 33 days; Interest bearing with interest rate ranging from 0.5% to 1.5%   |                         |
| Dividends                     | Dividend receivable     | 446,201        | -                               | -                                 |   |                         |
|                               | Dividend income         | 52,857,500     | 208,255,465                     | -                                 | On demand   | Unsecured               |
|                               |                         | 5,642,292,262  | -                               | 5,642,292,262                     |   |                         |
| <b>Associate:</b>             |                         |                |                                 |                                   |   |                         |
| Due from related parties      | Advances                | 161,566        | 469,286                         | -                                 | On demand; Non-interest bearing   | Unsecured; Not impaired |
|                               | Dividend income         | 7,666,690,077  | -                               | 7,666,690,077                     |   |                         |
|                               | Rent income             | 560,813        | -                               | 560,813                           |   |                         |
|                               | Rent receivable         | (46,528)       | 160,258                         | -                                 |   |                         |
|                               | Utilities expense       | 7,561,361      | -                               | 7,561,361                         |   |                         |
| <b>Other Related Parties:</b> |                         |                |                                 |                                   |   |                         |
| Due from related parties      | Settlement of advances  | (1,531,274)    | 424,468,802                     | -                                 | On demand; Non-interest bearing   |                         |
|                               | Management fees         |                |                                 |                                   |   |                         |
|                               | Rent income             | 33,160,257     | -                               | 33,160,257                        |   |                         |



2016

| Related Party   | Category/Transaction | Amount/Volume | Outstanding Balance             |                                   | Terms                           | Conditions                 |
|---|----------------------|---------------|---------------------------------|-----------------------------------|---------------------------------|----------------------------|
|   |                      |               | Statement of Financial Position | Statement of Comprehensive Income |                                 |                            |
| Due to related parties  | Advances             | (₱477,995)    | ₱1,420,177                      | ₱-                                | On demand; Non-interest bearing | Unsecured;<br>Not impaired |
|   | Rent receivable      | 9,749,802     | 29,594,431                      | -                                 |                                 |                            |
| Director's fees (included under 'Management and other professional fees' account in the parent company statement of comprehensive income) | Expenses             | 8,440,000     | -                               | 8,440,000                         |                                 |                            |



2015

| Related Party            | Category/Transaction    | Amount/Volume   | Outstanding Balance             |                                   | Terms   | Conditions              |
|--------------------------|-------------------------|-----------------|---------------------------------|-----------------------------------|---|-------------------------|
|                          |                         |                 | Statement of Financial Position | Statement of Comprehensive Income |   |                         |
| Subsidiaries:            |                         |                 |                                 |                                   |   |                         |
| Due from related parties | Settlement of advances  | (₱28,416,245)   | ₱1,195,363,224                  | ₱-                                | On demand; Non-interest bearing   | Unsecured; Not impaired |
|                          | Rent receivable         | (6,145,199)     | 23,783,701                      |                                   |   |                         |
|                          | Rent income             | 159,195,209     | -                               | 159,195,209                       |   |                         |
|                          | Other income            | 23,474,286      | -                               | 23,474,286                        |   |                         |
|                          | Rent expense            | 32,563,971      | -                               | 32,563,971                        |   |                         |
| Due to related parties   | Settlement of advances  | (4,307,976,057) | 13,783,573,273                  | -                                 | On demand; Non-interest bearing   | Unsecured; Not impaired |
|                          | Management fees         | 108,000,000     | -                               | 108,000,000                       |   |                         |
|                          | Interest expense        | 28,234,761      | -                               | 28,234,761                        | Interest bearing  |                         |
| Cash in bank             | Deposits                | 19,848          | 34,686                          | -                                 | On demand   | Unsecured               |
| Cash equivalents         | Money market placements |                 |                                 |                                   | 2 to 33 days; Interest bearing with interest rate ranging from 0.5% to 1.5% | Unsecured               |
|                          | Interest income         | -               | -                               | -                                 | 2 to 33 days; Interest bearing with interest rate ranging from 0.5% to 1.5% |                         |
| Dividends                | Dividend receivable     | (2,006,918,210) | 155,397,965                     | -                                 | On demand   | Unsecured               |
|                          | Dividend income         | 5,244,375,593   | -                               | 5,244,375,593                     |   |                         |
| Associate:               |                         |                 |                                 |                                   |   |                         |
| Due from related parties | Settlement of advances  | (877,248)       | 307,720                         | -                                 | On demand; Non-interest bearing   | Unsecured; Not impaired |
|                          | Dividend income         | 4,661,763,305   | -                               | 4,661,763,305                     |   |                         |
|                          | Rent income             | 507,732         | -                               | 507,732                           |   |                         |
|                          | Rent receivable         | 206,785         | 206,786                         |                                   |   |                         |
|                          | Utilities expense       | 7,232,952       | -                               | 7,232,952                         |   |                         |
| Other Related Parties:   |                         |                 |                                 |                                   |   |                         |
| Due from related parties | Advances                | 78,355,034      | 426,000,076                     | -                                 | On demand; Non-interest bearing   |                         |
|                          | Rent income             | 35,171,374      | -                               | 35,171,374                        |   |                         |

(Forward)



2015

| Related Party   | Category/Transaction | Amount/Volume    | Outstanding Balance             |                                   | Terms                           | Conditions                 |
|---|----------------------|------------------|---------------------------------|-----------------------------------|---------------------------------|----------------------------|
|   |                      |                  | Statement of Financial Position | Statement of Comprehensive Income |                                 |                            |
| Due to related parties  | Advances             | (¥1,687,715,748) | ¥1,898,172                      | ¥-                                | On demand; Non-interest bearing | Unsecured;<br>Not impaired |
|   | Rent receivable      | 6,902,049        | 19,844,629                      |                                   |                                 |                            |
|   | Interest expense     | 426,697          | -                               | 426,697                           |                                 |                            |
| Director's fees (included under 'Management and other professional fees' account in the parent company statement of comprehensive income) | Expenses             | 7,745,000        | -                               | 7,745,000                         |                                 |                            |



The Parent Company has signed various financial guarantee agreements with third parties for the short-term and long-term loans availed by its subsidiaries as discussed in Note 23 to the consolidated financial statements. No fees are charged for these guarantee agreements. Being the centralized treasury department within the Group, the Parent Company usually receives advances from subsidiaries and in turn, makes advances to other subsidiaries.

Interest earned by the Parent Company on transactions with related parties amounted to nil in 2017 and 2016. Interest expense incurred amounted to nil in 2017 and 2016 and ₱32.1 million in 2015.

Most of the aforementioned intercompany transactions between the Parent Company and its subsidiaries are eliminated in the accompanying consolidated financial statements.

*Transactions with the retirement plan*

The retirement fund of the Parent Company's employees amounted to ₱10.2 million and ₱9.8 million as of December 31, 2017 and 2016, respectively. The fund is being managed by JG Summit Multi-Employer Retirement Plan (MERP), a corporation created for the purpose of managing the funds of the Group, with RBC as the trustee.

The retirement plan under the MERP has an Executive Retirement Committee, that is mandated to approve the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the plan. Certain members of the BOD of the Parent Company are represented in the Executive Retirement Committee. RBC manages the plan based on the mandate as defined in the trust agreement.

*Compensation of key management personnel*

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's pension plans.

The compensation of the Group's key management personnel by benefit type follows:

|                              | 2017                  | 2016           | 2015           |
|------------------------------|-----------------------|----------------|----------------|
| Short-term employee benefits | <b>₱1,522,647,267</b> | ₱1,479,668,656 | ₱1,373,236,381 |
| Post-employment benefits     | <b>172,508,677</b>    | 131,512,625    | 119,520,583    |
|                              | <b>₱1,695,155,944</b> | ₱1,611,181,281 | ₱1,492,756,964 |

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#### 41. Registration with Government Authorities/Franchise

Certain operations of consolidated subsidiaries are registered with the BOI as preferred pioneer and non-pioneer activities, and are granted various authorizations from certain government authorities. As registered enterprises, these consolidated subsidiaries are subject to some requirements and are entitled to certain tax and non-tax incentives which are considered in the computation of the provision for income tax.



## 42. Leases

### URC

#### *Operating Lease Commitments - Group as a Lessee*

The URC Group land where certain of its facilities are located. The operating lease agreements are for periods ranging from one to five years from the date of the contracts and are renewable under certain terms and conditions. URC's rentals incurred on these leases (included under 'Selling and distribution costs' and 'General and administrative expenses' in the consolidated statements of comprehensive income) amounted to ₱425.5 million, ₱395.6 million and ₱179.0 million in 2017, 2016 and 2015, respectively.

Future minimum lease payments under noncancellable operating leases of the URC Group follow:

|  | 2017                  | 2016           | 2015         |
|--|-----------------------|----------------|--------------|
| Within one year                                | <b>₱302,978,419</b>   | ₱183,546,225   | ₱75,583,986  |
| After one year but not more than<br>five years | <b>425,325,347</b>    | 734,184,901    | 302,335,942  |
| Five years or more                             | <b>312,745,257</b>    | 520,915,202    | -            |
|  | <b>₱1,041,049,023</b> | ₱1,438,646,328 | ₱377,919,928 |

#### *Operating Lease Commitments - Group as a Lessor*

The URC Group has entered into one-year renewable, noncancellable leases with various related parties covering certain land and buildings where office spaces are located.

Total rental income earned from investment properties (included under 'Others' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱57.9 million, ₱69.6 million and ₱50.6 million in 2017, 2016 and 2015, respectively. Direct operating expenses (included under 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) arising from investment properties amounted to ₱0.8 million in 2017 and ₱0.9 million in 2016 and 2015.

Future minimum lease receivables under noncancellable operating leases of the URC Group that are due within one year amounted to ₱63.7 million, ₱61.1 million and ₱51.4 million in 2017, 2016 and 2015, respectively.

#### *Finance Lease Commitments - Group as a Lessee*

Some of the URC Group's subsidiaries were granted land usage rights from private entities. The land usage right represents the prepaid amount of land lease payments. The right is currently being amortized by the URC Group on a straight-line basis over the term of the right ranging from 30 to 50 years. The amortization on these leases (included under 'General and administrative expenses' in the consolidated statements of comprehensive income) amounted to ₱36.4 million, ₱34.1 million, and ₱22.5 million in 2017, 2016 and 2015, respectively.

### RLC

#### *Operating Lease Commitments - Group as a Lessee*

The RLC Group entered into long-term operating leases of land with lease terms ranging from 25 to 50 years. These leases include clauses to enable escalation of rental charges on the agreed dates. Total rent expense (included under 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱52.0 million, ₱203.4 million and ₱203.9 million in 2017, 2016 and 2015, respectively.





Future minimum lease payments under noncancellable operating leases of RLC's certain lessee subsidiaries follow:

|   | 2017                  | 2016           | 2015           |
|---|-----------------------|----------------|----------------|
| Within one year                             | <b>₱92,616,575</b>    | ₱85,742,828    | ₱75,875,322    |
| After one year but not more than five years | <b>414,556,934</b>    | 404,875,129    | 382,304,085    |
| Over five years                             | <b>5,823,064,725</b>  | 6,389,039,513  | 6,472,894,986  |
|   | <b>₱6,330,238,234</b> | ₱6,879,657,470 | ₱6,931,074,393 |

*Operating Lease Commitments - Group as a Lessor*

The RLC Group has entered into commercial property leases on its investment property portfolio. These noncancellable leases have remaining lease terms of between one and ten years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions. The lease contracts also provide for the percentage rent, which is a certain percentage of actual monthly sales or minimum monthly gross sales, whichever is higher. Total rent income (included under 'Real estate and hotels revenue' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱11.6 billion, ₱10.7 billion and ₱9.6 billion in 2017, 2016 and 2015, respectively. Total percentage rent recognized as income amounted to ₱3.1 billion, ₱2.8 billion and ₱2.5 billion in 2017, 2016 and 2015, respectively.

Future minimum lease receivables under noncancellable operating leases of the RLC Group follow:

|   | 2017                   | 2016            | 2015            |
|---|------------------------|-----------------|-----------------|
| Within one year                             | <b>₱6,263,952,404</b>  | ₱4,909,033,101  | ₱5,308,666,374  |
| After one year but not more than five years | <b>8,250,489,462</b>   | 8,407,304,291   | 10,472,321,498  |
| Over five years                             | <b>923,369,939</b>     | 941,463,464     | 1,024,342,237   |
|   | <b>₱15,437,811,805</b> | ₱14,257,800,856 | ₱16,805,330,109 |

*Finance Lease Commitments - Group as a Lessor*

In 2015, RLC has significantly entered into residential property leases on its residential condominium unit's portfolio. These leases have lease period of five (5) to ten (10) years and the lessee is given the right to purchase the property anytime within the lease period that the lessee any arrears in rental payment, condominium dues and other charges.

Future minimum lease payments under finance lease with the present value of future minimum lease payment as of December 31, 2017 follow:

|   | 2017                   |   |
|---|------------------------|---|
|   | Minimum Lease Payments | Present Value of Minimum Lease Payments |
| Within one year                             | <b>₱308,131,796</b>    | <b>₱299,064,170</b>                     |
| After one year but not more than five years | <b>270,312,270</b>     | <b>238,254,749</b>                      |
| Over five years                             | <b>72,498,624</b>      | <b>57,502,961</b>                       |
| Total minimum lease payments                | <b>₱650,942,690</b>    | <b>₱594,821,880</b>                     |



|   | 2016                      |   |
|---|---------------------------|---|
|   | Minimum Lease<br>Payments | Present Value of<br>Minimum Lease<br>Payments |
| Within one year                             | ₱1,760,245,659            | ₱1,718,117,420                                |
| After one year but not more than five years | 536,379,175               | 483,544,977                                   |
| Over five years                             | 6,878,911                 | 5,456,359                                     |
| <b>Total minimum lease payments</b>         | <b>₱2,303,503,745</b>     | <b>₱2,207,118,756</b>                         |

### JGSPC

#### *Operating Lease Commitments - Company as a Lessee*

JGSPC has entered into contracts of lease for its Cybergate office and the shuttle bus that transports its employees from Balagtas to Batangas plant with lease term of three years and one year, respectively. Rental expense charged to operations (included under 'Cost of sales and services' and 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱17.4 million, ₱21.4 million and ₱28.5 million in 2017, 2016 and 2015, respectively.

Future minimum lease payments under the noncancellable lease of JGSPC's office space follow:

|  | 2017               | 2016        | 2015        |
|--|--------------------|-------------|-------------|
| Within one year                                | <b>₱13,337,457</b> | ₱16,523,039 | ₱11,090,677 |
| After one year but not more than<br>five years | <b>17,480,912</b>  | 30,628,459  | 29,388,722  |
|  | <b>₱30,818,369</b> | ₱47,151,498 | ₱40,479,399 |

#### *Operating Lease Commitments - Group as a Lessor*

JGSPC has entered into commercial property leases. JGSPC has determined that it retains all the significant risks and rewards of ownership of these properties and accounts for them as operating leases.

Future minimum rentals under noncancellable operating lease of JGSPC follow:

|   | 2017            | 2016     |
|---|-----------------|----------|
| Within one year                             | <b>₱108,869</b> | ₱158,615 |
| After one year but not more than five years | -               | 108,869  |
|   | <b>₱108,869</b> | ₱267,484 |

### CAI

#### *Operating Aircraft Lease Commitments - Group as a Lessee*

CAI entered into operating lease agreements with certain leasing companies which cover the following aircraft:



*A320 aircraft*

The following table summarizes the specific lease agreements on CAI's Airbus A320 aircraft:

| <b>Date of Lease Agreement</b> | <b>Lessors</b>                             | <b>No. of Units</b> | <b>Lease Term</b>              |
|--------------------------------|--|---------------------|--------------------------------|
| April 2007                     | Inishcrean Leasing Limited (Inishcrean)    | 1                   | October 2019                   |
| March 2008                     | GY Aviation Lease 0905 Co. Limited         | 2                   | January 2019                   |
| March 2008                     | APTREE Aviation Trading 2 Co. Ltd          | 1                   | October 2019                   |
|                                | Wells Fargo Bank Northwest National Assoc. | 1                   | October 2019                   |
| July 2011                      | SMBC Aviation Capital Limited              | 2                   | March 2020                     |
| May 2017                       | Ibon Leasing Limited (ILL)                 | 2                   | January 2019 and February 2019 |
| November 2017                  | JPA No. 78 Co., Ltd                        | 1                   | August 2020                    |
| November 2017                  | JPA No. 79 Co., Ltd                        | 1                   | October 2020                   |
| November 2017                  | JPA No. 80 Co., Ltd                        | 1                   | January 2021                   |
| November 2017                  | JPA No. 81 Co., Ltd                        | 1                   | February 2021                  |

In 2007, CAI entered into operating lease agreement with Inishcrean for the lease of one Airbus A320, which was delivered in 2007, and with CIT Aerospace International for the lease of four Airbus A320 aircraft, which were delivered in 2008. In 2015, CAI extended the lease agreement with Inishcrean for another three years.

In March 2008, CAI entered into operating lease agreements for the lease of two Airbus A320 aircraft, which were delivered in 2009, and two Airbus A320 aircraft which were received in 2012. In November 2010, CAI signed an amendment to the operating lease agreements, advancing the delivery of the two Airbus A320 aircraft to 2011 from 2012.

In 2016, the Group extended the lease agreement with GY Aviation Lease 0905 Co. Limited for another two years pursuant to a letter of intent (LOI) signed in the first quarter of the same year.

In July 2011, CAI entered into an operating lease agreement with RBS Aerospace Ltd. (RBS) for the lease of two Airbus A320 aircraft, which were delivered in March 2012. The lease agreement with RBS was amended to effect the novation of lease rights by the original lessors to new lessors as allowed under the existing lease agreements.

In May 2017, the Group entered into lease agreements with ILL for two Airbus A320 (Note 13).

In November 2017, the Group entered into lease agreement with JPA No. 78/79/80/81 Co., Ltd for four Airbus A320.

*Airbus A330 aircraft*

The following table summarizes the specific lease agreements on CAI's Airbus A330 aircraft:

| <b>Date of Lease Agreement</b> | <b>Lessors</b>                                   | <b>No. of Units</b> | <b>Lease Term</b>                    |
|--------------------------------|--|---------------------|--------------------------------------|
| February 2012                  | CIT Aerospace International                      | 4                   | 12 years with pre-termination option |
| July 2013                      | A330 MSN 1552 Limited and A330 MSN 1602 Limited* | 2                   | 12 years with pre-termination option |

\*New lessors per Deed of Novation and Amendment signed on August 2014 and March 2015



On February 21, 2012, CAI entered into a lease agreement with CIT Aerospace International for four Airbus A330-300 aircraft. The lease term of the aircraft is 12 years with an early pre-termination option.

On July 19, 2013, the Group entered into an aircraft operating lease agreements with Intrepid Aviation for the lease of two Airbus A330-300 aircraft, which were delivered in September 2014 and March 2015.

As of December 31, 2017, CAI has six (6) Airbus A330 aircraft under operating lease (Note 16).

The first two A330 aircraft were delivered in June 2013 and September 2013. Three A330 aircraft were delivered in February 2014, May 2014 and September 2014. One A330 aircraft was delivered in March 2015.

Future minimum lease payments under the above-indicated operating aircraft leases follow:

|   | 2017                       |                        | 2016                       |                 | 2015                       |                 |
|---|----------------------------|------------------------|----------------------------|-----------------|----------------------------|-----------------|
|   | Philippine peso equivalent | US dollar              | Philippine peso equivalent | US dollar       | Philippine peso equivalent | US dollar       |
| Within one year                             | <b>₱5,195,955,222</b>      | <b>US\$104,064,795</b> | ₱4,416,187,364             | US\$88,821,146  | ₱4,297,695,406             | US\$90,260,208  |
| After one year but not more than five years | <b>17,627,451,745</b>      | <b>353,043,295</b>     | 17,195,525,129             | 345,847,247     | 14,550,644,708             | 309,193,470     |
| Over five years                             | <b>7,008,670,575</b>       | <b>140,369,930</b>     | 10,243,241,938             | 206,018,543     | 15,669,904,258             | 332,977,141     |
|   | <b>₱29,832,077,542</b>     | <b>US\$597,478,020</b> | ₱31,854,954,431            | US\$640,686,936 | ₱34,468,194,372            | US\$732,430,819 |

Lease expenses relating to aircraft leases (included in 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱4.6 billion, ₱4.3 billion and ₱4.0 billion in 2017, 2016 and 2015, respectively (see Note 31).

*Operating Non-Aircraft Lease Commitments - Group as a Lessee*

CAI has entered into various lease agreements for its hangar, office spaces, ticketing stations and certain equipment. These leases have remaining lease terms ranging from one to ten years. Certain leases include a clause to enable upward revision of the annual rental charge ranging from 5.0% to 10.0%.

Future minimum lease payments under these noncancellable operating leases of CAI follow:

|   | 2017                  | 2016           | 2015           |
|---|-----------------------|----------------|----------------|
| Within one year                             | <b>₱201,321,805</b>   | ₱167,226,528   | ₱135,299,739   |
| After one year but not more than five years | <b>834,940,613</b>    | 710,187,772    | 564,977,120    |
| Over five years                             | <b>3,876,023,510</b>  | 3,477,917,440  | 2,433,712,858  |
|   | <b>₱4,912,285,928</b> | ₱4,355,331,740 | ₱3,133,989,717 |

Lease expenses relating to both cancellable and non-cancellable non-aircraft leases (allocated under different expense accounts in the consolidated statements of comprehensive income) amounted to ₱731.0 million, ₱625.8 million and ₱488.6 million in 2017, 2016 and 2015, respectively.

RBC and LSB

*Operating Lease Commitments - Group as a Lessee*

RBC leases its head office and branch premises for periods ranging from one (1) to ten (10) years, renewable upon mutual agreement of both parties. LSB also leases the premises occupied by its head offices and most of its branches for periods ranging from five (5) to fifteen (15) years, renewable



upon mutual agreement of both parties. Various lease contracts of the Group include escalation clauses, most of which bear annual rent increase ranging from 5.00% to 10.00%.

Rent expense recognized by RBC and LSB (included under 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱303.7 million, ₱268.1 million and ₱241.4 million in 2017, 2016 and 2015, respectively.

Future minimum lease payments under these noncancellable operating leases of RBC and LSB follow:

|   | 2017                | 2016         | 2015         |
|---|---------------------|--------------|--------------|
| Within one year                             | <b>₱259,731,834</b> | ₱261,639,924 | ₱212,898,691 |
| After one year but not more than five years | <b>417,228,668</b>  | 531,101,622  | 476,759,239  |
| Over five years                             | <b>41,247,312</b>   | 27,025,441   | 34,966,519   |
|   | <b>₱718,207,814</b> | ₱819,766,987 | ₱724,624,449 |

*Finance Lease - LSB as Lessor*

LSB has entered to a lease on its investment property portfolio. The lease contract provides an option to purchase the properties the end of the lease term. The lease has a lease term of ten (10) years, from April 30, 2009 to March 31, 2019. The building being leased out has an estimated useful life of ten (10) years.

As of December 31, 2017 and 2016, the future minimum lease receivable under the finance lease as follows:

|   | 2017                     |                   |                   | 2016                     |            |            |
|---|--------------------------|-------------------|-------------------|--------------------------|------------|------------|
|   | Minimum Lease Receivable | Interest          | Principal         | Minimum Lease Receivable | Interest   | Principal  |
| Within one year                             | <b>₱750,000</b>          | <b>₱1,309,117</b> | <b>(₱559,117)</b> | ₱750,000                 | ₱1,236,467 | (₱486,467) |
| After one year but not more than five years | <b>10,000,000</b>        | <b>339,868</b>    | <b>9,660,132</b>  | 10,750,000               | 1,648,986  | 9,101,014  |
|   | <b>₱10,750,000</b>       | <b>₱1,648,985</b> | <b>₱9,101,015</b> | ₱11,500,000              | ₱2,885,453 | ₱8,614,547 |

#### 43. Other Commitments and Contingent Liabilities

Parent Company

- *JGSOC Loan Accommodation from Private Bank*

On May 4, 2012, the BOD of the Parent Company approved and authorized the Parent Company to act as surety with respect to the credit accommodation of JGSOC from Banco de Oro Unibank, Inc. in the aggregate principal amount of ₱1.0 billion, including the extensions, renewals or modifications of such credit accommodation.

On February 4, 2014, the BOD of the Parent Company approved and authorized the Parent Company to guarantee the loan/credit accommodation of JGSOC from Banco de Oro Unibank, Inc. in the aggregate principal amount of ₱9.0 billion, including the extensions, renewals or modifications of such loan/credit accommodation.



- *JGSPC Loan Accommodation from Private Bank*

On May 8, 2014, the BOD of the Parent Company approved and authorized the Parent Company to guarantee the loan/credit accommodation of JGSPC from Banco de Oro Unibank, Inc. in the aggregate principal amount of ₱4.0 billion, including the extensions, renewals or modifications of such loan/credit accommodation.

### RLC

#### *Capital Commitments*

RLC has contractual commitments and obligations for the construction and development of investment properties and property and equipment items aggregating ₱15.7 million, ₱16.9 million and ₱8.2 million as of December 31, 2017, 2016 and 2015, respectively. Moreover, RLC has contractual obligations amounting to ₱1.4 million and ₱1.2 million as of December 31, 2017 and 2016, respectively, for the completion and delivery of real estate units that have been presold.

### CAI

#### *Capital Expenditure Commitments*

CAI's capital expenditure commitments relate principally to the acquisition of aircraft fleet, aggregating to ₱127.3 billion and ₱117.8 billion as of December 31, 2017 and 2016, respectively, which are payable over the following periods:

|   | December 31, 2017        |                            | December 31, 2016        |                            |
|---|--------------------------|----------------------------|--------------------------|----------------------------|
|   | US Dollar                | Philippine Peso Equivalent | US Dollar                | Philippine Peso Equivalent |
| Within one year                             | US\$541,112,509          | ₱27,017,747,591            | US\$483,178,223          | ₱24,023,621,236            |
| After one year but not more than five years | 2,008,923,295            | 100,305,540,083            | 1,886,172,565            | 93,780,499,949             |
|   | <b>US\$2,550,035,804</b> | <b>₱127,323,287,674</b>    | <b>US\$2,369,350,788</b> | <b>₱117,804,121,185</b>    |

#### *Aircraft and Spare Engine Purchase Commitments*

In August 2011, CAI entered in a commitment with Airbus S.A.S. to purchase firm orders of thirty two new A321 NEO Aircraft and ten addition option orders. These aircraft are scheduled to be delivered from 2018 to 2022.

On June 28, 2012, CAI has entered into an agreement with United Technologies International Corporation Pratt & Whitney Division to purchase new PurePower® PW1100G-JM engines for its 30 firm and ten options A321 NEO aircraft to be delivered beginning 2017. The agreement also includes an engine maintenance services program for a period of ten years from the date of entry into service of each engine.

On October 20, 2015 CAI entered into a Sale and Purchase Contract with Avions Transport Regional G.I.E. to purchase 16 firm ATR 72-600 aircraft and up to 10 additional option ATR 72-600 aircraft. These aircraft are scheduled to be delivered from 2016 to 2020. Two ATR72-600 were received during 2016 and six ATR-600 during 2017.

On June 6, 2017, CAI placed an order with Airbus S.A.S to purchase seven (7) new A321 CEO Aircraft to be delivered starting 2018.

As of December 31, 2017, CAI will take delivery of seven (7) Airbus A321 CEO, thirty-two Airbus A321 NEO and eight (8) ATR 72-600 aircraft.

The above-indicated commitments relate to CAI's re-fleeting and expansion programs. These agreements remained in effect as of December 31, 2017.



*Service Maintenance Commitments*

On June 21, 2012, CAI has entered into a 10-year charge per aircraft landing (CPAL) agreement with Messier-Bulgatti-Dowty (Safran Group) to purchase wheels and brakes for its fleet of Airbus A319 and A320 aircraft. The contract covers the current fleet, as well as future aircraft to be acquired.

On June 22, 2012, CAI has entered into service contract with Rolls-Royce Total Care Services Limited (Rolls-Royce) for service support for the engines of the A330 aircraft. Rolls-Royce will provide long-term Total Care service support for the Trent 700 engines on up to eight A330 aircraft. Contract term shall be from delivery of the first A330 until the redeliveey of the last A330.

On March 28, 2017, the Parent Company entered into a maintenance service contract with Societe Air France for the lease, repair and overhaul services of parts and components of its A319, A320 and A321 aircraft. These services include provision of access to inventories under lease basis, access to pooled components on a flat rate basis and repairs of aircraft parts and components.

Off-Balance Sheet Items

In the normal course of RBC and LSB's operations, there are various outstanding contingent liabilities and bank guarantees which are not reflected in the accompanying consolidated financial statements. The subsidiary bank does not anticipate material unreserved losses as a result of these transactions.

Following is a summary of RBC and LSB's commitments and contingent liabilities at their equivalent peso contractual amounts:

|                                     | <b>2017</b>            | 2016            |
|-------------------------------------|------------------------|-----------------|
| Trust and investment group accounts | <b>₱16,424,743,919</b> | ₱15,507,740,556 |
| Contingent - foreign currency swap  | <b>1,936,176,488</b>   | 5,681,648,084   |
| Inward bills for collection         | <b>966,438,653</b>     | 288,993,938     |
| Spot exchange - foreign currency    | <b>952,213,950</b>     | 2,338,846,500   |
| Outward bills for collection        | <b>683,173,837</b>     | 253,379,120     |
| Domestic standby letters of credit  | <b>483,189,586</b>     | 479,316,335     |
| Committed credit lines              | <b>337,635,067</b>     | 22,000,000      |
| Guarantees issued                   | <b>184,930,289</b>     | 81,382,715      |
| Late deposit/payment received       | <b>172,496,144</b>     | 11,795,810      |

Contingencies

The Group has various contingent liabilities arising in the ordinary conduct of business from legal proceedings which are either pending decision by the courts, under arbitration or being contested, the outcomes of which are not presently determinable. In the opinion of management and its legal counsels, 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. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the ground that it can be expected to prejudice the outcome of these lawsuits, claims, arbitration and assessments.



#### 44. Business Combination

##### *Acquisition of Griffin's*

URC NZ FinCo, a newly formed wholly-owned subsidiary of URCICL entered into a Sale and Purchase Agreement with Pacific Equity Partners (PEP) for the acquisition of 100% equity interest in NZSFHL, which is the holding company of Griffin's Food Limited, the leading snack food company in New Zealand, subject to the approval of New Zealand's Overseas Investment Office (OIO) as required by Overseas Investment Act 2005 and Overseas Investment Regulation of 2005. The total consideration of the acquisition is NZ\$233.7 million (approximately ₪8.2 billion), including the initial deposit of NZ\$100.0 million (₪3.5 billion) and the balance upon completion.

On October 29, 2014, New Zealand's OIO granted its consent on the application for the acquisition of NZSFHL. On November 14, 2014, following the approval from OIO, the transaction was completed and the remaining balance of the consideration was settled.

URC engaged a third party valuer to conduct the final purchase price allocation.

In 2015, the fair values of the assets and liabilities of NZSFHL at the date of acquisition were finalized as follow:

|   |                        |
|---|------------------------|
| Purchase consideration transferred                      | ₪8,152,809,497         |
| Fair value of identifiable assets                       |                        |
| Cash and cash equivalents                               | ₪1,066,628,343         |
| Trade receivables                                       | 2,022,403,012          |
| Inventories   | 1,500,415,759          |
| Property, plant and equipment                           | 4,365,177,575          |
| Intangibles   | 6,865,982,527          |
| <b>Total Assets</b>                                     | <b>15,820,607,216</b>  |
| Fair value of identifiable liabilities                  |                        |
| Trade payables  | 2,889,821,951          |
| Deferred tax liability                                  | 2,303,077,210          |
| Income tax liability                                    | 1,020,200              |
| External bank debt                                      | 16,387,274,619         |
| <b>Total Liabilities</b>                                | <b>21,581,193,980</b>  |
| <b>Total fair value of identifiable net liabilities</b> | <b>(5,760,586,764)</b> |
| <b>Goodwill</b>   | <b>₪13,913,396,261</b> |

##### *Acquisition of Cebgo, Inc.*

As part of the strategic alliance between the CAI and Tiger Airways Holding Limited (TAH), on February 10, 2014, the CAI signed a Sale and Purchase Agreement (SPA) to acquire 100.0% of Cebgo, Inc. Under the terms of the SPA, closing of the transaction is subject to the satisfaction or waiver of each of the conditions contained in the SPA. On March 20, 2014, all the conditions precedent has been satisfactorily completed. The CAI has paid the purchase price covering the transfer of shares from TAH. Consequently, CAI gained control of Cebgo on the same date. The total consideration for the transaction amounted to ₪265.1 million.





The fair values of the identifiable assets and liabilities of Cebgo, Inc. at the date of acquisition follow:

|   | Fair Value<br>recognized in<br>the acquisition |
|---|--|
| Total cash, receivables and other assets                        | ₱1,234,084,305                                 |
| Total accounts payable, accrued expenses and<br>unearned income | 1,535,756,691                                  |
| Net liabilities   | (301,672,386)                                  |
| Goodwill  | 566,781,533                                    |
| Acquisition cost at post-closing settlement date                | ₱265,109,147                                   |

CAI identified intangible assets amounting to ₱852.2 million representing costs to establish brand and market opportunities under strategic alliance with TAH (Note 18). In February 2015, CAI reached an agreement with ROAR II on the settlement of post-closing adjustments amounting to ₱223.5 million pursuant to the SPA. Such amount was received by CAI in 2015 and is accounted for as an adjustment to the purchase price. Total purchase price after closing settlement date amounted to ₱488.6 million.

*Acquisition of Balayan Sugar Mill*

On February 4, 2016, URC entered into an Asset Purchase Agreement with Batangas Sugar Mill, Inc. (BSCI) for the acquisition of Balayan sugar mill for a total consideration of ₱1.6 billion. URC engaged the services of a third party valuer to conduct the final purchase price allocation.

The fair values of the identifiable net assets at the date of acquisition follow:

|   |                |
|---|----------------|
| Purchase consideration transferred          | ₱1,600,000,000 |
| Fair value of identifiable net assets       |                |
| Inventories                                 | 264,000,000    |
| Property, plant and equipment (Note 16)     | 1,323,590,374  |
| Total fair value of identifiable net assets | 1,587,590,374  |
| Goodwill                                    | ₱12,409,626    |

Goodwill arising from acquisition of Balayan is allocated entirely to the operations of the sugar mill and is mainly attributable to the synergies formed between URC and Balayan.

From the date of acquisition, the Balayan sugar mill has contributed net sales of ₱636.7 million and net income of ₱85.2 million to the Group. If the business combination had taken place at the beginning of 2016, net sales and net income of the Group in 2016 would have been ₱240.6 billion and ₱22.4 billion, respectively.

*Acquisition of Snack Brands Australia*

On August 16, 2016, URC AU FinCo, a wholly-owned subsidiary of URCICL, entered into a Share Sale Agreement with Toccara Securities Pty Ltd and Hopkins Securities Pty Ltd for the acquisition of 100% equity interest in CSPL, which trades under the company name Snack Brands Australia (SBA), one of the leading snack food companies in Australia, subject to the approval of the Australian Foreign Investment Review Board (FIRB). The total consideration of the acquisition is approximately AU\$584.5 million (₱21.6 billion).



On September 14, 2016, the Australian FIRB approved the acquisition of SBA. Following the approval, the transaction was completed on September 30, 2016.

The Group engaged the services of a third party valuer to conduct the final purchase price allocation.

The fair values of the identifiable assets and liabilities of CSPL at the date of acquisition follow:

|   |                        |
|---|------------------------|
| Purchase consideration transferred                      | ₱21,579,202,907        |
| Fair value of identifiable assets                       |                        |
| Cash  | ₱419,944,622           |
| Receivables   | 1,608,193,555          |
| Inventories   | 369,121,737            |
| Other current assets                                    | 68,764,464             |
| Property, plant and equipment (Note 16)                 | 2,371,469,678          |
| Intangibles (Note 18)                                   | 4,681,269,034          |
| Deferred tax assets                                     | 310,964,989            |
| <b>Total Assets</b>                                     | <b>9,829,728,079</b>   |
| Fair value of identifiable liabilities                  |                        |
| Accounts payable and other accrued liabilities          | 3,103,596,275          |
| Deferred tax liabilities                                | 1,514,713,029          |
| Other noncurrent liabilities                            | 125,070,200            |
| <b>Total Liabilities</b>                                | <b>4,743,379,504</b>   |
| <b>Total fair value of identifiable net liabilities</b> | <b>5,086,348,575</b>   |
| <b>Goodwill</b>   | <b>₱16,492,854,332</b> |

Goodwill arising from the acquisition of AU Group is allocated entirely to the operations of Snack Brands. None of the goodwill recognized is expected to be deductible for income tax purposes. From the date of acquisition, the AU Group has contributed net sales of ₱2.6 billion and net income of ₱0.3 billion to the Group. If the business combination had taken place at the beginning of the year, net sales and net income of the Group in 2016 would have been ₱248.3 billion and ₱22.4 billion, respectively.

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#### 45. Subsequent Events

The following non-adjusting events happened subsequent to the respective reporting dates of the Parent Company and its subsidiaries:

On February 8, 2018, the BOD authorizes the Parent Company to guarantee the loan/credit accommodation of JG Summit Petrochemical Corporation from BDO Unibank in the aggregate principal amount of ₱15.0 billion including any extension, renewal or modification of such loan or credit accommodation.

On February 8, 2018, the BOD authorizes the Parent Company to guarantee the loan/credit accommodation of JG Summit Olefins Corporation from BDO Unibank in the aggregate principal amount of ₱15.0 billion including any extension, renewal or modification of such loan or credit accommodation.

On March 23, 2018, NURC's BOD approved the declaration of cash dividends amounting to ₱690.00 million (₱3.65 per share) to stockholders of record as of December 31, 2017 payable on or before September 30, 2018.



#### 46. Supplemental Disclosures to Cash Flow Statements

In 2016, the total cash paid, net of cash received from the Group's acquisition of subsidiaries amounted to ₱21.2 billion (see Note 44).

Changes in liabilities arising from financing activities in 2017 follow:

|                  | January 1, 2017  | Cash Flows       | Foreign Exchange<br>Movement | Others*        | December 31, 2017 |
|------------------|------------------|------------------|------------------------------|----------------|-------------------|
| Short-term debts | 61,884,514,577   | (16,409,717,227) | 230,064,662                  | 142,951,449    | ₱45,847,813,461   |
| Long-term debts  | 159,187,755,600  | 19,532,626,809   | 995,927,867                  | 1,970,504,390  | 181,686,814,666   |
|                  | ₱221,072,270,177 | ₱3,122,909,582   | ₱1,225,992,529               | ₱2,113,455,839 | ₱227,534,628,127  |

\*Others consist of amortization and capitalization of bond issue cost.

The principal noncash activities of the Group are as follows:

- a. On December 31, 2015 the Group recognized a liability based on the schedule of pre-delivery payments amounting to ₱482.0 million. These incurred costs are recognized under the 'Property, Plant, and Equipment - Construction-in progress' account. The liability was paid the following year.
- b. Movements in the cumulative translation adjustment amounted to (₱1.1 billion), (₱1.9 billion), and ₱1.7 billion in 2017, 2016 and 2015, respectively.
- c. In 2017, 2016 and 2015, the Group foreclosed some assets, which are recorded under 'Investment properties' in the consolidated statements of financial position, amounting to ₱85.5 million, ₱91.4 million and ₱65.4 million, respectively.
- d. In 2017, 2016 and 2015, the Group acquired additional investment in UICL through the script dividend scheme in lieu of cash dividends amounting to ₱560.4 million, ₱529.9 million and ₱510.0 million, respectively.
- e. Acquisition of aircraft through loan financing amounting to ₱10.1 billion, ₱12.3 billion and ₱8.0 billion in 2017, 2016 and 2015, respectively.

#### 47. Approval for the Release of the Consolidated Financial Statements

The accompanying consolidated financial statements of the Group were approved and authorized for issue by the BOD on April 10, 2018.



## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
JG Summit Holdings, Inc.  
43rd Floor, Robinsons-Equitable Tower  
ADB Avenue corner Poveda Road, Pasig City, Metro Manila

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of JG Summit Holdings, Inc. and Subsidiaries (the Group) as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, included in this Form 17-A, and have issued our report thereon dated April 10, 2018. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Aris C. Malantic

Partner

CPA Certificate No. 90190

SEC Accreditation No. 0326-AR-3 (Group A),

May 1, 2015, valid until April 30, 2018

Tax Identification No. 152-884-691

BIR Accreditation No. 08-001998-54-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 6621284, January 9, 2018, Makati City

April 10, 2018



**JG SUMMIT HOLDINGS, INC.**  
**SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
**AS OF DECEMBER 31, 2017**

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The table below presents the retained earnings available for dividend declaration as of December 31, 2017:

|   |                        |
|---|------------------------|
| Unappropriated Retained Earnings, beginning   | (P5,270,561,577)       |
| Adjustment:   |                        |
| Realized market valuation losses on financial assets at FVPL in 2016                  | 54,911,274             |
| Unappropriated Retained Earnings, as adjusted, beginning                              | (5,215,650,303)        |
| Net income during the year  | 20,650,555,556         |
| Add: Unrealized market valuation loss on financial assets at FVPL                     | 351,092,254            |
| Less: Dividend declaration during the year  | (2,016,795,664)        |
| Appropriations of retained earnings during the year                                   | (3,700,000,000)        |
| Total Retained Earnings available for dividend declaration as of<br>December 31, 2017 | <u>P10,069,201,843</u> |

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS**

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br>Effective as of December 31, 2017  |   | <b>Adopted</b> | <b>Not Adopted/Not Early Adopted</b> | <b>Not Applicable</b> |
|---|---|----------------|--------------------------------------|-----------------------|
| <b>Framework for the Preparation and Presentation of Financial Statements</b><br>Conceptual Framework Phase A: Objectives and qualitative characteristics |   | ✓              |                                      |                       |
| <b>PFRSs Practice Statement Management Commentary</b>   |   | ✓              |                                      |                       |
| <b>Philippine Financial Reporting Standards</b>   |   |                |                                      |                       |
| <b>PFRS 1 (Revised)</b>   | First-time Adoption of Philippine Financial Reporting Standards                                     | ✓              |                                      |                       |
|   | Amendments to PFRS 1: Additional Exemption for First-time Adopters                                  |                |                                      | ✓                     |
|   | Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters |                |                                      | ✓                     |
|   | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters       |                |                                      | ✓                     |
|   | Amendments to PFRS 1: Government Loans  |                |                                      | ✓                     |
|   | Amendment to PFRS 1: Meaning of Effective PFRSs   |                |                                      | ✓                     |
| <b>PFRS 2</b>   | Share-based Payment   |                |                                      | ✓                     |
|   | Amendments to PFRS 2: Vesting Conditions and Cancellations  |                |                                      | ✓                     |
|   | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions                           |                |                                      | ✓                     |
|   | Amendment to PFRS 2: Definition of Vesting Condition  |                |                                      | ✓                     |
|   | Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions*           |                |                                      | ✓                     |
| <b>PFRS 3 (Revised)</b>   | Business Combinations   | ✓              |                                      |                       |
|   | Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination              |                |                                      | ✓                     |
|   | Amendment to PFRS 3: Scope Exceptions for Joint Arrangements  |                |                                      | ✓                     |
| <b>PFRS 4</b>   | Insurance Contracts   |                |                                      | ✓                     |
|   | Amendments to PFRS 4: Financial Guarantee Contracts   |                |                                      | ✓                     |
|   | Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts*      |                |                                      | ✓                     |
| <b>PFRS 5</b>   | Non-current Assets Held for Sale and Discontinued operation   |                |                                      | ✓                     |
|   | Amendment to PFRS 5: Changes in methods of disposal   |                |                                      | ✓                     |
| <b>PFRS 6</b>   | Exploration for and Evaluation of Mineral Resources   |                |                                      | ✓                     |
| <b>PFRS 7</b>   | Financial Instruments: Disclosures  | ✓              |                                      |                       |
|   | Amendments to PFRS 7: Transition  | ✓              |                                      |                       |
|   | Amendments to and PFRS 7: Reclassification of Financial Assets                                      | ✓              |                                      |                       |
|   | Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition          | ✓              |                                      |                       |
|   | Amendments to PFRS 7: Improving Disclosures about Financial Instruments                             | ✓              |                                      |                       |
|   | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets                                   | ✓              |                                      |                       |
|   | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities           | ✓              |                                      |                       |
|   | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures                 | ✓              |                                      |                       |

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br>Effective as of December 31, 2017 |  | <b>Adopted</b> | <b>Not Adopted/Not Early Adopted</b>          | <b>Not Applicable</b> |
|--|--|----------------|---|-----------------------|
|  | Amendments to PFRS 7: Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in PFRS 9 |                | Not early adopted (Effective January 1, 2018) |                       |
|  | Amendments to PFRS 7: Servicing Contracts and Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements                                      |                |   | ✓                     |
| <b>PFRS 8</b>  | Operating Segments   | ✓              |   |                       |
|  | Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets                      | ✓              |   |                       |
| <b>PFRS 9</b>  | Financial Instruments: Classification and Measurement of Financial Assets (2010)   |                | ✓   |                       |
|  | Financial Instruments: Classification and Measurement of Financial Liabilities (2010)  |                | ✓   |                       |
|  | PFRS 9, Financial Instruments (2014)   |                | Not early adopted (Effective January 1, 2018) |                       |
| <b>PFRS 10</b>   | Consolidated Financial Statements  | ✓              |   |                       |
|  | Amendments to PFRS 10: Transition Guidance   |                |   | ✓                     |
|  | Amendments to PFRS 10: Investment Entities   |                |   | ✓                     |
|  | Amendments to PFRS 10: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture**   |                |   | ✓                     |
|  | Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception   |                |   | ✓                     |
| <b>PFRS 11</b>   | Joint Arrangements   | ✓              |   |                       |
|  | Amendments to PFRS 11: Transition Guidance   | ✓              |   |                       |
|  | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations  |                |   | ✓                     |
| <b>PFRS 12</b>   | Disclosures of Interests in Other Entities   | ✓              |   |                       |
|  | Amendments to PFRS 12: Transition Guidance   | ✓              |   |                       |
|  | Amendments to PFRS 12: Investment Entities   |                |   | ✓                     |
|  | Amendments to PFRS 12: Investment Entities Applying the Consolidation Exception  |                |   | ✓                     |
| <b>PFRS 13</b>   | Fair Value Measurement   | ✓              |   |                       |
|  | Amendment to PFRS 13: Short-term Receivables and Payables  | ✓              |   |                       |
|  | Amendment to PFRS 13: Portfolio Exception  |                |   | ✓                     |
| <b>PFRS 14</b>   | Regulatory Deferral Accounts   |                |   | ✓                     |
| <b>PFRS 15</b>   | Revenue from Contracts with Customers*   |                | Not early adopted (Effective January 1, 2018) |                       |
|  | Amendments to PFRS 15, Clarifications to PFRS 15*  |                | Not early adopted (Effective January 1, 2018) |                       |
| <b>PFRS 16</b>   | Lease  |                | Not early adopted (Effective January 1, 2019) |                       |
| <b>Philippine Accounting Standards</b>   |  |                |   |                       |
| <b>PAS 1 (Revised)</b>   | Presentation of Financial Statements   | ✓              |   |                       |
|  | Amendments to PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation   |                |   | ✓                     |
|  | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income   | ✓              |   |                       |
|  | Amendments to PAS 1 (Revised): Disclosure Initiative   | ✓              |   |                       |
| <b>PAS 2</b>   | Inventories  | ✓              |   |                       |
| <b>PAS 7</b>   | Statement of Cash Flows  | ✓              |   |                       |
|  | Amendments to PAS 7: Disclosure Initiative   | ✓              |   |                       |

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br><b>Effective as of December 31, 2017</b> |   | <b>Adopted</b> | <b>Not Adopted/Not Early Adopted</b> | <b>Not Applicable</b> |
|---|---|----------------|--------------------------------------|-----------------------|
| <b>PAS 8</b>  | Accounting Policies, Changes in Accounting Estimates and Errors   | ✓              |                                      |                       |
| <b>PAS 10</b>   | Events after the Reporting Period   | ✓              |                                      |                       |
| <b>PAS 11</b>   | Construction Contracts  |                |                                      | ✓                     |
| <b>PAS 12</b>   | Income Taxes  | ✓              |                                      |                       |
|   | Amendments to PAS 12- Deferred Tax: Recovery of Underlying Assets   |                |                                      | ✓                     |
|   | Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses  | ✓              |                                      |                       |
| <b>PAS 16</b>   | Property, Plant and Equipment   | ✓              |                                      |                       |
|   | Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation on Revaluation          |                |                                      | ✓                     |
|   | Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization                              |                |                                      | ✓                     |
|   | Amendments to PAS 16, Agriculture: Bearer Plants  |                |                                      | ✓                     |
| <b>PAS 17</b>   | Leases  | ✓              |                                      |                       |
| <b>PAS 18</b>   | Revenue   | ✓              |                                      |                       |
| <b>PAS 19 (Revised)</b>   | Employee Benefits   | ✓              |                                      |                       |
|   | Amendments to PAS 19: Defined Benefit Plans: Employee Contribution  |                |                                      | ✓                     |
|   | Amendments to PAS 19: Discount Rate: Regional Market Issue  |                |                                      | ✓                     |
| <b>PAS 20</b>   | Accounting for Government Grants and Disclosure of Government Assistance  |                |                                      | ✓                     |
| <b>PAS 21</b>   | The Effects of Changes in Foreign Exchange Rates  | ✓              |                                      |                       |
|   | Amendment: Net Investment in a Foreign Operation  |                |                                      | ✓                     |
| <b>PAS 23 (Revised)</b>   | Borrowing Costs   |                |                                      | ✓                     |
| <b>PAS 24 (Revised)</b>   | Related Party Disclosures   | ✓              |                                      |                       |
|   | Amendments to PAS 24: Key Management Personnel  | ✓              |                                      |                       |
| <b>PAS 26</b>   | Accounting and Reporting by Retirement Benefit Plans  |                |                                      | ✓                     |
| <b>PAS 27 (Amended)</b>   | Separate Financial Statements   | ✓              |                                      |                       |
|   | Amendments for investment entities  |                |                                      | ✓                     |
|   | Amendments to PAS 27: Equity Method in Separate Financial Statements  |                | ✓                                    |                       |
| <b>PAS 28 (Amended)</b>   | Investments in Associates and Joint Ventures  | ✓              |                                      |                       |
|   | Amendments to PAS 28 (Amended): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** |                |                                      | ✓                     |
|   | Amendments to PAS 28 (Amended): Investment Entities: Applying the Consolidation Exception                               |                |                                      | ✓                     |
| <b>PAS 29</b>   | Financial Reporting in Hyperinflationary Economies  |                |                                      | ✓                     |
| <b>PAS 32</b>   | Financial Instruments: Disclosure and Presentation  | ✓              |                                      |                       |
|   | Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation                             |                |                                      | ✓                     |
|   | Amendments to PAS 32: Classification of Rights Issues   |                |                                      | ✓                     |
|   | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities   | ✓              |                                      |                       |
| <b>PAS 33</b>   | Earnings per Share  | ✓              |                                      |                       |
| <b>PAS 34</b>   | Interim Financial Reporting   |                |                                      | ✓                     |
|   | Amendment to PAS 34: Disclosure of information 'Elsewhere in the Interim financial report'                              |                |                                      | ✓                     |
| <b>PAS 36</b>   | Impairment of Assets  | ✓              |                                      |                       |
|   | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets   | ✓              |                                      |                       |
| <b>PAS 37</b>   | Provisions, Contingent Liabilities and Contingent Assets  | ✓              |                                      |                       |
| <b>PAS 38</b>   | Intangible Assets   | ✓              |                                      |                       |



| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br>Effective as of December 31, 2017 |  | <b>Adopted</b> | <b>Not Adopted/Not Early Adopted</b> | <b>Not Applicable</b> |
|--|--|----------------|--------------------------------------|-----------------------|
|  | Amendments to PAS 38 : Revaluation Method – Proportionate Restatement Of Accumulated Amortization  |                |                                      | ✓                     |
|  | Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization   |                |                                      | ✓                     |
| <b>PAS 39</b>  | Financial Instruments: Recognition and Measurement   | ✓              |                                      |                       |
|  | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities   |                |                                      | ✓                     |
|  | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions   |                |                                      | ✓                     |
|  | Amendments to PAS 39: The Fair Value Option  |                |                                      | ✓                     |
|  | Amendments to PAS 39: Financial Guarantee Contracts  |                |                                      | ✓                     |
|  | Amendments to PAS 39: Reclassification of Financial Assets   |                |                                      | ✓                     |
|  | Amendments to PAS 39: Reclassification of Financial Assets - Effective Date and Transition   |                |                                      | ✓                     |
|  | Amendment to PAS 39: Embedded Derivatives  |                |                                      | ✓                     |
|  | Amendment to PAS 39: Eligible Hedged Items   | ✓              |                                      |                       |
|  | Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting  |                |                                      | ✓                     |
|  | Amendments to PAS 39: Hedge Accounting   | ✓              |                                      |                       |
| <b>PAS 40</b>  | Investment Property  | ✓              |                                      |                       |
|  | Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property |                |                                      | ✓                     |
| <b>PAS 41</b>  | Agriculture  | ✓              |                                      |                       |
|  | Amendments to PAS 41, Agriculture: Bearer Plants   |                |                                      | ✓                     |
| <b>Philippine Interpretations</b>  |  |                |                                      |                       |
| <b>IFRIC 1</b>   | Changes in Existing Decommissioning, Restoration and Similar Liabilities   |                |                                      | ✓                     |
| <b>IFRIC 2</b>   | Members' Share in Co-operative Entities and Similar Instruments  |                |                                      | ✓                     |
| <b>IFRIC 4</b>   | Determining Whether an Arrangement Contains a Lease  | ✓              |                                      |                       |
| <b>IFRIC 5</b>   | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds   |                |                                      | ✓                     |
| <b>IFRIC 6</b>   | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment  |                |                                      | ✓                     |
| <b>IFRIC 7</b>   | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies  |                |                                      | ✓                     |
| <b>IFRIC 9</b>   | Reassessment of Embedded Derivatives   |                |                                      | ✓                     |
|  | Amendments to Philippine Interpretation IFRIC-9: Embedded Derivatives  |                |                                      | ✓                     |
| <b>IFRIC 10</b>  | Interim Financial Reporting and Impairment   |                |                                      | ✓                     |
| <b>IFRIC 12</b>  | Service Concession Arrangements  |                |                                      | ✓                     |
| <b>IFRIC 13</b>  | Customer Loyalty Programmes  | ✓              |                                      |                       |
| <b>IFRIC 14</b>  | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction   |                |                                      | ✓                     |
|  | Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement  |                |                                      | ✓                     |
| <b>IFRIC 16</b>  | Hedges of a net Investment in a Foreign Operation  |                |                                      | ✓                     |
| <b>IFRIC 17</b>  | Distributions of Non-cash Assets to Owners   |                |                                      | ✓                     |
| <b>IFRIC 18</b>  | Transfers of Assets from Customers   |                |                                      | ✓                     |
| <b>IFRIC 19</b>  | Extinguishing Financial Liabilities with Equity Instruments  |                |                                      | ✓                     |
| <b>IFRIC 20</b>  | Stripping Costs in the Production Phase of a Surface Mine  |                |                                      | ✓                     |

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br>Effective as of December 31, 2017 |  | <b>Adopted</b> | <b>Not Adopted/Not Early Adopted</b> | <b>Not Applicable</b> |
|--|--|----------------|--------------------------------------|-----------------------|
| <b>IFRIC 21</b>  | Levies   |                |                                      | ✓                     |
| <b>SIC-7</b>   | Introduction of the Euro   |                |                                      | ✓                     |
| <b>SIC-10</b>  | Government Assistance - No Specific Relation to Operating Activities         |                |                                      | ✓                     |
| <b>SIC-15</b>  | Operating Leases - Incentives  |                |                                      | ✓                     |
| <b>SIC-25</b>  | Income Taxes- Changes in the Tax Status of an Entity or its Shareholders     |                |                                      | ✓                     |
| <b>SIC-27</b>  | Evaluating the Substance of Transactions Involving the Legal Form of a Lease |                |                                      | ✓                     |
| <b>SIC-29</b>  | Service Concession Arrangements: Disclosures                                 |                |                                      | ✓                     |
| <b>SIC-31</b>  | Revenue - Barter Transactions Involving Advertising Services                 |                |                                      | ✓                     |
| <b>SIC-32</b>  | Intangible Assets - Web Site Costs   |                |                                      | ✓                     |

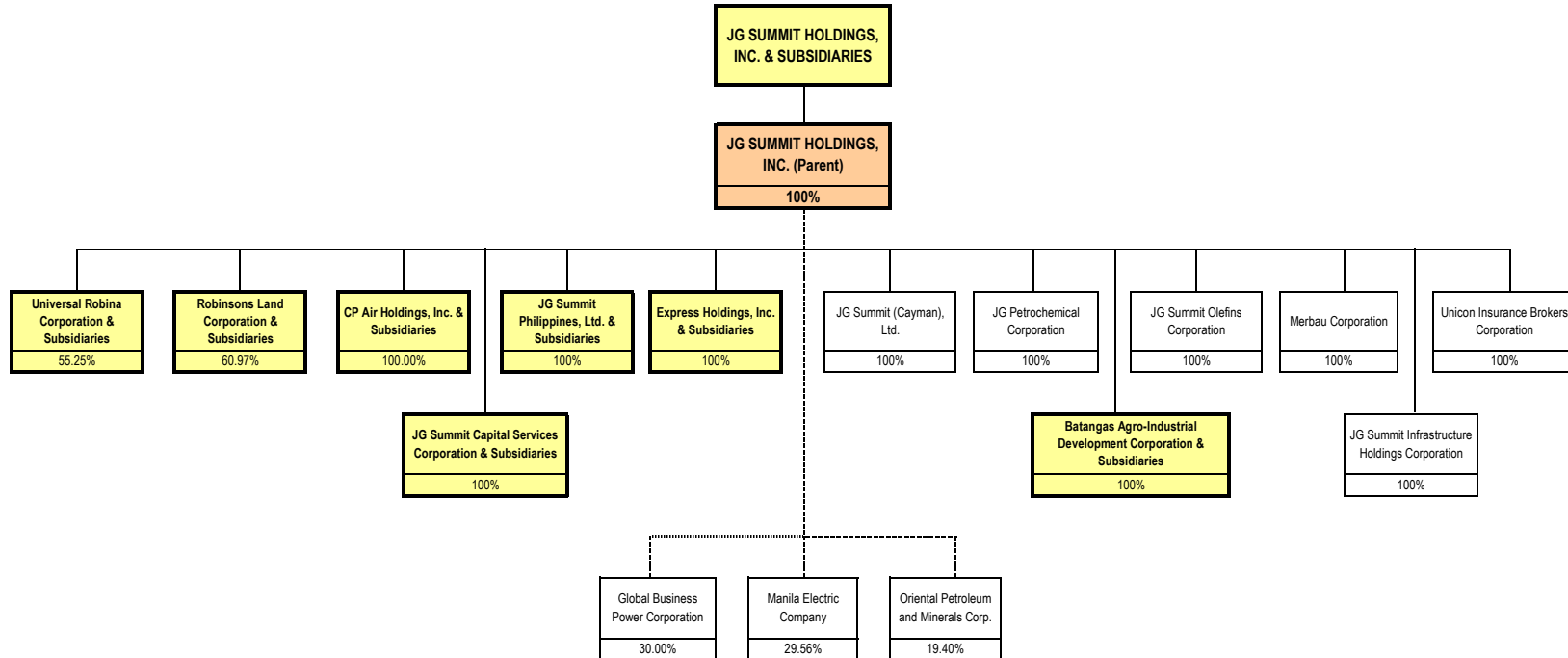
\* Subject to approval by the Board of Accountancy

\*\* Original effective date of January 1, 2016 of the amendment was postponed by the FRSC on January 13, 2016, until the IASB has completed its broader review of the research project on equity accounting.

Standards and Interpretations applicable to annual periods beginning on or after January 1, 2018 (where early application is allowed) will be adopted by the Group as they become effective.

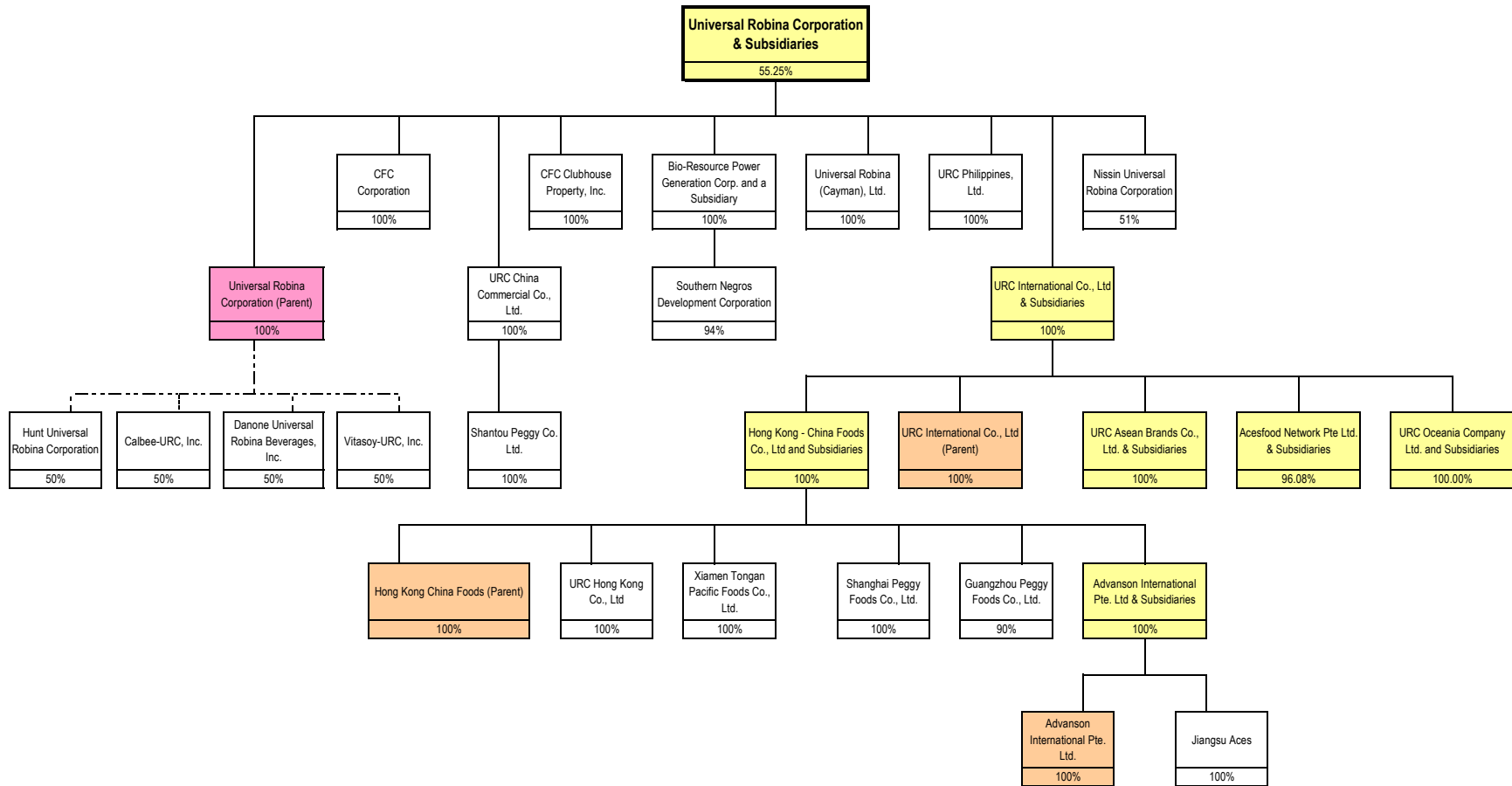
**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
 43rd Floor, Robinsons-Equitable Tower  
 ADB Avenue corner Poveda Road, Pasig City

**MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP**

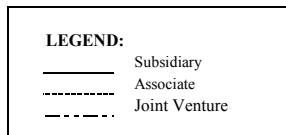


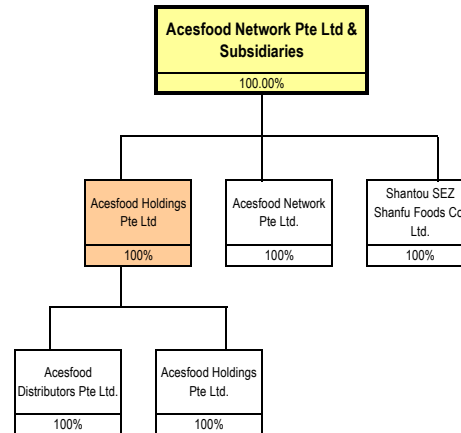
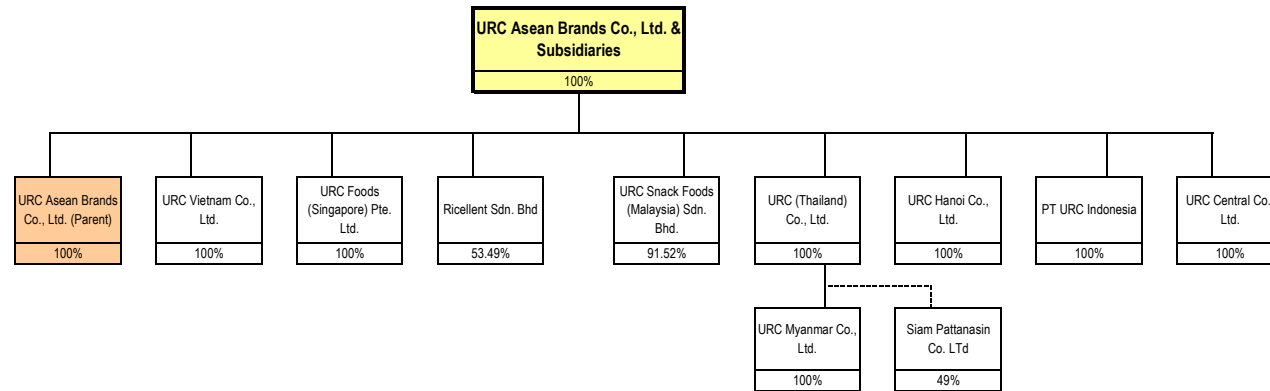
**NOTE:** Please see separate sheets for the organizational structures of the various consolidation groups.

| <b>LEGEND:</b> |               |
|----------------|---------------|
| —————          | Subsidiary    |
| - - - - -      | Associate     |
| - . - . -      | Joint Venture |



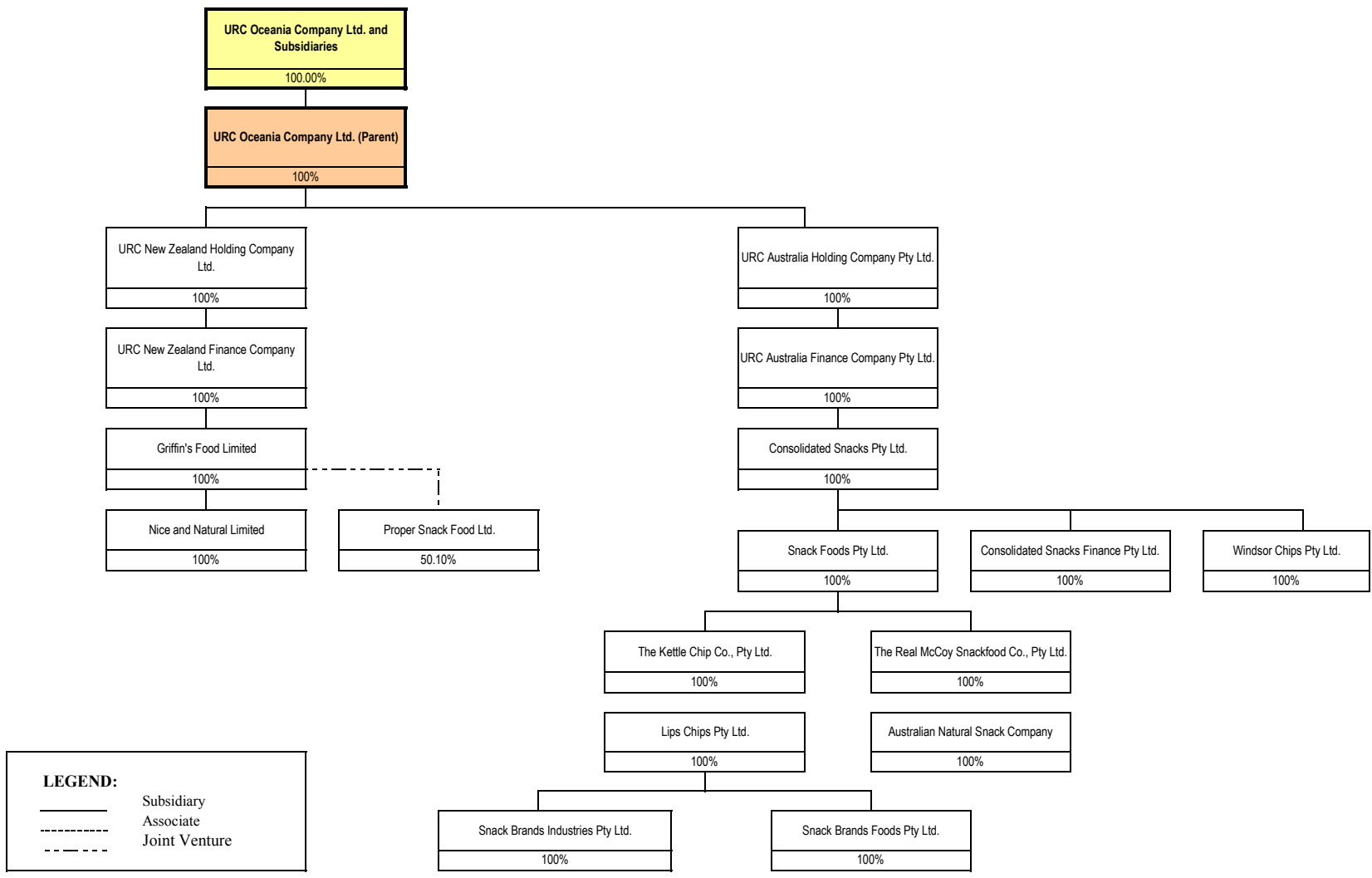
**NOTE:** Please see next sheet for the organizational structures of the URC Asean Brands and Acesfood Network consolidation groups.



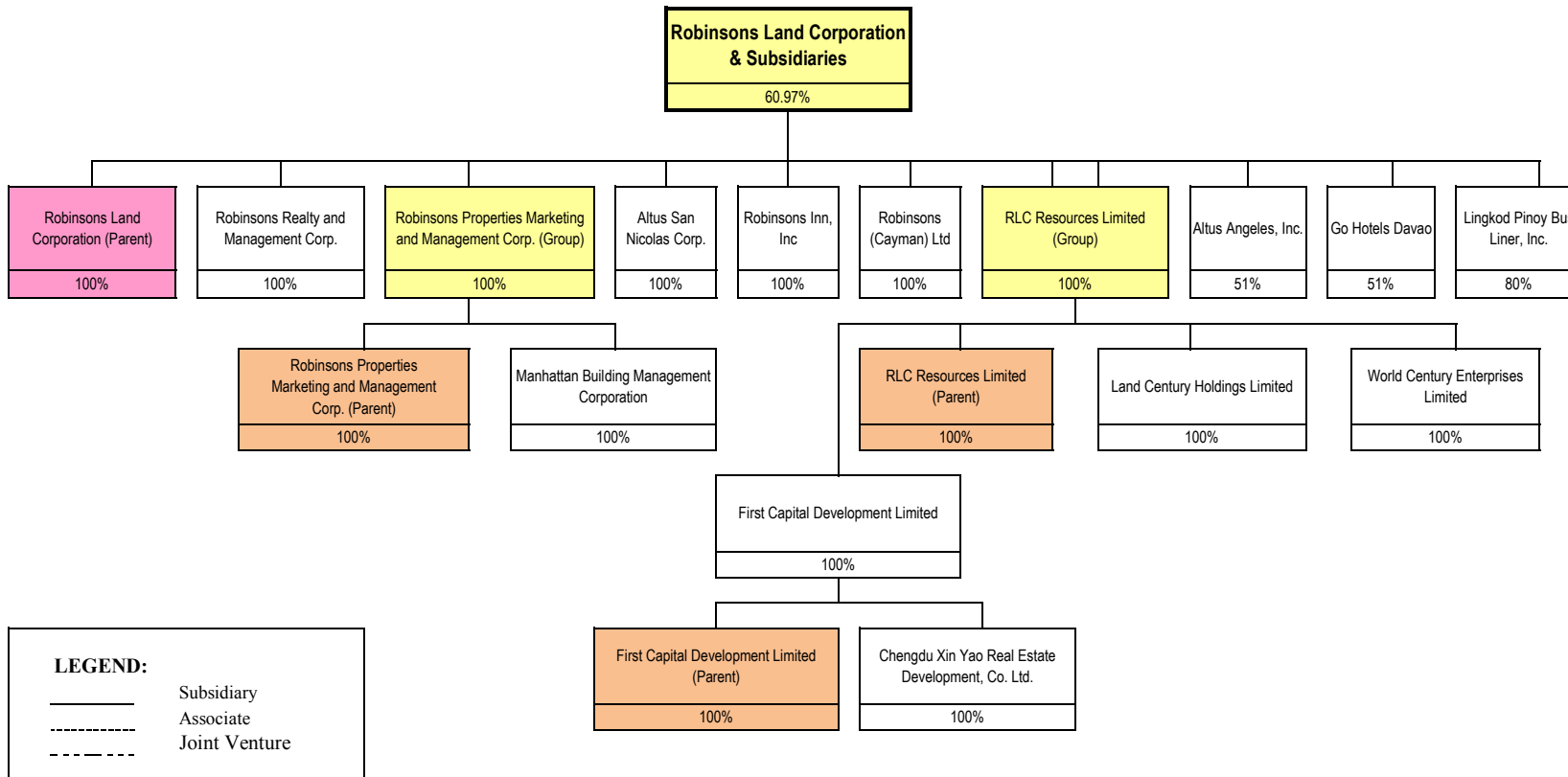


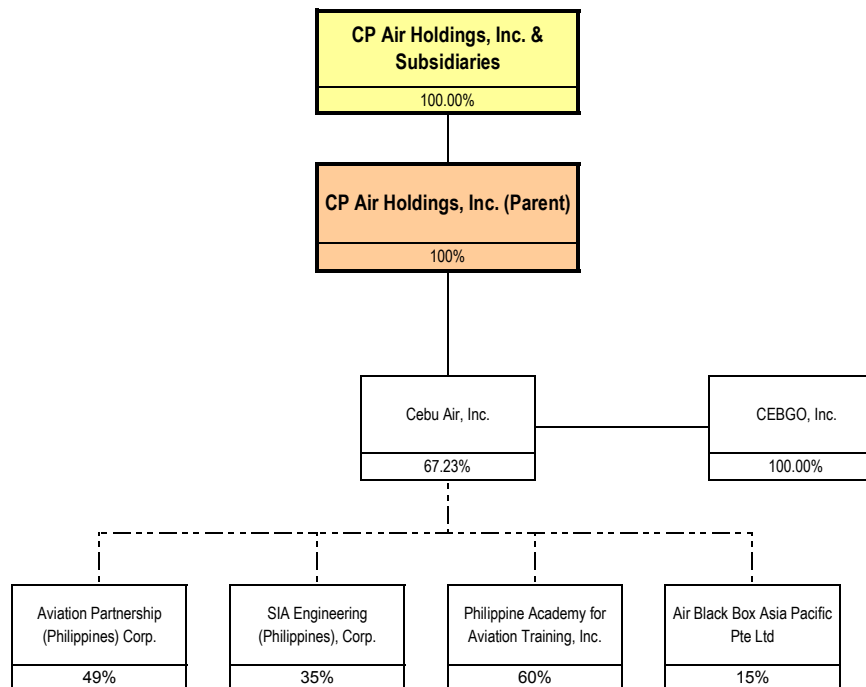
**LEGEND:**

- Subsidiary
- - - - - Associate
- . - . - . Joint Venture



**LEGEND:**  
 — Subsidiary  
 - - - Associate  
 . . . Joint Venture

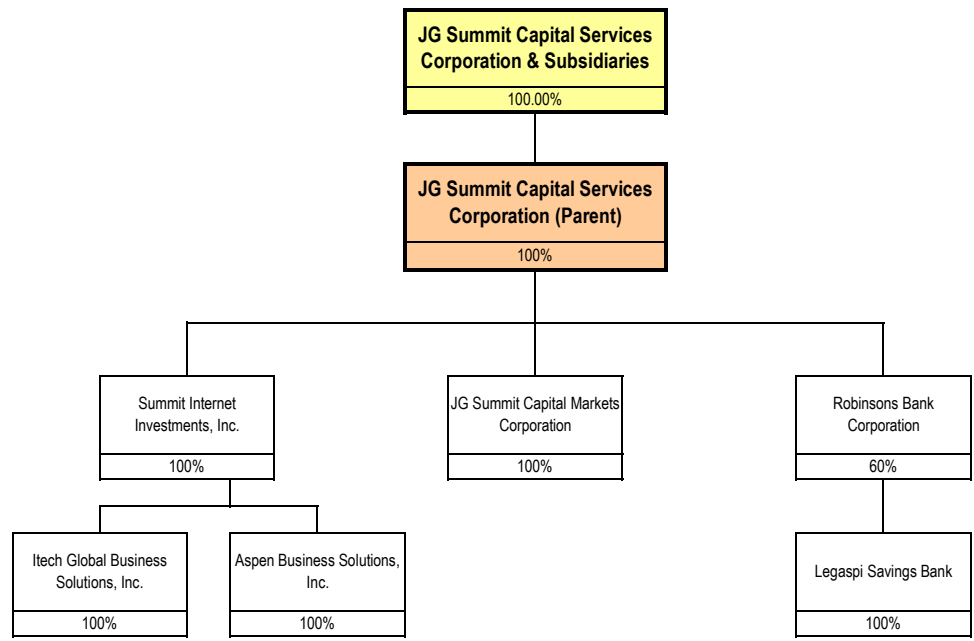




**LEGEND:**

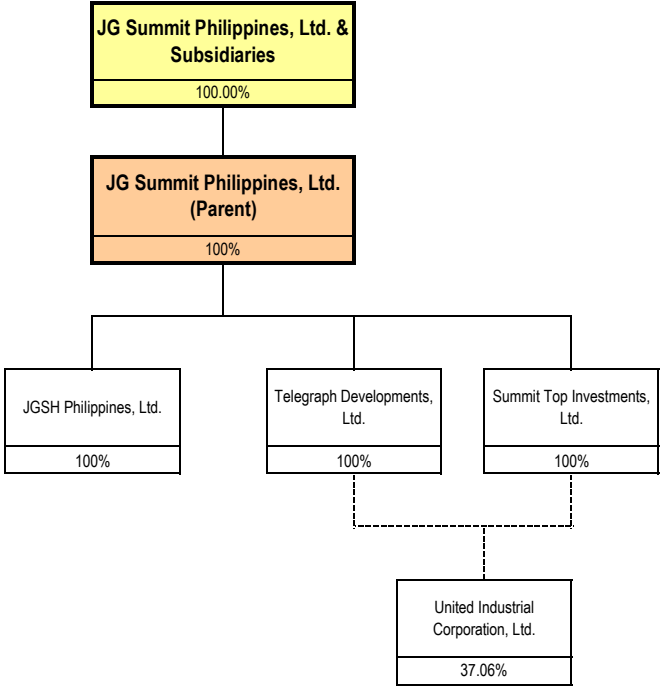
————— Subsidiary  
 - - - - - Associate  
 - - - - - Joint Venture



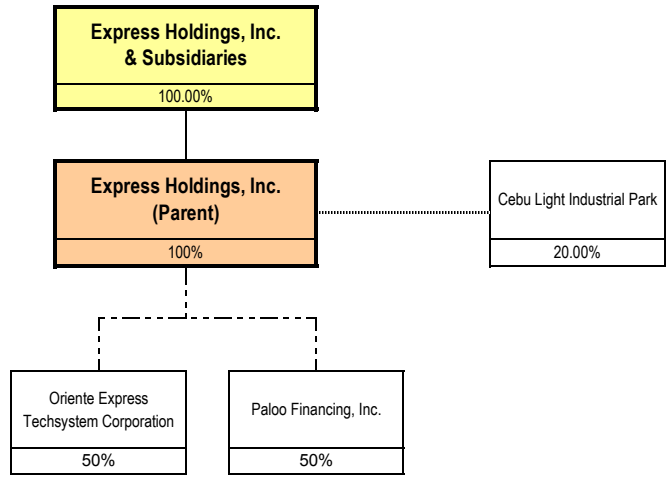


**LEGEND:**

- Subsidiary
- Associate
- Joint Venture

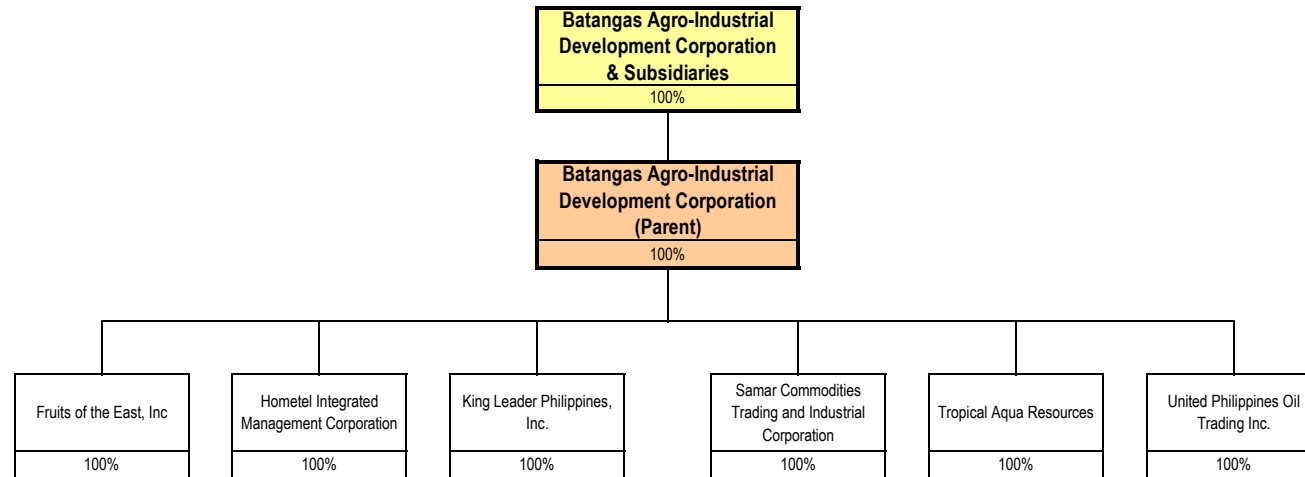


|                |               |
|----------------|---------------|
| <b>LEGEND:</b> |               |
| —————          | Subsidiary    |
| -----          | Associate     |
| - - - - -      | Joint Venture |



**LEGEND:**

————— Subsidiary  
 - - - - - Associate  
 - - - - - Joint Venture



**LEGEND:**

- Subsidiary
- Associate
- - - - - Joint Venture

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE A -FINANCIAL ASSETS**  
**DECEMBER 31, 2017**

| Name of Issuing Entity and<br>Description of Each Issue      | Amount Shown in<br>the Balance Sheet/Notes | Value Based on<br>Market Quotations<br>at Balance Sheet Date | Income Received and<br>Accrued |
|--|--|--|--------------------------------|
| <b>Financial Assets at Fair Value Through Profit or Loss</b> |  |  |                                |
| Various / Private Bonds                                      | ₱8,105,659,667                             | ₱8,105,659,667   | ₱492,523,792                   |
| Various / Government Bonds                                   | 1,794,792,865                              | 1,794,792,865  | 113,969,006                    |
| Derivatives classified at FVPL (Fuel Hedge)                  | 454,400,088                                | 454,400,088  | -                              |
| Derivatives classified at FVPL (Interest Rate Swap)          | 13,464,723                                 | 13,464,723   | -                              |
| Derivatives classified at FVPL (Foreign Currency Swap)       | 32,870                                     | 32,870   | -                              |
| Investment in Convertible Note                               | 1,876,775,033                              | 1,876,775,033  | 44,278,550                     |
| Various Equity Quoted Securities                             | 2,112,003,350                              | 2,112,003,350  | 119,339,706                    |
| Various Equity Unquoted Securities                           | 3,745                                      | -  | -                              |
|  | <b>₱14,357,132,341</b>                     | <b>₱14,357,128,596</b>                                       | <b>₱770,111,054</b>            |
| <b>Available-for-Sale Investments</b>                        |  |  |                                |
| Various / Private Bonds                                      | ₱7,202,581,682                             | ₱7,202,581,682   | ₱370,841,736                   |
| Various / Government Bonds                                   | 13,830,643,531                             | 13,830,643,531   | 458,963,998                    |
| Philippine Long Distance Telephone Corp.                     | 25,597,305,960                             | 25,597,305,960   | 1,314,456,176                  |
| Various Equity Quoted Securities                             | 410,576,995                                | 410,576,995  | 18,041,873                     |
| Various Equity Unquoted Securities                           | 24,293,371                                 | -  | -                              |
|  | <b>₱47,065,401,539</b>                     | <b>₱47,041,108,168</b>                                       | <b>₱2,162,303,783</b>          |
|  | <b>₱61,422,533,880</b>                     | <b>₱61,398,236,764</b>                                       | <b>₱2,932,414,837</b>          |

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES**  
**AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**  
**DECEMBER 31, 2017**

| Name and Designation<br>of Debtor | Balance<br>at Beginning<br>of Period | Additions | Collections | Write Offs | Balance at End of Period |            |       |
|-----------------------------------|--------------------------------------|-----------|-------------|------------|--------------------------|------------|-------|
|                                   |                                      |           |             |            | Current                  | Noncurrent | Total |

- NONE TO REPORT -

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED**  
**DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

| Name and Designation of Debtor   | Balance at Beginning of Period | Additions             | Amounts Collected        | Amounts Written-Off | Balance at End of Period |             |                       |
|--|--------------------------------|-----------------------|--------------------------|---------------------|--------------------------|-------------|-----------------------|
|  |                                |                       |                          |                     | Current                  | Non-current | Total                 |
| Batangas Agro-Industrial Development Corporation ( <i>Subsidiary</i> )   | ₱38,501,983                    | ₱37,523,629           | ₱-                       | ₱-                  | ₱76,025,612              | ₱-          | ₱76,025,612           |
| Cebu Air, Inc. ( <i>Subsidiary</i> )                                     | -                              | 36,636,759            | -                        | -                   | 36,636,759               | -           | 36,636,759            |
| Express Holdings, Inc. ( <i>Subsidiary</i> )                             | 200,695,321                    | 108,232,500           | (11,078,000)             | -                   | 297,849,821              | -           | 297,849,821           |
| JG Summit Holdings, Inc. ( <i>Parent</i> )                               | 14,228,263,541                 | 108,130,505           | (11,804,666,480)         | -                   | 2,531,727,566            | -           | 2,531,727,566         |
| JG Summit Petrochemical Corporation ( <i>Subsidiary</i> )                | 10,600,387                     | 97,116,838            | (82,735,000)             | -                   | 24,982,225               | -           | 24,982,225            |
| Robinsons Bank Corporation ( <i>Subsidiary</i> )                         | 19,166,020                     | 37,641,914            | (11,558,390)             | -                   | 45,249,544               | -           | 45,249,544            |
| Robinsons Land Corporation and Subsidiaries ( <i>Subsidiary</i> )        | 86,997,261                     | 4,913,252,268         | (14,857,634)             | -                   | 4,985,391,895            | -           | 4,985,391,895         |
| Summit Internet Investments, Inc. and Subsidiaries ( <i>Subsidiary</i> ) | 7,993,779                      | 87,824,945            | (4,574,441)              | -                   | 91,244,283               | -           | 91,244,283            |
| Unicon Insurance Brokers Corporation ( <i>Subsidiary</i> )               | 36,172,715                     | 285,878,493           | (272,332,000)            | -                   | 49,719,208               | -           | 49,719,208            |
| Universal Robina Corporation and Subsidiaries ( <i>Subsidiary</i> )      | 617,086,779                    | 556,963,202           | (194,401,154)            | -                   | 979,648,827              | -           | 979,648,827           |
|  | <b>₱15,245,477,786</b>         | <b>₱6,269,201,053</b> | <b>(₱12,396,203,099)</b> | <b>₱-</b>           | <b>₱9,118,475,740</b>    | <b>₱-</b>   | <b>₱9,118,475,740</b> |

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS**  
**DECEMBER 31, 2017**

| Description           | Beginning Balance      | Additions at Cost   | Charged to Cost and Expenses | Charged to Accounts   | Other Changes Additions (Deductions) | Ending Balance         |
|-----------------------|------------------------|---------------------|------------------------------|-----------------------|--------------------------------------|------------------------|
| Trademarks and brands | ₱9,362,936,671         | ₱-                  | ₱-                           | ₱-                    | ₱-                                   | ₱9,362,936,671         |
| Customer relationship | 2,082,760,252          | -                   | (77,381,982)                 | (2,334,094)           | -                                    | 2,003,044,176          |
| Licenses and others   | 1,763,344,748          | 1,814,157           | -                            | (200,000)             | -                                    | 1,764,958,905          |
| Software costs        | 524,961,822            | 280,658,820         | (126,801,991)                | (213,727,207)         | -                                    | 465,091,444            |
| Product formulation   | 425,000,000            | -                   | -                            | -                     | -                                    | 425,000,000            |
|                       | <u>₱14,159,003,493</u> | <u>₱282,472,977</u> | <u>(₱204,183,973)</u>        | <u>(₱216,261,301)</u> | <u>₱-</u>                            | <u>₱14,021,031,196</u> |



**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE E - LONG-TERM DEBT**  
**DECEMBER 31, 2016**

| Title of Issue and<br>Type of Obligation        | Amount Authorized<br>by Indenture | Amount Shown under<br>Caption "Current Portion<br>of Long Term Debt" in<br>Related Balance Sheet | Amount Shown under<br>Caption<br>"Long-Term Debt" in<br>Related Balance Sheet | Remarks |
|---|-----------------------------------|--|---|---------|
| Guaranteed Notes Due 2023                       | –                                 | (₱26,831,769)  | ₱31,975,101,485   |         |
| Fixed Rate Retail Bonds Due 2019, 2021 and 2024 | –                                 | (57,613,283)   | 29,973,222,253  |         |
| Fixed Rate Term Loans Due 2022 and 2024         | –                                 | (7,775,808)  | 9,961,376,494   |         |
| CAI - Export Credit Agency-Backed (ECA) Loans   | –                                 | 1,416,263,139  | 5,074,815,269   |         |
| CAI - Commercial Loans                          | –                                 | 4,552,994,485  | 29,938,137,859  | See     |
| RLC - Fixed Rate Retail Bonds Due 2022          | –                                 | (13,962,547)   | 10,586,697,383  | Notes   |
| RLC - Fixed Rate Term Loans/Bonds               | –                                 | (17,550,678)   | 25,105,977,996  | Below   |
| URC - Term Loans                                | –                                 | (117,053,819)  | 33,343,016,207  |         |
|   |                                   | <u>₱5,728,469,720</u>  | <u>₱175,958,344,946</u>   |         |

*NOTES:*

1) *The terms, interest rate, collaterals and other relevant information are shown in the Notes to Consolidated Financial Statements.*

2) *The negative amounts represent debt issuance costs to be amortized the following year.*

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)**  
**DECEMBER 31, 2017**

| <b>Name of Related Party</b> | <b>Balance at Beginning of the Period</b> | <b>Balance at End of the Period</b> |
|------------------------------|---|-------------------------------------|
|------------------------------|---|-------------------------------------|

- NONE TO REPORT -

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS**  
**DECEMBER 31, 2017**

| <b>Name of issuing entity of securities guaranteed by the Company for which this statement is filed</b> | <b>Title of issue of each class of securities guaranteed</b> | <b>Total amount guaranteed and outstanding</b> | <b>Amount owned by person for which this statement is filed</b> | <b>Nature of guarantee</b> |
|---|--|--|---|----------------------------|
|---|--|--|---|----------------------------|

- NONE TO REPORT -

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE H - CAPITAL STOCK**  
**DECEMBER 31, 2017**

| Title of Issue                              | Number of Shares Authorized | Number of Shares Issued and Outstanding | Number of Shares Reserved for Options, Warrants, Conversion and Other Rights | Number of Shares Held by |                                   |               |
|---|-----------------------------|---|--|--------------------------|-----------------------------------|---------------|
|   |                             |   |  | Affiliates               | Directors, Officers and Employees | Others        |
| Common Shares at ₱1 par value               | 12,850,800,000              | 7,162,841,657                           | –  | 267,568,000              | 1,302,029,471                     | 5,593,244,186 |
| Preferred Voting Shares at ₱0.01 par value  | 4,000,000,000               | 4,000,000,000                           | –  | –                        | –                                 | 4,000,000,000 |
| Preferred Non-voting Shares at ₱1 par value | 2,000,000,000               | –                                       | –  | –                        | –                                 | –             |

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**

**SUPPLEMENTARY SCHEDULE OF FINANCIAL SOUNDNESS INDICATOR  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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The following are the financial ratios that the Group monitors in measuring and analyzing its financial soundness:

| Financial Ratios                | 2017 | 2016 |
|---------------------------------|------|------|
| <b>Profitability Ratio</b>      |      |      |
| Operating margin                | 19%  | 22%  |
| <b>Liquidity Ratio</b>          |      |      |
| Current ratio                   | 1.14 | 1.01 |
| <b>Capital Structure Ratios</b> |      |      |
| Gearing ratio                   | 0.66 | 0.71 |
| Net debt to equity ratio        | 0.50 | 0.55 |
| Asset to equity ratio           | 2.13 | 2.13 |
| Interest rate coverage ratio    | 9.02 | 9.30 |