Ayala Land, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2016 and 2015
and Years Ended December 31, 2016,
2015 and 2014

and

Independent Auditor's Report

SGV

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Ayala Land, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Ayala Land, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (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.

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Recognition of real estate revenue and costs

The Group is involved in real estate project developments under the Ayala Land Premier, Alveo, Avida and Amaia brands for which it applies the percentage of completion (POC) method in determining real estate revenue and costs. The POC is based on the physical proportion of work and the cost of sales is determined based on the estimated project development costs applied with the respective project's POC. The assessment process for the POC and the estimated project development costs requires technical determination by management's specialists (project engineers) and involves significant management judgment as disclosed in Note 3 to the consolidated financial statements.

Audit Response
We obtained an understanding of the Group's process for determining the POC, including the cost accumulation process, and for determining and updating the total estimated project development costs, and performed tests of the relevant controls. We obtained the certified POC reports prepared by the project engineers and assessed the competence, capabilities and objectivity of the project engineers by considering their qualifications, experience and reporting responsibilities. For selected projects, we compared the certified POC against supporting documents such as the accomplishment reports from the contractors. We conducted ocular inspections of selected projects, together with the project managers, and made relevant inquiries.

For selected projects, we obtained the project reserve memorandum indicating the work breakdown structure and total project development costs as estimated by the project engineers. For changes in estimated cost components, we compared these against the special budget appropriations request form and supporting contractor's change order form. For changes in total project development costs, we obtained the revised project reserve memorandum, compared this against the supporting documents and inquired about the rationale for such changes with the project engineers.

Accounting for business combination

As disclosed in Note 24 to the consolidated financial statements, Ayala Land, Inc. acquired 51% of Prime Orion Philippines, Inc. (POPI) for a total consideration of ₱5,625.0 million. The negative goodwill recognized based on the provisional purchase price allocation performed was ₱188.1 million. We consider the accounting for this acquisition to be a key audit matter because it required a significant amount of management judgment and estimation in identifying the underlying acquired assets and liabilities and in determining their fair values, specifically the acquired real estate properties and intangible assets.

Audit Response
We reviewed the purchase agreement covering the acquisition, the consideration paid and the provisional purchase price allocation. We reviewed the identification of POPI's underlying assets and liabilities, specifically the real estate properties and intangible assets, based on our understanding of POPI's business and management's explanations on the rationale for the acquisition. We assessed the competence, capabilities and objectivity of the external appraiser who prepared the appraisal report by considering their qualifications, experience and reporting responsibilities. We involved our internal specialist in evaluating the methodologies and assumptions used in arriving at the fair values of the real estate properties and leasehold rights. We compared the key assumptions used such as the list prices and adjustment factors by reference to relevant market data. We tested the forecasted cash flows by reference to the existing contractual terms such as contract period and lease rates. We tested the parameters used in the derivation of the discount rate against market data.

Concession Agreement for the South Integrated Transport System

On January 26, 2016, Arca South Integrated Terminal Inc. (ASITI), a subsidiary, entered into a Concession Agreement (CA) with the Department of Transportation (DOTr) regarding the South Integrated Transport System (Terminal), as further discussed in Note 35 to the consolidated financial statements. Assessing whether this agreement falls under the scope of Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, requires significant management judgment. Furthermore, accounting for concession arrangements under Philippine Interpretation IFRIC 12, requires analysis of the provisions of the concession agreement and significant judgment in assessing and selecting the appropriate accounting model to be implemented. The accounting model that will be implemented affects the various asset accounts in the consolidated statements of financial position and revenue account in the consolidated statements of income.

Audit Response
We reviewed the CA between ASITI and DOTr and evaluated management's assessment on whether the criteria under Philippine Interpretation IFRIC 12 were met by reference to the responsibilities of ASITI and DOTr, as provided under the CA. In addition, we focused our analysis on management's assumptions regarding the projected revenue, costs of construction and operating costs and expenses of the Terminal and commercial assets, as well as management's assessment on whether these assets are physically separable and capable of being operated separately. We also considered the payment provisions required of DOTr under the agreement in assessing the accounting model that ASITI selected to use.

Consolidation Process

The consolidated financial statements of the Group represents the consolidation of the financial statements of Ayala Land, Inc. and its numerous direct and indirect subsidiaries as summarized in Note 1 to the consolidated financial statements. We consider the Group's consolidation process as a significant risk area because of the complexity involved due to the numerous component entities within the Group requiring layers of consolidation, voluminous intercompany transactions that require elimination and subsequent realization of profit or revenue, monitoring of fair value adjustments arising from business combinations, and adjustments to non-controlling interests.

Audit Response
We obtained an understanding of the Group's consolidation process with the assistance of our internal specialist. We obtained an understanding of the Group's process for identifying related parties and related party transactions and the reconciliation of intercompany balances, and performed testing of the relevant controls. We tested significant consolidation adjustments, including elimination, deferral and realization of intercompany transactions and balances, amortization/depreciation/reversal of fair value adjustments arising from business combinations, and recognition of non-controlling interests and other equity transactions.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's report.

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

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

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

Management is responsible for the preparation and fair presentation of 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 Lucy L. Chan.

SYCIP GORRES VELAYO & CO.

Lucy L. Chan

Lucy L. Chan
Partner
CPA Certificate No. 88118
SEC Accreditation No. 0114-AR-4 (Group A),
January 7, 2016, valid until January 6, 2019
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February 27, 2015, valid until February 26, 2018
PTR No. 5908681, January 3, 2017, Makati City

February 20, 2017

AYALA LAND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 29)	**₱20,904,330**	₱19,087,390
Short-term investments (Notes 5 and 29)	**207,671**	164,621
Financial assets at fair value through profit or loss (Notes 6 and 29)	**1,964,540**	731,677
Accounts and notes receivable (Notes 7 and 29)	**97,467,753**	64,960,745
Inventories (Note 8)	**66,727,945**	59,246,962
Other current assets (Note 9)	**23,739,874**	22,012,200
Total Current Assets	**211,012,113**	166,203,595
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 7 and 29)	**35,133,216**	41,256,656
Available-for-sale financial assets (Notes 10 and 29)	**1,385,172**	500,359
Land and improvements (Note 11)	**101,456,799**	93,302,506
Investments in associates and joint ventures (Note 12)	**24,985,317**	17,521,517
Investment properties (Note 13)	**107,931,032**	80,464,775
Property and equipment (Note 14)	**26,504,386**	24,246,455
Deferred tax assets - net (Note 23)	**9,878,550**	7,911,634
Other noncurrent assets (Notes 15 and 26)	**18,146,410**	10,934,303
Total Noncurrent Assets	**325,420,882**	276,138,205
	₱536,432,995	₱442,341,800

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 16 and 29)	**₱141,713,114**	₱114,085,940
Short-term debt (Notes 17 and 29)	**24,244,350**	10,486,258
Income tax payable	**1,470,573**	1,283,535
Current portion of long-term debt (Notes 17 and 29)	**5,187,111**	8,807,652
Deposits and other current liabilities (Note 18)	**15,588,023**	11,469,470
Total Current Liabilities	**188,203,171**	146,132,855
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 17 and 29)	**130,369,877**	111,702,201
Pension liabilities (Note 26)	**1,498,840**	1,502,247
Deferred tax liabilities - net (Note 23)	**4,356,530**	1,782,061
Deposits and other noncurrent liabilities (Notes 19 and 29)	**39,321,390**	31,397,025
Total Noncurrent Liabilities	**175,546,637**	146,383,534
Total Liabilities	**363,749,808**	292,516,389

(Forward)

	December 31	
	2016	2015
Equity (Note 20)		
Equity attributable to equity holders of Ayala Land, Inc.		
Paid-in capital	**₱61,562,170**	₱61,072,448
Retained earnings	**91,798,555**	77,951,761
Stock options outstanding (Note 28)	**89,697**	190,747
Remeasurement loss on defined benefit plans (Note 26)	**(356,918)**	(432,487)
Net unrealized gain (loss) on available-for-sale financial assets (Note 10)	**43,594**	(80,800)
Equity reserves (Notes 2 and 20)	**(5,432,003)**	(4,970,965)
	147,705,095	133,730,704
Non-controlling interests	**24,978,092**	16,094,707
Total Equity	**172,683,187**	149,825,411
	₱536,432,995	₱442,341,800

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share Figures)

	Years Ended December 31		
	2016	2015	2014
REVENUE			
Real estate (Notes 21 and 25)	**₱117,700,488**	₱100,660,792	₱89,027,534
Interest and investment income (Notes 6, 7 and 25)	**5,713,957**	5,980,031	4,816,980
Equity in net earnings (losses) of associates and joint ventures (Note 12)	**554,414**	(140,488)	646,537
Other income (Notes 22 and 24)	**659,936**	682,605	705,995
	124,628,795	107,182,940	95,197,046
COSTS AND EXPENSES			
Real estate (Note 22)	**76,566,404**	65,335,060	59,395,613
General and administrative expenses (Notes 22, 26 and 28)	**7,031,350**	6,591,955	6,203,133
Interest and other financing charges (Note 22)	**7,314,387**	6,506,261	5,365,716
Other charges (Note 22)	**1,053,207**	998,860	375,797
	91,965,348	79,432,136	71,340,259
INCOME BEFORE INCOME TAX	**32,663,447**	27,750,804	23,856,787
PROVISION FOR INCOME TAX (Note 23)			
Current	**10,070,055**	8,561,600	7,010,602
Deferred	**(1,838,393)**	(1,707,683)	(868,273)
	8,231,662	6,853,917	6,142,329
NET INCOME	**₱24,431,785**	₱20,896,887	₱17,714,458
Net income attributable to:			
Equity holders of Ayala Land, Inc. (Note 27)	**₱20,908,011**	₱17,630,275	₱14,802,642
Non-controlling interests	**3,523,774**	3,266,612	2,911,816
	₱24,431,785	₱20,896,887	₱17,714,458
Earnings Per Share (Note 27)			
Net income attributable to equity holders of Ayala Land, Inc.			
Basic	**₱1.43**	₱1.20	₱1.05
Diluted	**1.43**	1.20	1.05

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2016	2015	2014
Net income	**₱24,431,785**	₱20,896,887	₱17,714,458
Other comprehensive income (loss)			
Item that may be reclassified to profit or loss in subsequent years:			
Net unrealized gain (loss) on available-for-sale financial assets (Note 10)	**124,932**	(164,648)	118,111
Item that will not be reclassified to profit or loss in subsequent years:			
Remeasurement gain (loss) on pension liabilities (Note 26)	**107,956**	199,864	(70,123)
Income tax effect	**(32,387)**	(59,959)	21,037
	200,501	(24,743)	69,025
Total comprehensive income	**₱24,632,286**	₱20,872,144	₱17,783,483
Total comprehensive income attributable to:			
Equity holders of Ayala Land, Inc.	**₱21,107,974**	₱17,601,457	₱14,869,751
Non-controlling interests	**3,524,312**	3,270,687	2,913,732
	₱24,632,286	₱20,872,144	₱17,783,483

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands, Except Par Value and Cash Dividends Per Share Figures)

	Years Ended December 31		
	2016	2015	2014
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AYALA LAND, INC.			
Preferred Shares - ₱0.10 par value (Note 20)			
Balance at beginning and end of year	**₱1,306,649**	₱1,306,649	₱1,306,649
Common Shares - ₱1.00 par value (Note 20)			
Issued:			
Balance at beginning of year	**14,586,068**	14,088,208	14,063,902
Issuance of shares	**11,195**	497,860	24,306
Balance at end of year	**14,597,263**	14,586,068	14,088,208
Subscribed:			
Balance at beginning of year	**109,563**	102,281	109,385
Additions	**17,051**	505,142	17,202
Issuance of shares	**(11,195)**	(497,860)	(24,306)
Balance at end of year	**115,419**	109,563	102,281
Additional Paid-in Capital			
Balance at beginning of year	**46,217,696**	30,200,324	29,712,336
Additions (Notes 20 and 28)	**710,825**	16,017,372	487,988
Balance at end of year	**46,928,521**	46,217,696	30,200,324
Subscriptions Receivable			
Balance at beginning of year	**(1,147,528)**	(845,994)	(737,229)
Additions	**(418,492)**	(363,968)	(176,671)
Collections	**180,338**	62,434	67,906
Balance at end of year	**(1,385,682)**	(1,147,528)	(845,994)
Total Paid-in Capital	**61,562,170**	61,072,448	44,851,468
Retained Earnings (Note 20)			
Appropriated:			
Balance at beginning of year	**6,000,000**	6,000,000	6,000,000
Appropriation during the year	**2,000,000**	–	–
Balance at end of year	**8,000,000**	6,000,000	6,000,000
Unappropriated:			
Balance at beginning of year	**71,951,761**	60,478,250	51,608,700
Cash dividends			
Common share - ₱0.48 per share in 2016, ₱0.42 per share in 2015 and ₱0.41 per share in 2014	**(6,999,179)**	(6,094,726)	(5,871,054)
Preferred share - ₱0.005 per share or 4.64%	**(62,038)**	(62,038)	(62,038)
Net income	**20,908,011**	17,630,275	14,802,642
Appropriation during the year	**(2,000,000)**	–	–
Balance at end of year	**83,798,555**	71,951,761	60,478,250
	91,798,555	77,951,761	66,478,250
Stock Options Outstanding (Note 28)			
Balance at beginning of year	**190,747**	185,604	198,274
Cost of stock options	**9,889**	17,262	11,844
Stock options exercised	**(110,939)**	(12,119)	(24,514)
Balance at end of year	**89,697**	190,747	185,604

(Forward)

	Years Ended December 31		
	2016	2015	2014
Remeasurement Gain (Loss) on Defined Benefit Plans (Note 26)			
Balance at beginning of year	**(₱432,487)**	(₱572,392)	(₱524,678)
Net changes during the year	**75,569**	139,905	(47,714)
Balance at end of year	**(356,918)**	(432,487)	(572,392)
Net Unrealized Gain (Loss) on Available-for-Sale Financial Assets (Note 10)			
Balance at beginning of year	**(80,800)**	135,815	32,105
Net changes during the year	**124,394**	(216,615)	103,710
Balance at end of year	**43,594**	(80,800)	135,815
Equity Reserves (Notes 2 and 20)			
Balance at beginning of year	**(4,970,965)**	(4,138,909)	(3,299,669)
Movement during the year	**(461,038)**	(832,056)	(839,240)
Balance at end of year	**(5,432,003)**	(4,970,965)	(4,138,909)
Total Equity attributable to Equity Holders of Ayala Land, Inc.	**147,705,095**	133,730,704	106,939,836
NON-CONTROLLING INTERESTS			
Balance at beginning of year	**16,094,707**	15,055,622	13,627,791
Net income	**3,523,774**	3,266,612	2,911,816
Net increase in non-controlling interests	**7,666,883**	1,201,856	525,736
Dividends paid to non-controlling interests	**(1,559,064)**	(2,775,786)	(1,342,623)
Acquisition of non-controlling interests	**(748,746)**	(654,384)	(650,367)
Net gain (loss) on available-for-sale financial assets	**538**	787	(15,359)
Remeasurement loss on pension liabilities	**–**	–	(1,372)
Balance at end of year	**24,978,092**	16,094,707	15,055,622
	₱172,683,187	₱149,825,411	₱121,995,458
Total Comprehensive Income			
Net income attributable to:			
Equity holders of Ayala Land, Inc.	**₱20,908,011**	₱17,630,275	₱14,802,642
Non-controlling interests	**3,523,774**	3,266,612	2,911,816
	24,431,785	20,896,887	17,714,458
Net gain (loss) on available-for-sale financial assets attributable to (Note 10):			
Equity holders of Ayala Land, Inc.	**124,394**	(168,723)	114,823
Non-controlling interests	**538**	4,075	3,288
	124,932	(164,648)	118,111
Remeasurement gain (loss) on pension liabilities attributable to:			
Equity holders of Ayala Land, Inc.	**75,569**	139,905	(47,714)
Non-controlling interests	**–**	–	(1,372)
	75,569	139,905	(49,086)
	₱24,632,286	₱20,872,144	₱17,783,483

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱32,663,447**	₱27,750,804	₱23,856,787
Adjustments for:			
Depreciation and amortization (Notes 13, 14, 15 and 22)	**5,874,560**	5,069,595	4,990,465
Interest and other financing charges (Note 22)	**7,314,387**	6,506,261	5,365,716
Dividends received from investees (Note 12)	**232,950**	286,739	1,019,885
Cost of share-based payments (Note 28)	**208,335**	213,587	196,088
Unrealized loss on financial assets at fair value through profit or loss (Note 22)	**(2,422)**	(11,996)	(96,702)
Realized gain on financial assets at fair value through profit or loss (Note 22)	**(6,305)**	(78,364)	(164,977)
Gain on sale of property and equipment (Note 22)	**(37,447)**	(34,338)	(1,097)
Gain on business combination (Note 24)	**(188,086)**	–	–
Equity in net earnings of associates and joint ventures (Note 12)	**(554,414)**	140,488	(646,537)
Interest income	**(5,695,312)**	(5,979,695)	(4,777,787)
Provision for impairment losses (Note 22)	**412,259**	494,878	139,627
Operating income before changes in working capital	**40,221,952**	34,357,959	29,881,468
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Accounts and notes receivable – trade	**(14,135,347)**	(14,949,793)	(17,165,303)
Inventories	**(5,043,649)**	(3,285,156)	6,718,045
Other current assets (Note 9)	**(1,406,487)**	1,743,404	(4,290,975)
Increase (decrease) in:			
Accounts and other payables	**20,194,269**	12,074,006	27,139,642
Deposits and other current liabilities (Note 18)	**3,976,821**	(1,821,438)	452,795
Pension liabilities (Note 26)	**(3,646)**	57,378	383,657
Net cash generated from operations	**43,803,913**	28,176,360	43,119,329
Interest received	**5,661,647**	6,475,543	4,563,198
Income tax paid	**(8,859,232)**	(7,846,135)	(7,187,490)
Interest paid	**(7,566,031)**	(6,624,035)	(5,330,270)
Net cash provided by operating activities	**33,040,297**	20,181,733	35,164,767
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale/redemption of short term investments	**171,694**	929,311	–
Sale/redemption of financial assets at fair value through profit or loss	**2,948,650**	28,117,351	41,234,788
Sale of available-for-sale financial assets (Note 10)	**562**	226,632	30,000
Disposal of property and equipment (Note 14)	**280,775**	92,745	213,744
Disposal of investment properties (Note 13)	**550,255**	483,257	793,047

(Forward)

	Years Ended December 31		
	2016	2015	2014
Additions to:			
Short-term investments	**(₱214,744)**	(₱792,191)	(₱284,677)
Financial assets at fair value through profit or loss	**(2,760,693)**	(22,494,099)	(33,878,342)
Available-for-sale financial assets (Note 10)	**(837,168)**	(67,957)	(330,240)
Land and improvements (Note 11)	**(5,063,518)**	(21,061,610)	(28,358,401)
Investments in associates and joint ventures (Note 12)	**(7,142,335)**	(6,985,562)	(2,017,757)
Investment properties (Note 13)	**(27,697,545)**	(14,354,449)	(13,271,609)
Property and equipment (Note 14)	**(3,721,845)**	(6,839,235)	(3,251,225)
Accounts and notes receivable - nontrade (Note 7)	**(10,712,931)**	(1,733,723)	(12,210,428)
Net increase in other noncurrent assets (Note 15)	**(3,502,623)**	(3,926,779)	(174,133)
Acquisition of subsidiary, net of cash acquired (Note 24)	**–**	(481,241)	–
Net decrease in cash from business combination (Note 24)	**(105,381)**	–	–
Net cash used in investing activities	**(57,806,847)**	(48,887,550)	(51,505,233)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short and long-term debt (Note 17)	**51,937,179**	54,210,245	33,075,483
Payments of short and long-term debt (Note 17)	**(23,131,953)**	(47,879,804)	(10,311,699)
Increase in deposits and other noncurrent liabilities	**5,254,678**	5,707,932	2,158,242
Increase in non-controlling interests	**2,095,156**	1,350,824	820,343
Redemption of non-controlling interests in consolidated subsidiaries	**–**	(147,395)	(388,439)
Acquisition of non-controlling interest (Note 20)	**(1,209,784)**	(1,486,440)	(1,411,130)
Proceeds from capital stock subscriptions	**180,338**	16,012,536	187,666
Dividends paid to non-controlling interests	**(1,559,064)**	(2,775,786)	(1,342,623)
Dividends paid to equity holders of Ayala Land, Inc. (Note 20)	**(6,983,060)**	(5,876,187)	(5,736,233)
Net cash provided by financing activities	**26,583,490**	19,115,925	17,051,610
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,816,940**	(9,589,892)	711,144
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**19,087,390**	28,677,282	27,966,138
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱20,904,330**	₱19,087,390	₱28,677,282

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information**

Ayala Land, Inc. (the Company or ALI) is domiciled and was incorporated on June 30, 1988 in the Republic of the Philippines. The Company's parent is Ayala Corporation (AC). AC is a publicly-listed company, 48.96%-owned by Mermac, Inc., 10.17%-owned by Mitsubishi Corporation (MC) and the rest by the public. The Company's registered office and principal place of business is 31st Floor, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City.

The Company and its Subsidiaries (the Group) are incorporated to hold, develop, manage, administer, sell, convey, encumber, purchase, acquire, rent or otherwise deal in and dispose of, for itself or for others, residential including, but not limited to, all kinds of housing projects, commercial, industrial, urban or other kinds of real property; to acquire, purchase, hold, manage, develop and sell subdivision lots, with or without buildings or improvements; to erect, construct, alter, manage, operate, lease, in whole or in part, buildings and tenements of the Group or of other persons; and to engage or act as real estate broker. The Group is also involved in hotels and resorts operations.

The consolidated financial statements of Ayala Land, Inc. and Subsidiaries as of December 31, 2016 and 2015, and for each of the three years in the period ended December 31, 2016 were endorsed for approval by the Audit Committee on February 15, 2017 and were approved and authorized for issue by the Board of Directors (BOD) on February 20, 2017.

The consolidated financial statements represent the consolidation of the financial statements of the Company and the following domestic and foreign subsidiaries:

	December 31	
	2016*	2015*
Real Estate:		
Alveo Land Corporation (Alveo)	**100%**	100%
Serendra, Inc.	**39**	39
Solinea, Inc. (Solinea)	**65**	65
BGSouth Properties, Inc. (BGS)	**50**	50
Portico Land Corp. (Portico)	**60**	60
Serendra, Inc.	**28**	28
Amorsedia Development Corporation (ADC)	**100**	100
OLC Development Corporation and Subsidiary	**100**	100
HLC Development Corporation	**100**	100
Allysonia International Ltd.	**100**	100
Avida Land Corporation (Avida)	**100**	100
Buklod Bahayan Realty and Development Corp.	**100**	100
Avida Sales Corp. and Subsidiaries	**100**	100
Amicassa Process Solutions, Inc.	**100**	100
Avencosouth Corp. (Avencosouth)	**70**	70
BGNorth Properties, Inc. (BGN)	**50**	50
Amaia Land Co. (Amaia)	**100**	100
Amaia Southern Properties, Inc. (ASPI)	**65**	65
Ayala Land International Sales, Inc. (ALISI)	**100**	100
Ayala Land International Marketing, Inc. (AIMI)	**100**	100
Ayala Land International (Singapore) Pte. Ltd	**100**	100
Ayala Land International Marketing (Hong Kong) Ltd	**100**	100
Ayala Land International Marketing, SRL	**100**	100
Ayala Land International Marketing, London	**100**	100

(Forward)

	December 31	
	2016*	2015*
Ayala Land Sales, Inc.	**100%**	100%
Southportal Properties, Inc. (Southportal)	**65**	65
Buendia Landholdings, Inc.	**100**	100
Crans Montana Holdings, Inc.	**100**	100
Crimson Field Enterprises, Inc.	**100**	100
Ecoholdings Company, Inc. (ECI)	**100**	100
NorthBeacon Commercial Corporation (NBCC)	**100**	100
Red Creek Properties, Inc.	**100**	100
Regent Time International, Limited (Regent Time) (British Virgin Islands)	**100**	100
Asterion Technopod Incorporated (ATI)	**100**	100
Westview Commercial Ventures Corp. (formerly Crestview E-Office Corporation) (Westview)	**100**	100
North Ventures Commercial Corp. (formerly Fairview Prime Commercial Corp.)	**100**	100
Hillsford Property Corporation (HPC)	**100**	100
Primavera Towncentre, Inc. (PTI)	**100**	100
Summerhill E-Office Corporation (Summerhill)	**100**	100
Sunnyfield E-Office Corporation (Sunnyfield)	**100**	100
Subic Bay Town Centre, Inc.	**100**	100
Regent Wise Investments Limited (Regent Wise) (Hongkong Company)	**100**	100
AyalaLand Real Estate Investments, Inc.	**100**	100
AyalaLand Advisory Broadway, Inc.	**100**	100
AyalaLand Development (Canada), Inc.	**100**	100
AyalaLand OpenAsia Holdings PTE, Ltd.	**100**	100
Blue Horizons Holdings PTE, Limited.	**100**	100
AyalaLand Commercial REIT, Inc. (ALCRI)	**100**	100
Arvo Commercial Corporation (Arvo)	**100**	100
BellaVita Land Corporation (BellaVita)	**100**	100
Nuevo Centro, Inc. (Nuevo Centro)	**55**	100
Alviera Country Club (Alviera)***	**50**	–
Cavite Commercial Town Center, Inc.	**100**	100
AyalaLand Offices, Inc. (ALO) (formerly ALI Property Partners Corp. (APPCo)) (Note 24)	**100**	100
One Dela Rosa Property Development, Inc.	**100**	100
First Gateway Real Estate Corp.	**100**	100
Glensworth Development, Inc. (Glensworth)	**100**	100
UP North Property Holdings, Inc.	**100**	100
ALO Prime Realty Corporation (Note 24)	**100**	100
Laguna Technopark, Inc. (LTI)	**75**	75
Ecozone Power Management, Inc.	**75**	75
Aurora Properties Incorporated (API)	**80**	80
Soltea Commercial Corp.	**16**	16
Vesta Property Holdings, Inc.	**70**	70
Altaraza Prime Realty Corporation (Altaraza)	**100**	–
Prow Holdings, Inc. (Prow)	**55**	–
Station Square East Commercial Corporation (SSECC)	**69**	69
Next Urban Alliance Development Corp.	**100**	100
Accendo Commercial Corp. (Accendo)	**67**	67
Avencosouth Corp.	**20**	20
Aviana Development Corporation	**7**	7

(Forward)

	December 31	
	2016*	2015*
Aviana Development Corporation	**50%**	50%
Cagayan de Oro Gateway Corp. (CDOGC)	**70**	70
Ceci Realty, Inc. (Ceci)	**60**	60
Soltea Commercial Corp.	**12**	12
Soltea Commercial Corp.	**60**	60
CMPI Holdings, Inc	**60**	60
CMPI Land, Inc.	**36**	36
ALI-CII Development Corporation (ALI-CII)	**50**	50
Roxas Land Corporation (RLC)	**50**	50
Adauge Commercial Corporation (Adauge)	**60**	60
Southgateway Development Corp. (SDC)	**100**	100
Ayalaland MetroNorth, Inc. (AMNI)	**100**	100
Verde Golf Development Corporation	**100**	100
North Triangle Depot Commercial Corporation (NTDCC)	**73**	73
BGWest Properties, Inc. (BGW)	**50**	50
Lagdigan Land Corp. (Lagdigan)	**60**	60
Central Block Developers, Inc. (CBDI)	**35**	35
Cebu Holdings, Inc. (CHI)	**67**	56
Cebu Property Ventures Development Corp (CPVDC) and Subsidiary	**59**	43
Cebu Leisure Company, Inc.	**67**	56
CBP Theatre Management, Inc.	**67**	56
Taft Punta Engaño Property, Inc. (TPEPI)	**37**	31
Cebu Insular Hotel Company, Inc. (CIHCI)	**25**	21
Solinea, Inc.	**23**	20
Amaia Southern Properties, Inc. (ASPI)	**23**	20
Southportal Properties, Inc. (Southportal)	**23**	20
Central Block Developers, Inc. (CBDI)**	**38**	32
Alabang Commercial Corporation (ACC)	**50**	50
South Innovative Theater Management (SITMI)	**50**	50
ALI Commercial Center, Inc.	**100**	100
Prime Orion Philippines, Inc.(POPI) (Note 24)	**51**	–
FLT Prime Insurance Corporation	**37**	–
Orion Solutions, Inc.	**51**	–
Orion I Holdings Philippines, Inc.	**51**	–
OE Holdings, Inc	**51**	–
Orion Land, Inc.	**51**	–
Ayalaland Malls Synergies, Inc. (AMSI)	**100**	–
Ayala Land Malls, Inc. (formerly Solerte, Inc.)	**100**	100
Ayalaland Malls Vismin, Inc.	**100**	100
Ayalaland Malls NorthEast, Inc.	**100**	100
Construction:		
Makati Development Corporation (MDC)	**100**	100
MDC Subic, Inc.	**100**	100
MDC Build Plus, Inc.	**100**	100
MDC Conqrete, Inc. (MCI)	**100**	100
MDC Equipment Solutions, Inc. (MESI)	**100**	100
Hotels:		
Ayala Hotels, Inc. (AHI)	**50**	50
AyalaLand Hotels and Resorts Corporation (AHRC) and Subsidiaries	**100**	100

(Forward)

	December 31	
	2016*	2015*
ALI Makati Hotel & Residences, Inc. (AMHRI) (formerly KHI-ALI Manila, Inc.) (Note 24)	**80%**	80%
ALI Makati Hotel Property, Inc. (AMHPI) (formerly KHI Manila Property, Inc.) (Note 24)	**80**	80
Regent Horizons Conservation Company, Inc. and Subsidiary (formerly Asian Conservation Company Limited and Subsidiary)	**100**	100
Enjay Hotels, Inc. (Enjay)	**100**	100
Greenhaven Property Venture, Inc. (GPVI)	**100**	100
Cebu Insular Hotel Company, Inc. (CIHCI)	**63**	63
Bonifacio Hotel Ventures, Inc.	**100**	100
Southcrest Hotel Ventures, Inc.	**67**	67
Northgate Hotel Ventures, Inc.	**70**	70
North Triangle Hotel Ventures, Inc.	**100**	100
Ecosouth Hotel Ventures, Inc.	**100**	100
Sentera Hotel Ventures, Inc.	**100**	100
Econorth Resorts Ventures, Inc.	**100**	100
ALI Triangle Hotel Ventures, Inc.	**100**	100
Circuit Makati Hotel Ventures, Inc.	**100**	100
Capitol Centre Hotel Ventures, Inc.	**100**	100
Arca South Hotel Ventures, Inc.	**100**	100
Sicogon Town Hotel, Inc.	**100**	100
ALI Makati Hotels & Residences, Inc. (formerly KHI-ALI Manila, Inc.) (Note 24)	**20**	20
ALI Makati Hotel Property, Inc. (formerly KHI Manila Property, Inc.) (Note 24)	**20**	20
Ten Knots Phils., Inc. (TKPI) (Note 24)	**60**	60
Bacuit Bay Development Corporation	**60**	60
Lio Resort Ventures, Inc.	**60**	60
North Liberty Resort Ventures, Inc.	**60**	60
Paragua Eco-Resort Ventures, Inc.	**60**	60
Ten Knots Development Corp. (TKDC) (Note 24)	**60**	60
Chirica Resorts Corp.	**60**	60
Kingfisher Capital Resources Corp.	**60**	60
Pangulasian Island Resort Corporation	**60**	60
Sicogon Island Tourism Estate Corp. (SITE Corp.)	**100**	–
Property Management:		
Ayala Property Management Corporation (APMC)	**100**	100
Prime Support Services, Inc.	**100**	100
Ayala Theatres Management, Inc. and Subsidiaries	**100**	100
DirectPower Services, Inc. (DirectPower)	**100**	100
Philippine Integrated Energy Solutions, Inc. (PhilEnergy)	**100**	100
Entertainment:		
Five Star Cinema, Inc.	**100**	100
Leisure and Allied Industries Philippines, Inc. (LAIP)	**50**	50
Others:		
ALInet.com, Inc. (ALInet)	**100**	100
First Longfield Investments Limited (First Longfield) (Hongkong Company)	**100**	100
Green Horizons Holdings Limited	**100**	100
Aprisa Business Process Solutions, Inc. (Aprisa)	**100**	100
AyalaLand Club Management, Inc.	**100**	100

(Forward)

	December 31	
	2016*	2015*
ALI Capital Corp. (formerly Varejo Corp.)	**100%**	100%
Sicogon Island Tourism Estate Corp. (SITE Corp.)	**–**	100
Integrated Eco-resort Inc.	**100**	100
Airswift Transport, Inc. (formerly Island Transvoyager, Inc.) (Airswift)	**100**	100
Arca South Integrated Terminal, Inc.	**100**	100
Whiteknight Holdings, Inc. (WHI)	**100**	100
Ayalaland Medical Facilities Leasing Inc.	**100**	100
Anvaya Cove Beach and Nature Club, Inc.(Anvaya Cove Beach)***	**73**	73
Anvaya Cove Golf and Sports Club, Inc. (Anvaya Cove Golf)***	**78**	78

*represents the Group's percentages of effective ownership
**includes CPVDC interest in CBDI
*** consolidated in compliance with Philippine Interpretations Committee (PIC) Q&A 2016-02 PAS 32 and PAS 38 - Accounting Treatment of Club Shares Held by an Entity

AC owns the other 50.0% of AHI. The Company exercises control over AHI. Likewise, the Company, through its 50.0% effective ownership and by virtue of a management contract or shareholders' agreement, exercises control over the operations and management of ACC, BGWest, BGNorth, BGSouth, RLC, ALI-CII and LAIP. Accordingly, the accounts of AHI, ACC, BGWest, BGNorth, BGSouth, RLC, ALI-CII and LAIP are consolidated to the accounts of the Company (see Note 3).

The following were the changes in the group structure during 2016:

On June 3, 2016, ALI Capital Corp. (formerly Varejo Corp.), has sold all of its rights, titles and interests in SITE Corp. to AHRC. As a result of this transaction, SITE Corp. became a subsidiary of AHRC.

AMSI is a wholly owned subsidiary of the Company and was incorporated on June 1, 2016. AMSI will house the Commercial Business Group's allied businesses such as but not limited to the partnership with Meralco, LED, operation of upcoming mall's foodcourt.

In April 2016, ALI purchased 6,000,000 common shares and 24,000,000 preferred redeemable shares of Prow with par value of ₱10.00 per share each for ₱300.0 million Subsequently, on May 23, 2016, additional 3,000,000 common shares and 12,000,000 preferred redeemable shares with par value of ₱10.00 per share were acquired by ALI for ₱150.0 million Furthermore, in August 2016, a total of 9,150,931 common shares and 12,876,456 preferred redeemable shares were purchased for a total consideration of ₱220.3 million which brought ALI's ownership to 55.0% of the total outstanding capital stock of Prow. The transactions were entered based on the governing joint venture agreement between ALI and Leonio Land Holdings, Inc. (LLHI) for the development of Alviera Estate in Porac, Pampanga. The series of subscriptions was accounted for as a linked transaction as the transaction was negotiated as a whole.

From March 2016 to July 2016, LLHI subscribed to 18,150,931 common and 48,876,456 preferred shares of Nuevo Centro or equivalent to 45.0% stake of NCI's total outstanding capital. This transaction brought ALI's interest in Nuevo Centro to 55.0% as of December 31, 2016.

Altaraza is a wholly owned subsidiary of the Company and was incorporated on March 9, 2016 to develop, invest, own, acquire, lease, hold, mortgage, administer or otherwise deal with commercial, residential or agricultural lands, buildings, structures or apertures, or in any other profitable business enterprise, venture or establishment, alone or jointly with other persons, natural or artificial. Altaraza handles the project development in Altaraza IT Park, Bulacan.

On February 24, 2016, ALI and POPI executed a Deed of Subscription and Supplement to the Deed of Subscription whereby the Company subscribed to 2.5 billion of common shares of POPI stock at ₱2.25 per share or representing 51% of the total outstanding shares of POPI to be taken out of the increase in capital stock of POPI. On July 4, 2016, SEC approved such increase in POPI and issued a Certificate of Increase in Capital Stock.

In February 2016, ALI purchased additional 906,000 common shares of CHI from BPI Securities Corporation totaling ₱4.1 million which brought ALI's ownership from 56.36% to 56.40%. Subsequently, on March 14, 2016, ALI bought additional 200,953,364 CHI's common shares from First Metro Securities Brokerage Corporation for ₱1,200.0 million resulting into an increase to 66.9% of the total outstanding capital stock of CHI.

<u>The following were the changes in the group structure during 2015:</u>

On December 1, 2015, ALI Capital Corp. (formerly Varejo Corp.), a wholly owned subsidiary of ALI, acquired 100.0% interest in Airswift Transport, Inc.following the purchase of all outstanding shares from existing shareholders, in the amount of ₱15.0 million (see Note 24). Airswift was incorporated on October 2, 2002 with the primary purpose of carrying on the general business of a common carrier and/or private carrier. It was granted the Air Carrier Operating Certificate by the Air Transportation Office to enable it to operate as a scheduled domestic air transportation service provider. Airswift is the only airline commercially flying from Manila to Lio in El Nido, Palawan. On November 26, 2015, Airswift launched "AirSwift" as its new brand and introduced its new Cebu-El Nido-Cebu route. In January 2016, a newly acquired ATR 42(02)-500 was delivered to Airswift. In September 2016, a new ATR 42(03)-500 was acquired as trade in for the old ATR 42(00)-500. As of December 31, 2016, the leased ATR 42(01)-500 and the traded in aircraft have ceased to operate and shall be returned to the supplier once the required maintenance have been sufficed. Airswift currently operates a fleet of two (2) ATR-42-500 that can seat a maximum of 50 passengers each, and operates 3x-4x daily flights to Manila-El Nido-Manila and Cebu-El Nido-Cebu routes.

On August 19, 2015, ALI purchased additional 20 million common shares of CHI through BPI Securities amounting to ₱110.3 million. This brought ALI's ownership from 49.8% to 50.8% of total outstanding capital stock of CHI.

Subsequently, on November 6 and 13, 2015, ALI bought 41,024,400 and 32,772,600, respectively, additional common shares of CHI amounting to ₱209.8 million and ₱167.1 million, respectively, which increased ALI's ownership from 50.8% to 53.1% of total outstanding capital stock of CHI.

Then, on December 7, 2015, ALI bought additional CHI shares consisting of 32,071,000 common shares amounting to ₱163.6 million which brought ALI's stake to 56.4% of total outstanding capital stock of CHI.

Arca South Integrated Terminal, Inc. is a wholly owned subsidiary of ALI which was incorporated on November 27, 2015. It is organized to finance, design, construct and manage the South Transport System Terminal Project located in Bicutan (formerly FTI). It is a project to be rolled out by the Department of Transportation and Communications which involves the development of mass transportation intermodal terminal at the southern outskirts of Metropolitan Manila to provide effective interconnection between transport modes and services.

Paragua Eco-Resort Ventures, Inc., North Liberty Resort Ventures, Inc. and Lio Resort Ventures, Inc. are wholly owned subsidiaries of TKPI and were incorporated on October 27, 2015. They were primarily organized to own, use, improve, develop, subdivide, sell, lease and hold for investment or otherwise real estate of all kinds.

Ayalaland Malls NorthEast, Inc. (AMNI) and Ayalaland Malls Vismin, Inc. (ALVI) were registered on October 15, 2015. AMNI and ALVI are wholly owned subsidiaries of ALMI with primary purpose of conducting general contracting services and other support service, including performance of technical support services to North East Manila malls and Vismin malls, respectively.

Prime Support Services, Inc. is a wholly owned subsidiary of APMC and was incorporated on October 14, 2015. It is a company that provides technical and administrative services but not limited to the maintenance and the improvement of the physical aspects of the administered properties.

Pangulasian Island Resort Corporation is a wholly owned subsidiary of TKPI. The company was incorporated on September 18, 2015 and was primarily organized to plan, develop, construct, own and operate sports, vacation, recreation and resort facilities and other related business activities.

Sicogon Town Hotel, Inc., a wholly owned subsidiary of AHRC, was registered on September 29, 2015 with primary purpose of engaging in the general business in hotel in Sicogon Island, Iloilo.

Central Block Developers, Inc (CBDI) is a subsidiary of the Company with pro-rata ownership by the Group's Cebu Companies, CPVDC and CHI. The project of CBDI is called Central Bloc and is located at the core of Cebu IT Park. The development includes two BPO towers, an Ayala branded hotel, and a 5-storey mall. On July 28, 2015, CBDI was registered with the Securities and Exchange Commission (SEC) and has not yet started commercial operations. CBDI was organized to develop, sell, invest, own, acquire, lease, hold, mortgage, administer, or otherwise deal with commercial, residential, industrial, or agricultural lands, buildings, structures or apertures, or in any other profitable business enterprise, venture or establishment, including to own, hold in ownership, manage deal and engage in the general business of a hotel, apartment hotel, inn, resort, restaurant, café, bar, entertainment and other allied businesses and to the limit and extent permitted by law, alone or jointly with other persons, natural or artificial.

In July 2015, ALI acquired 258,155 shares of API from Coromandel Inc. amounting to ₱58.2 million. The transaction brought the Company's ownership from 77.8% to 79.7% of the total outstanding capital stock of API (Note 20).

Sicogon Island Tourism Estate Corp. is a wholly owned subsidiary of ALI Capital Corp. and which was incorporated with SEC on July 8, 2015. The company was organized to engage in land and real estate business development in Sicogon Island, Iloilo.

Integrated Eco-Resort, Inc. was incorporated with SEC on May 27, 2015. It is a wholly-owned subsidiary of ALI Capital Corp. and was incorporated to engage in land and real estate business development particularly the Caliraya Lake project.

Next Urban Alliance Development Corp. is a wholly owned subsidiary of ALI and was incorporated on May 4, 2015. Its purpose is to develop, invest, own or acquire commercial, residential or agricultural lands.

Ayalaland Medical Facilities Leasing, Inc. is a wholly owned subsidiary of ALI. It was incorporated with SEC on April 13, 2015 to engage primarily in developing and lease of Built-to-suit structure for ALI's hospital operations and retail.

In April 2015, ALI made proportionate acquisition of Soltea shares amounting to ₱544.5 million which consists of 54,449,999 common shares and 490,050,000 preferred shares. Similarly, an infusion amounting to ₱181.4 million was made by Ceci to Soltea consisting of 18,135,000 common shares and 163,215,000 preferred shares. Moreover, additional shares of Soltea comprising of 18,165,000 common shares and 163,485,000 preferred shares was bought by API for a total value of ₱181.6 million.

On March 11, 2015, ALI acquired from Aegis Philippines, Inc. a 3,621 sqm land located along Inez Villa Street, Cebu IT Park, Brgy. Apas, Cebu City, where building owned by Aegis PeopleSupport Realty Corporation is situated, for ₱152.1 million. On April 8, 2015, ALI purchased all of the 8,200,000 common shares of Equinox Technoparks Ltd, Inc. in Aegis PeopleSupport Realty Corporation for a total consideration of ₱513.7 million (see Note 24). On April 14, 2015, the BOD of Aegis PeopleSupport Realty Corporation approved the change of its corporate name to ALO Prime Realty Corporation (APRC). APRC which is a PEZA-registered entity, owns the Aegis building along Villa Street, Cebu IT Park, Lahug, Cebu City. The building is a certified LEED-Gold Office with a gross leasable area of 18,092 square meters and is largely occupied by Teleperformance under a long-term lease.

On February 6, 2015, ALI purchased the remaining interest of Anglo Philippine Holdings Corporation (Anglo) in North Triangle Depot Commercial Corporation (NTDCC) consisting of 382,072 common shares and 1,605,169 preferred shares amounting to ₱523.0 million. The transaction brought the Company’s ownership from 63.8% to 70.4% of the total outstanding capital stock of NTDCC which owns and operates the Trinoma commercial centre in North Triangle, Quezon City.

Subsequently, the Group purchased the combined remaining interest of Allante Realty and Development Corporation (Allante) and DBH, Inc. (DBH) in NTDCC consisting of 167,548 common shares and 703,904 preferred shares amounting to ₱229.0 million which brought the Company’s ownership in NTDCC from 70.4% to 73.2% of the total outstanding capital stock of NTDCC. This acquisition is aligned with the Company’s thrust of expanding its leasing business.

On January 23, 2015, ALI purchased additional shares in Adauge consisting of 15,000,000 common shares and 135,000,000 preferred shares for a total value of ₱150.0 million which brought the Group’s ownership to 77.6%. Subsequently, in 2015, Adauge issued 226,336,443 shares comprised of 22,633,644 common shares and 203,702,799 preferred shares to Kapideco Holdings, Inc., Socoped Development Corporation and Dasa Realty Corporation for a total value of ₱226.3 million. This resulted to the Group’s 60.0% ownership in the total outstanding capital stock of Adauge.

2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements of the Group have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱), which is also the Company’s functional currency and all values are rounded to the nearest thousand (₱000), except when otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs include Philippine Financial Reporting Standards, Philippine Accounting Standards and Interpretations issued by the Philippine Interpretations Committee (PIC).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect that return through its power over the investee. Specifically, 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
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date the Group gains control or until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not wholly owned and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of changes in equity and within equity in the consolidated statements of financial position, separately from the Company's equity. Total comprehensive income within a subsidiary is attributed to the non-controlling interests even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interest and the cumulative translation differences recorded in equity.
- Recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Adoption of New and Amended Accounting Standards and Interpretations

The accounting policies adopted in the preparation of the Group's consolidated financial statements are consistent with those of the previous financial year except for the adoption of the following new and amended PFRSs which became effective January 1, 2016.

The nature and impact of each new standard and amendment are described below:

- PAS 1, *Presentation of Financial Statements – Disclosure Initiative (Amendments)*
  The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. They clarify the following:
  - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
  - That specific line items in the statement of income and OCI and the statement of financial position may be disaggregated
  - That entities have flexibility as to the order in which they present the notes to financial statements
  - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

  These amendments do not have any material impact on the Group.

- PFRS 10, *Consolidated Financial Statements, PFRS 12, Disclosure of Interests in Other Entities, and PAS 28, Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception (Amendments)*
  These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are not applicable to the Group since none of the entities within the Group is an investment entity nor does the Group have investment entity associates or joint venture.

- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements (Amendments)*
  The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRSs and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. These amendments do not have any impact on the Group's consolidated financial statements.

- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations (Amendments)*
  The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. These amendments do not have any impact to the Group as there has been no interest acquired in a joint operation during the period.

- PFRS 14, *Regulatory Deferral Accounts*
  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing PFRS preparer, this standard would not apply.

- PAS 16, *Property, Plant and Equipment, and PAS 41, Agriculture - Bearer Plants (Amendments)*
  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

- PAS 16, *Property, Plant and Equipment, and PAS 38, Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*
  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. These amendments do not have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

- PIC Q&A No. 2016-02
  In 2016, the PIC issued Q&A No. 2016-02 to clarify the accounting treatment of club shares held by an entity as follows:

  PAS 32 and PAS 38 – *Accounting Treatment of Club Shares Held by an Entity*

  <u>Club shares as financial assets</u>
  Equity instruments of another entity are considered as financial assets of the investor/holder in accordance with PAS 32.11. Furthermore, PAS 32.11 defines an equity instrument as any contract that evidences a residual interest in the assets after deducting its liabilities.
  A proprietary club share entitles the shareholder to a residual interest in the net assets upon liquidation which justifies that such instrument is an equity instrument and thereby qualifies as a financial asset to be accounted for under PAS 39, *Financial Instruments: Recognition and Measurement*.

  <u>Club shares as intangible assets</u>
  PAS 38 defines an intangible asset as an identifiable non-monetary asset without physical substance. The key characteristics of intangible assets are that they are resources controlled by the entity from which the entity expects to derive future economic benefits, lack physical substance and are identifiable to be distinguished from goodwill.

A non-proprietary club share, though an equity instrument in its legal form, is not an equity instrument in the context of PAS 32. Furthermore, it does not entitle the holder to a contractual right to receive cash or another financial asset from the issuing corporation. The holder of the share, in substance, only paid for the privilege to enjoy the club facilities and services but not for ownership of the club. In such case, the holder must account for the share as an intangible asset under PAS 38.

The Company has evaluated the accounting treatment of its club shares following the guidance under the above PIC Q&A and has concluded that it exercises control over Anvaya Cove Beach, Anvaya Cove Golf and Alviera Country Club. Accordingly, these three (3) club entities were consolidated as of and for the year December 31, 2016. For the other club shares it holds where the Company does not exercise significant influence or joint control, the Company reclassified these from “Real estate inventories” to “AFS”. Prior year financial statements have not been restated and a third balance sheet has not been presented since the impact of the application of this interpretation is deemed to be not material.

Annual Improvements to PFRSs (2012-2014 cycle)
The *Annual Improvements to PFRSs* (2012-2014 cycle) are effective January 1, 2016 and the Group has applied these amendments for the first time in these consolidated financial statements. Unless otherwise stated, these amendments have no material impact on the Group’s consolidated financial statements. They include:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal (Amendments)*
  The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts (Amendments)*
  PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements (Amendments)*
  This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, *Employee Benefits - Regional Market Issue Regarding Discount Rate (Amendments)*
  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report' (Amendments)*
  The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Standards and interpretation issued but not yet effective
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 to 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, 2017

- Amendment to PFRS 12, Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

  The amendments do not have any impact on the Group's financial position and results of operation. The Group will include the required disclosures in its 2017 consolidated financial statements.

- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*
  The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

  Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.

- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*
  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

  These amendments are not expected to have any impact on the Group.

Effective 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.

  The Group is assessing the potential effect of the amendments on its consolidated financial statements.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*
  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

  The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*
  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

  The Group is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effectivity date.

- PFRS 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are

generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting and on the amount of its credit losses. The Group is currently assessing the impact of adopting this standard.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

  The Group does not expect the amendments to have material impact on its consolidated financial statements.

- 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.

  The Group does not expect the amendments to have material impact on its consolidated financial statements.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

  The Group does not expect the amendments to have material impact on its consolidated financial statements.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*
  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.
  The Group is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

<u>Fair Value Measurement</u>
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 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.

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as investment properties. Involvement of external valuers is decided upon annually by corporate finance after discussion with and approval by the Company’s audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

The Group, in conjunction with the external valuers, also compares each of the changes in the fair value of each asset with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets on the basis of the nature, characteristics and risks of the asset and the level of the fair value hierarchy as explained above.

<u>Cash and Cash Equivalents</u>
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placement and that are subject to an insignificant risk of change in value.

<u>Financial Instruments</u>
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition of financial instruments
All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS financial assets and loans and receivables. 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 or liabilities incurred 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 from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a “Day 1” difference) in the consolidated statement of income under “Interest and investment income” and “Interest and other financing charges” accounts unless it qualifies for recognition as some other type of asset or liability. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the ‘Day 1’ difference amount.

Financial assets and financial liabilities at FVPL
Financial assets and financial liabilities at FVPL include financial assets and financial liabilities held for trading and financial assets and financial liabilities designated upon initial recognition as at FVPL.

Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Fair value gains or losses on investments held for trading, net of interest income accrued on these assets, are recognized in the consolidated statement of income under “Other income” or “Other charges”.

Financial assets may be designated at initial recognition as FVPL if 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; or
- The assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative that would need to be separately recorded.

As of December 31, 2016 and 2015, the Group holds its investment in Unit Investment Trust Fund (UITF) and investment in ARCH Capital Asian Partners L.P. (ARCH Capital Fund) as held for trading and classified these as financial assets at FVPL. Management takes the view that these are held for trading and such portfolios are managed by professional managers.

HTM investments
HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate.

The amortization is included in “Interest and investment income” in the consolidated statement of income. Gains and losses are recognized in the consolidated statement of income under “Other income” or “Other charges” when the HTM investments are derecognized and impaired, as well as through the amortization process.

As of December 31, 2016 and 2015, the Group has no HTM investments.

Loans and receivables
Loans and receivables are 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 designated as AFS financial assets or financial assets at FVPL. This accounting policy relates to the consolidated statement of financial position captions "Short-term investments" and "Accounts and notes receivable" except for "Advances to contractors and suppliers" and "Advances to other companies".

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. The amortization is included in the "Interest and investment income" in the consolidated statements of income. The losses arising from impairment of such loans and receivables are recognized in the consolidated statement of income under the "Other charges" account.

Loans and receivables are included in current assets if maturity is within 12 months from the reporting date, otherwise these are classified as noncurrent assets.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified or designated as at FVPL, HTM, or loans and receivables.

Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported as "Net unrealized gain on available-for-sale financial assets" in the equity section of the consolidated statement of financial position.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income under "Other income" account or "Other charges" account. Where the Group holds more than one investment in the same security, these are deemed to be disposed on a weighted average basis. The losses arising from impairment of such investments are recognized in the consolidated statement of income under the "Other charges" account.

When the fair value of the AFS financial assets cannot be measured reliably because of lack of reliable estimation of future cash flows and discount rates necessary to calculate the fair value of computed equity instruments, these investments are carried at cost less allowance for impairment losses. AFS financial assets are classified as noncurrent assets unless the intention is to dispose such assets within 12 months from reporting date.

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 the 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 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 that are integral parts of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income.

This accounting policy applies primarily to the Group's "Accounts and other payables" (other than "Taxes payable" which is covered by other accounting standard), "Short-term and long-term debts," and other obligations that meet the above definition.

Deposits and Retentions Payable
Deposits and retentions payable are measured initially at fair value. After initial recognition, deposits and retentions payable are subsequently measured at amortized cost using the effective interest method.

For deposits, the difference between the cash received and its fair value is deferred and amortized using the straight-line method under the "Real estate revenue" account in the consolidated statement of income.

Derecognition of Financial Assets and Liabilities
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

a. the rights to receive cash flows from the asset have expired;
b. 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
c. the Group has transferred its right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred 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 has 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 liability
A financial liability is derecognized when the obligation under the liability has expired, or is discharged or has cancelled. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Impairment of Financial Assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the consolidated statement of income under "Other charges" account.

Interest income continues to be recognized based on the original effective interest rate of the asst. Receivable, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any difference between loss estimates and actual loss experience.

Financial asset carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument 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 current market rate of return for a similar financial asset.

AFS financial assets
For AFS 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.

In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost or where other objective evidence of impairment exists. The determination of what is ‘significant’ or ‘prolonged’ requires judgment. The Group treats ‘significant’ generally as 20% or more and ‘prolonged’ as greater than six (6) months for quoted equity securities. The Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities (see Note 10). Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income in the “Other charges” account. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in equity through the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of “Interest and investment income” account in the consolidated statement of income. If, in 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 the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Offsetting Financial Instruments

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

Concession Financial Receivable

The Company accounts for its concession arrangement with the DOTr under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial asset for its construction services from or at the direction of the grantor. Under the concession arrangement, the Company is awarded the right to build and operate an integrated transport terminal for Metro Manila and its adjacent provinces. The legal title to these assets shall be transferred to the government at the end of the concession period.

The “Concession Financial Receivable” pertains to the fair value of the Annual Grantor Payment related to the operating and maintenance services and recovery of construction costs of the terminal facility. These are amortized using the effective interest rate over the life of the related concession.

In addition, the Company recognizes and measures construction revenues and costs in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenue*, for the services it performs. Recognition of revenue is by reference to the ‘stage of completion method,’ also known as the ‘percentage of completion method’ as provided under PAS 11. Contract revenue and costs from construction works are recognized as “Construction Revenue” and “Construction Expense” in profit or loss in the period in which the work is performed.

Inventories

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realizable value (NRV).

Cost includes:
- Land cost
- Land improvement cost

- Amounts paid to contractors for construction and development
- Planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs of sale.

The cost of inventory recognized in the consolidated statement of income on disposal is determined with reference to the specific costs incurred on the property, and estimated costs to be incurred allocated to saleable area based on relative size.

Prepaid Expenses
Prepaid expenses are carried at cost less the amortized portion. These typically comprise prepayments for commissions, marketing fees, advertising and promotions, taxes and licenses, rentals and insurance.

Input Value-Added Tax (VAT)
Input VAT arises from the purchase of goods and services. These are applied against output VAT. The remaining balance is recoverable in future periods. These are carried at cost less allowance for impairment loss, if any. Impairment loss is recognized when input VAT can no longer be recovered.

Deposits in Escrow
Deposits in escrow pertain to the proceeds from the sale of the Group's projects that have only been granted temporary License to Sell (LTS) as of reporting date. These proceeds are deposited in a local bank and earn interest at prevailing bank deposit rates.

Materials, Parts and Supplies
Materials, parts and supplies are valued at the lower of cost or NRV. Cost is determined using the moving average method. NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

An allowance for inventory losses is provided for slow-moving, obsolete and defective materials, parts and supplies based on management's physical inspection and evaluation. When inventories are sold, the cost and related allowance is removed from the account and the difference is charged against operations.

Advances to Other Companies and Advances to Contractors and Suppliers
Advances to other companies and advances to contractors and suppliers are carried at cost less impairment losses, if any.

Land and Improvements
Land and improvements consist of properties for future development and are carried at the lower of cost or NRV. NRV is the estimated selling price in the ordinary course of business, less estimated cost of completion and estimated costs necessary to make the sale. Cost includes those costs incurred for development and improvement of the properties.

Investments in Associates and Joint Ventures
Investments in associates and joint ventures (investee companies) are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. A joint arrangement is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a joint venture is a joint arrangement that involves the establishment of a separate entity in which each venturer has an interest.

An investment is accounted for using the equity method from the day it becomes an associate or joint venture. On acquisition of investment, the excess of the cost of investment over the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and not amortized. Any excess of the investor's share of the net fair value of the investee's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment, and is instead included as income in the determination of the share in the earnings of the investees.

Under the equity method, the investments in the investee companies 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 investee companies, less any impairment in values. The consolidated statement of income reflects the share of the results of the operations of the investee companies. The Group's share of post-acquisition movements in the investee's equity reserves is recognized directly in equity. Profits and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies and for unrealized losses to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the investment.

The Group discontinues applying the equity method when their investments in investee companies are reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the investee companies. When the investee companies subsequently report net income, the Group will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

The reporting dates of the investee companies and the Group are identical and the investee companies' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining 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 retaining investment and proceeds from disposal is recognized in the consolidated statement of income.

Interest in Joint Operation

Makati Development Corporation (MDC), a subsidiary of the Company, has an interest in joint arrangement, whereby the parties have a contractual arrangement that establishes joint control. MDC recognizes its share of jointly held assets, liabilities, income and expenses of the joint operation with similar items, line by line, in its financial statements.

The financial statements of the joint operation are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies in line with those of the Company.

Investment Properties

Investment properties comprise completed property and property under construction or re-development that are held to earn rentals or capital appreciation or both and that are not occupied by the companies in the Group.

The Group uses the cost model in measuring investment properties since this represents the historical value of the properties subsequent to initial recognition. Investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in residual value. Land is carried at cost less any impairment in value.

Expenditures incurred after the investment property has been put in operation, such as repairs and maintenance costs, are normally charged against income in the period in which the costs are incurred.

Constructions-in-progress are carried at cost (including borrowing cost) and transferred to the related investment property account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupation.

Depreciation of investment properties are computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives and the depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

The estimated useful lives of investment properties follow:

	Years
Land improvements	8-40
Buildings	20-40

Investment properties are derecognized when either they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of income in the year of retirement or disposal.

A transfer is made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. A transfer is 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. A transfer between investment property, owner-occupied property and inventory does not change the carrying amount of the property transferred nor does it change the cost of that property for measurement or disclosure purposes.

The Group discloses the fair values of its investment properties in accordance with PAS 40. The Group engaged independent valuation specialist to assess fair value as at December 31, 2016 and 2015. The Group's investment properties consist of land and building pertaining to land properties, retail (malls) and office properties. These were valued by reference to market-based evidence using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Property and Equipment

Property and equipment, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value. The initial cost of property and equipment comprises its construction cost or purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, including borrowing costs.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization of property and equipment commences once the property and equipment are available for use and are computed on a straight-line basis over the estimated useful lives of the property and equipment as follows:

	Years
Buildings and improvements	20-40
Machinery and construction equipment	5
Furniture, fixtures and equipment	3-10
Transportation equipment	3-5
Hotel property and equipment	20-50

The assets' residual values, estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the amounts, periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Intangible Assets

Intangible assets 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 date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

Leasehold rights with finite lives are amortized using the straight-line method over the useful economic life of 20 to 23 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible assets.

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

As of December 31, 2016 and 2015 intangible asset pertaining to leasehold right is included under "Other noncurrent assets".

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree at fair value of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as bargain purchase gain. The Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure amounts to be recognized at the acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the period before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

Combinations of entities under common control
Business combinations of entities under common control are accounted for using the pooling of interests method. The pooling of interests method is generally considered to involve the following:

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity.
- The consolidated statement of income reflects the results of the combining entities for the full year, irrespective of when the combination took place.
- Comparatives are presented as if the entities had always been combined.

The effects of intercompany transactions on current assets, current liabilities, revenues, and cost of sales for the current period presented and on retained earnings at the beginning of the current period presented are eliminated to the extent possible.

Asset Acquisitions
If the assets acquired and liabilities assumed in an acquisition transaction do not constitute a business as defined under PFRS 3, the transaction is accounted for as an asset acquisition. The Group identifies and recognizes the individual identifiable assets acquired (including those assets

that meet the definition of, and recognition criteria for, intangible assets) and liabilities assumed. The acquisition cost is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such transaction or event does not give rise to goodwill. Where the Group acquires a controlling interest in an entity that is not a business, but obtains less than 100% of the entity, after it has allocated the cost to the individual assets acquired, it notionally grosses up those assets and recognizes the difference as non-controlling interests.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If such is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

The following criteria are also applied in assessing impairment of specific assets:

Investments in associates and joint ventures

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee companies. The Group determines at each reporting date whether there is any objective evidence that the investment in associates or joint ventures is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value and the carrying value of the investee company and recognizes the difference in the consolidated statement of income.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Pension Cost
Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes a) service costs comprising current service costs, past-service costs b) gains and losses on curtailments and non-routine settlements, and c) net interest cost on benefit obligation.

Remeasurements, comprising of actuarial gains or losses, the effect of the asset ceiling, excluding net interest cost and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by using risk-free interest rates of long-term government bonds that have terms to maturity approximating the terms of the related pension liabilities or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

Share-based Payments
The Group has equity-settled, share-based compensation plans with its employees.

PFRS 2 Options
For options granted after November 7, 2002 that have not vested on or before January 1, 2005, the cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined using the Black-Scholes model, further details of which are given in Note 28.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instrument that will ultimately vest. The income or expense for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Pre-PFRS 2 Options
For options granted before November 7, 2002 that has vested before January 1, 2005, the intrinsic value of stock options determined as of grant date is recognized as expense over the vesting period.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 27).

Employee Stock Ownership Plan
The Company has an employee stock ownership plan (ESOWN) which allows the grantees to purchase the Company's shares at a discounted price. The Company recognizes stock compensation expense over the holding period. The Company treats its ESOWN plan as option exercisable within a given period. These are accounted for similar to the PFRS 2 options. Dividends paid on the awards that have vested are deducted from equity and those paid on awards that are unvested are charged to profit or loss. For the unsubscribed shares where the employees still have the option to subscribe in the future, these are accounted for as options.

Equity
When the shares are sold at a premium, the difference between the proceeds and the par value is credited to "Additional paid-in capital" account. Direct costs incurred related to equity issuance are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Subscriptions receivable pertains to the uncollected portion of the subscribed shares.

Retained earnings represent accumulated earnings of the Group less dividends declared.

Equity reserves pertain to gains or losses resulting from increase or decrease in ownership without loss of control.

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue and Cost Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

For real estate sales, the Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectibility of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectibility is also assessed by considering factors such as the credit standing of the buyer, age and location of the property.

Revenue from sales of completed real estate projects is accounted for using the full accrual method. In accordance with PIC Q&A 2006-01, the percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of contract work. The percentage of completion is determined by the Company's project engineers.

Any excess of collections over the recognized receivables are included in the "Deposits and other current liabilities" account in the liabilities section of the consolidated statement of financial position.

If any of the criteria under the full accrual or percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the "Deposits and other current liabilities" account in the liabilities section of the consolidated statement of financial position.

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of residential and commercial lots and units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its project development costs, which include estimated costs for future development works, as estimated by the Company's project engineers.

Revenue from construction contracts included in the "Real estate" account in the consolidated statement of income is recognized using the percentage-of-completion method, based on the completion of a physical proportion of the contract work inclusive of the uninstalled goods and materials delivered to the site.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

Rental income under noncancellable and cancellable leases on investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term and the terms of the lease, respectively, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Marketing fees, management fees from administration and property management are recognized when services are rendered.

Rooms revenue from hotel and resort operations is recognized when the services are rendered.

Revenue from banquets and other special events are recognized when the events take place. Interest income is recognized as it accrues using the effective interest method.

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

Commissions

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage of completion method is used, commissions are likewise charged to expense in the period the related revenue is recognized. Commission expense is included in the "Real estate costs and expenses" account in the consolidated statement of income.

Expense Recognition
Expenses are recognized in the statement of income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Expenses are recognized in the statement of income:

- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- Immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statement of financial position as an asset.

Direct operating expenses and general and administrative expenses are recognized as they are incurred.

Borrowing Costs
Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets (included in "Inventories", "Investment properties" and "Property and equipment" accounts in the consolidated statement of financial position). All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalized from the commencement of the development work until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) There is substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c), or (d) and at the date of renewal or extension period for scenario (b).

Group as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis while the variable rent is recognized as an expense based on terms of the lease contract.

Group as lessor
Leases where the Group does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as an income in the consolidated statement of income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

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 tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the end of the reporting period.

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, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and NOLCO can be utilized.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic associates and interests in joint ventures.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all 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 all or part of the deferred tax assets to be recovered.
Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged against or credited to income for the period.

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 income taxes relate to the same taxable entity and the same taxation authority.

Foreign Currency Transactions
Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded using the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate prevailing at the reporting date. Exchange gains or losses arising from foreign exchange transactions are credited to or charged against operations for the year.

Investments in foreign associates are translated to Philippine Peso using the closing exchange rate prevailing at reporting date. The Group's share in the results of operations of the foreign investee is translated using the exchange rate at the dates of the transactions or, where practicable, the rate that approximates the exchange rates at the dates of the transactions, such as the average rate for the period. Any resulting exchange difference is recognized as a separate component of equity.

Earnings Per Share (EPS)
Basic EPS is computed by dividing net income for the year attributable to common equity holders of the Company by the weighted average number of common shares issued and outstanding during the year adjusted for any subsequent stock dividends declared. Diluted EPS is computed by dividing net income for the year attributable to common equity holders of the Company by the weighted average number of common shares issued and outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential common shares that would have an antidilutive effect on earnings per share.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 30 of the consolidated financial statements.

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

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

3. Significant Accounting Judgments and Estimates

The preparation of the accompanying consolidated financial statements in conformity with PFRSs requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

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

Distinction between real estate inventories and land and improvements
The Group determines whether a property will be classified as real estate inventories or land and improvements. In making this judgment, the Group considers whether the property will be sold in the normal operating cycle (real estate inventories) or whether it will be retained as part of the Group's strategic landbanking activities for development or sale in the medium or long-term (land and improvements).

Property acquisitions and business combinations
The Group acquires subsidiaries that own real estate properties. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made with regard to the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the Group (e.g., maintenance, cleaning, security, bookkeeping, hotel services, etc.). The significance of any process is judged with reference to the guidance in PAS 40 on ancillary services.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized.

In 2016, the Company accounted for its acquisition of 55% interest in Prow as an acquisition of an asset. Management has made its judgment in determining whether Prow is a business as defined in PFRS 3. Management has considered whether Prow has inputs and processes that have the ability to create outputs.

Consolidation of entities in which the Group holds only 50% or less than majority of voting rights
The Group considers that it controls the following entities even though it owns 50% or less than majority of the voting rights.

ACC
For ACC, ALI holds 50% of the voting rights, and is also the single largest shareholder and the remaining 50% of the equity shares are held by several shareholders. The second largest stockholder of ACC holds 8.3% share while the other shareholders' equity interest ranges from 2.1% to 8.3%. In addition, ALI has an existing management services agreement with ACC which gives ALI the exclusive control and decision over the relevant activities of ACC.

BG Entities (BGWest, BGNorth and BGSouth)
For the BG entities, wherein ALI and the other shareholder each own 50% of the voting rights, ALI controls the investee through exercise of its exclusive project development and marketing agreement as well as the ability to decide on the financing, operating and strategic policies of the investees. This enabled ALI to conclude that it has control.

AHI, RLC, ALI-CII and LAIP
ALI has an existing management services agreement with AHI, RLC, ALI-CII and LAIP which gives ALI the exclusive control and decision over the relevant activities of AHI, RLC, ALI-CII and LAIP.

Significant influence on BLC
The Group considers that it has significant influence over investees when it has board representation which allows them to participate in the financial and operating policy decisions but is not control or joint control of those policies (see Note 12).

Collectibility of the sales price
In determining whether the sales prices are collectible, the Group considers that the initial and continuing investments by the buyer of about 10% would demonstrate the buyer's commitment to pay.

Service concession agreement
The Group has made a judgment that the concession agreement with DOTr qualifies under Philippine Interpretation IFRIC 12, Service Concession Arrangements. Management has assessed that DOTr controls and regulates the service, determines to whom this service will be provided and controls the price. In addition, management has also determined that the DOTr has the significant control over the residual interest of the Terminal at the end of the term.

Management has also made a judgment that the Terminal and commercial assets (mall facilities) are physically separable and are capable of being operated independently.

Management has further assessed that said concession agreement qualifies under the Financial Asset model as it has an unconditional contractual right to receive cash or other financial assets (i.e. the Annual Grantor Payment) for its construction, operating and maintenance services directly from DOTr.

Contingencies
The Group is currently involved in various 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 of these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material effect on the Group's consolidated financial statements (see Note 34).

<u>Management's Use of Estimates</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revenue and cost recognition
The Group's revenue recognition and cost policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Group's revenue from real estate and construction contracts is recognized based on the percentage of completion are measured principally on the basis of the estimated completion of a physical proportion of the contract work. See Notes 21 and 22 for the related balances.

In addition, the Company's project development costs used in the computation of the cost of real estate sales, are based on estimated cost components determined by the Company's project engineers.

Accounting for business combination
In 2016, the Company purchased 2.5 billion common shares or 51% interest in POPI for a total consideration ₱5,625.0 million. In identifying the assets acquired and liabilities assumed, management has determined that part of the assets being acquired pertains to the leasehold rights of POPI arising from its land lease with Philippine National Railways (PNR).

Further, management has measured the leasehold rights and investment properties that were acquired using the appraisal report that was prepared by the external appraiser. These appraisals involve selecting the appropriate valuation methodology and making various assumptions such as price per sqm, adjustment factors, discount rate, rental growth rate, location, size and time element factors. The investment properties comprising of building and property and equipment were valued using the cost approach, specifically reproduction cost (new) less depreciation for physical deterioration, functional and economic obsolescence. Significant estimates were made in relation to the reproduction cost (new) using the unit-in-place method which combines direct and indirect costs for a building component. Adjustments were made to the reproduction cost to reflect depreciation. The land was valued using the sales comparison approach. Significant assumptions used include comparable property prices adjusted for nature, location and condition of the land to which the leasehold right is attributed to. In addition, in determining the lease interest, assumptions were made as to rental growth rate and discount rate.

Estimating allowance for impairment losses
The Group maintains allowance for impairment losses based on the result of the individual and collective assessment under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivables' carrying balance and the computed present value. Factors considered in individual assessment are payment

history, past due status and term. The collective assessment would require the Group to classify its receivables based on the credit risk characteristics (customer type, payment history, past-due status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expenses for any period would differ depending on the judgments and estimates made for the year. See Note 7 for the related balances.

Evaluation of net realizable value of real estate inventories
The Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of the inventories. NRV for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. NRV in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. See Note 8 for the related balances.

Share-based payments
The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Group. See Note 28 for the related balances.

Estimating pension liabilities and other retirement benefits
The determination of the Group's obligation and cost for pension and other retirement benefits is dependent on selection of certain assumptions used by actuaries in calculating such amounts. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Significant assumptions are disclosed in Note 26 and include among others, discount rate and salary increase rate.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on 1994 Group Annuity Mortality Table and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates.

While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions could materially affect retirement obligations. See Note 26 for the related balances.

Fair value of financial instruments
When the fair values of financial assets and financial liabilities recorded or disclosed in the consolidated statement 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. These estimates may include considerations of liquidity, volatility and correlation. Certain financial assets and liabilities were initially recorded at their fair values by using the discounted cash flow methodology. See Note 29 for the related balances.

4. Cash and Cash Equivalents

This account consists of:

	2016	2015
	(In Thousands)	
Cash on hand	**₱53,308**	₱55,769
Cash in banks	**9,165,619**	9,364,159
Cash equivalents	**11,685,403**	9,667,462
	₱20,904,330	₱19,087,390

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are short-term, highly liquid investments that are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term rates.

The annual interest rates of the cash equivalents follow:

	2016	2015
Philippine Peso	**1.2% to 2.8%**	0.6% to 2.3%
US Dollar	**1.3% to 2.0%**	0.2% to 2.0%

5. Short-term Investments

Short-term investments consist of money market placements made for varying periods of more than three (3) months and up to one (1) year and earn interest at the respective short-term investment rates.

The annual interest rates of the short-term investments in US Dollar is 1.6% and 2.1% in 2016 and 2015, respectively.

6. Financial Assets at FVPL

This account consists of:

	2016	2015
	(In Thousands)	
Investment in Unit Investment Trust Fund (UITF)	**₱1,529,088**	₱288,229
Investment in ARCH Capital Fund (Note 12)	**435,452**	443,448
	₱1,964,540	₱731,677

The Group has investments in the BPI Short Term Fund (STF), BPI Money Market Fund (MMF) and BDO Institutional Cash Reserve Fund (ICRF) (the Funds). The Funds, which are structured as a money market UITF, aims to generate liquidity and stable income by investing in a diversified portfolio of primarily short-term fixed income instruments. The Funds have no minimum holding period. As of December 31, 2016 and 2015, the total Net Asset Value (NAV) of the Funds were: (i) BPI STF ₱67,692.0 million with duration of 33 days and ₱51,986.0 million with duration of 66 days, respectively; (ii) BPI MMF ₱6,281.6 million with duration of 37 days and ₱4,133.3 million with duration of 66 days, respectively; and (iii) BDO ICRF ₱79,935.0 million with duration of 106 days and ₱46,307.0 million with duration of 54 days, respectively. The fair value of the Group's total investment in the Fund amounted to ₱1,529.1 million and ₱288.2 million as of December 31, 2016 and 2015, respectively.

Investment in ARCH Capital Fund pertains to monetary interest in a fund in which the management takes the view that these are held for trading and it is a portfolio of identified property funds invested and managed by professional managers.

The following table provides the fair value hierarchy of the Group's financial assets at FVPL which are measured at fair value as of December 31, 2016:

2016

			Fair value measurement using		
	Date of Valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
			(In Thousands)		
Investment in Unit Investment Trust Fund (UITF)	**December 31, 2016**	**₱1,529,088**	**₱–**	**₱1,529,088**	**₱–**
Investment in ARCH Capital Fund	**September 30, 2016**	**435,452**	**–**	**–**	**435,452**

2015

			Fair value measurement using		
	Date of Valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
			(In Thousands)		
Investment in Unit Investment Trust Fund (UITF)	December 31, 2015	₱288,229	₱–	₱288,229	₱–
Investment in ARCH Capital Fund	September 30, 2015	443,448	–	–	443,448

The fair value of the investment in UITF is determined by using the valuation techniques. These valuation techniques maximize the use of observable market data where it is available such as quoted market prices or dealer quotes for similar instruments.

The fair value of the investment in ARCH Capital Fund is determined using the discounted cash flow (DCF) method. Under the DCF method in fund fair valuation, it is estimated using assumptions regarding the benefits and liabilities of ownership over the underlying asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream, associated with the underlying asset. The exit yield is normally separately determined and differs from the discount rate. Significant inputs considered were rental, growth and discount rates. The higher the rental and growth rates, the higher the fair value. The higher the discount rates, the lower the fair value.

Reconciliation of fair value measurement of Investment in Arch Fund is shown below:

	2016	2015
	(In Thousands)	
Balance at beginning of year	**₱443,448**	₱656,731
Redemptions	**(9,514)**	(280,852)
Additions	**566**	32,264
Unrealized gains included under "Interest and investment income"	**952**	35,305
Balance at end of year	**₱435,452**	₱443,448

7. **Accounts and Notes Receivable**

This account consists of:

	2016	2015
		(In Thousands)
Trade:		
Residential and office development	**₱79,299,678**	₱65,833,104
Construction contracts	**2,710,548**	2,635,587
Shopping centers	**2,558,391**	2,124,332
Corporate business	**2,541,996**	1,113,385
Management fees	**309,331**	116,649
Others	**907,841**	1,242,658
Advances to contractors and suppliers	**26,166,066**	13,277,594
Advances to other companies	**14,084,976**	15,514,459
Accrued receivables	**3,355,418**	3,162,248
Receivables from related parties (Note 25)	**1,116,745**	1,012,585
Investment in bonds classified as loans and receivables	**–**	258,000
Receivables from employees	**739,826**	711,608
	133,790,816	107,002,209
Less allowance for impairment losses	**1,189,847**	784,808
	132,600,969	106,217,401
Less noncurrent portion	**35,133,216**	41,256,656
	₱97,467,753	₱64,960,745

The classes of trade receivables of the Group are as follows:

- Residential and office development - pertain to receivables from the sale of high-end, upper middle-income and affordable residential lots and units; economic and socialized housing units and sale of commercial lots; sale of office units; and leisure community developments
- Construction contracts - pertain to receivables from third party construction projects
- Corporate business - pertain to lease receivables from office and factory buildings and receivables from sale of industrial lots
- Shopping centers - pertain to lease receivables from retail spaces
- Management fees - pertain to receivables from facilities management services
- Others - pertain to receivables from hotel operations and other support services

Sales contract receivables, included under residential development, are collectible in monthly installments over a period of one (1) to ten (10) years and with annual interest rates ranging from 1.75% to 18.00% computed on the diminishing balance of the principal. Titles to real estate properties are transferred to the buyers only once full payment has been made.

Receivables from shopping centers, construction contracts and management fees are due within 30 days upon billing.

Corporate business receivables are collectible on a monthly or quarterly basis depending on the terms of the lease contracts.

Advances to contractors and suppliers are recouped upon every progress billing payment depending on the percentage of accomplishment or delivery.

Advances to other companies includes advances made to joint venture partners that have been made in consideration of project costs and purchases of land that are still subject to completion. The Group does not intend that these advances will be repaid, but will instead be recorded as part of the project costs upon development or as part of consideration for purchases of land. The documentation for these advances provides that these will be payable over a fixed term or on demand in order to allow for repayment of the advances when closing does not occur.

Advances to other companies also includes receivables from MRT Development Corporation (MRTDC) shareholders which pertains to interest-bearing advances made by NTDCC to MRTDC equivalent to the Pre-2006 Development Rights Payment (DRP) Payables and the Residual Depot DRP which is due more than one year, in relation to the funding and repayment agreement. As of December 31, 2016 and 2015, receivables from MRTDC shareholders for both years amounted to ₱432.1 million and ₱522.6 million, respectively.

On December 17, 2014, NTDCC and MRTDC shareholders executed a "funding and repayment agreement" wherein the latter agrees to repay NTDCC, for the account of MRTDC, its respective pro rata share in the Total Depot DRP Advances (the Pre-2006 DRP Payables and the Residual Depot DRP, including 15% interest rate accrued on such DRP payables).

Commencing on January 1, 2015, the MRTDC Shareholders (except Fil Estate Properties, Inc. and Metro Global Holdings Corporation who are also MRTDC Shareholders as of date) shall effect the repayment of their respective pro rata share in the Total Depot DRP Payables, through a set-off against their respective share in the commercial center royalties to be received from the Group.

Set off shall be effective as of the beginning of every calendar month, commencing January 30, 2015 and shall result in the settlement of the portion of the Total DRP Payables to the extent of the amount of the commercial center royalties then the balance will fall due to the relevant MRTDC Shareholders.

Accrued receivables and receivables from related parties are due and demandable. Receivables from employees pertain to housing, car, salary and other loans granted to the Group's employees which are collectible through salary deduction, are interest-bearing (6.0% per annum) and payable on various maturity dates.

Investment in bonds classified as loans and receivables pertain to the Group's investments in various notes and bonds as follows:

- ₱100.0 million investment in 5.9% unsecured subordinated notes of Land Bank of the Philippines (LBP) due 2022, callable in 2017. In December 2015, LBP issued an irrevocable early redemption notice wherein all of the outstanding notes will be redeemed at issue price on January 27, 2016. As of December 31, 2016, the Company has no outstanding investment in LBP notes as of December 31, 2016 due to early redemption.
- ₱200.0 million investment in 5.8% unsecured subordinated notes of Development Bank of the Philippines (DBP) due 2022, callable in 2017. The Company sold ₱42.0 million worth of bonds at carrying value with net gain of ₱0.1 million and an early redemption on the remaining balance of ₱158.0 million. As of December 31, 2016, the Company has no outstanding investment in DBP notes.
- ₱500.0 million investment in 5.8% collateralized bonds of First Metro Investment Corp. (FMIC) due 2019, callable in 2017. The Company sold ₱350.0 million worth of bonds at carrying value with net gain of ₱6.9 million in 2014 and the remaining balance of ₱150.0 million at a net gain of ₱4.5 million in 2015. As of December 31, 2016, the Company has no outstanding investment in FMIC bonds.

Receivables amounting to ₱1,189.8 million and ₱784.8 million as of December 31, 2016 and 2015, respectively, were impaired and fully provided for. Movements in the allowance for impairment losses follow:

2016

	Trade							
	Residential and office Development	**Shopping Centers**	**Construction Contracts**	**Corporate business**	**Management Fees**	**Others**	**Advances to Other Companies**	**Total**
				(In Thousands)				
Balance at beginning of year	**₱23,110**	**₱409,230**	**₱45,297**	**₱44,888**	**₱3,012**	**₱83,019**	**₱176,252**	**₱784,808**
Acquisition through business combination (Note 24)	**–**	**67,739**	**–**	**–**	**–**	**–**	**–**	**67,739**
Provisions during the period (Note 22)	**–**	**80,531**	**–**	**12,735**	**–**	**28,878**	**277,280**	**399,424**
Translation adjustment	**–**	**1,283**	**–**	**–**	**–**	**1,702**	**–**	**2,985**
Reversal (Note 22)	**–**	**–**	**–**	**–**	**–**	**(903)**	**–**	**(903)**
Accounts written off	**(9,555)**	**(31,032)**	**(18,750)**	**–**	**–**	**–**	**(4,869)**	**(64,206)**
Balance at end of year	**₱13,555**	**₱527,751**	**₱26,547**	**₱57,623**	**₱3,012**	**₱112,696**	**₱448,663**	**₱1,189,847**
Individually impaired	**₱–**	**₱345,106**	**₱26,547**	**₱57,623**	**₱2,614**	**₱81,362**	**₱447,649**	**₱960,901**
Collectively impaired	**13,555**	**182,645**	**–**	**–**	**398**	**31,334**	**1,014**	**228,946**
Total	**₱13,555**	**₱527,751**	**₱26,547**	**₱57,623**	**₱3,012**	**₱112,696**	**₱448,663**	**₱1,189,847**
Gross amounts of receivables individually determined to be impaired	**₱–**	**₱345,106**	**₱26,547**	**₱57,623**	**₱2,614**	**₱81,362**	**₱447,649**	**₱960,901**

2015

	Trade							
	Residential and office Development	Shopping Centers	Construction Contracts	Corporate business	Management Fees	Others	Advances to Other Companies	Total
				(In Thousands)				
Balance at beginning of year	₱23,110	₱299,652	₱45,297	₱–	₱3,012	₱59,266	₱169,529	₱599,866
Provisions during the period (Note 22)	–	121,560	–	33,004	–	25,381	7,683	187,628
Translation adjustment	–	–	–	–	–	1,447	–	1,447
Reversal (Note 22)	–	–	–	11,884	–	(356)	–	11,528
Accounts written off	–	(11,982)	–	–	–	(2,719)	(960)	(15,661)
Balance at end of year	₱23,110	₱409,230	₱45,297	₱44,888	₱3,012	₱83,019	₱176,252	₱784,808
Individually impaired	₱9,555	₱217,217	₱45,297	₱44,888	₱2,614	₱53,890	₱175,924	₱549,385
Collectively impaired	13,555	192,013	–	–	398	29,129	328	235,423
Total	₱23,110	₱409,230	₱45,297	₱44,888	₱3,012	₱83,019	₱176,252	₱784,808
Gross amounts of receivables individually determined to be impaired	₱9,555	₱217,217	₱45,297	₱44,888	₱2,614	₱53,890	₱175,924	₱549,385

As of December 31, 2016 and 2015, nominal amounts of trade receivables from residential and office development, advances to other companies and receivables from employees totaling ₱101,572.5 million and ₱86,920.2 million, respectively, were recorded initially at fair value. The fair values of the receivables were obtained by discounting future cash flows using the applicable rates of similar types of instruments.

Movements in the unamortized discount of the Group's receivables as of December 31, 2016 and 2015 follow:

	2016	2015
	(In Thousands)	
Balance at beginning of year	**₱4,860,991**	₱4,762,256
Additions during the year	**6,662,005**	3,890,725
Accretion for the year (Note 22)	**(4,074,948)**	(3,791,990)
Balance at end of year	**₱7,448,048**	₱4,860,991

The Group entered into agreements with BPI Asset Management and Trust Group in 2016 and BPI Family Savings Bank, a related party, in 2015, for the assignment of interest-bearing employee receivables amounting to ₱99.6 million and ₱71.5 million, respectively. The transactions were without recourse and did not result to any gain or loss.

In December 2016, the Group sold real estate receivables on a without recourse basis to BPI Family Savings Bank, a related party, amounting to ₱2,008.3 million. These were sold at an effective discount rate of 3.98% p.a. with total proceeds of ₱1,894.2 million. The Group recognized loss on sale (under "Other charges") amounting to ₱114.1 million.

8. Inventories

This account consists of:

	2016	2015
	(In Thousands)	
Real estate:		
Residential and commercial lots:		
At cost	**₱24,808,753**	₱23,652,367
At NRV	**936,183**	936,183
	25,744,936	24,588,550
Residential and condominium units - at cost	**39,304,715**	30,883,793
Offices	**1,678,294**	2,145,973
Club shares - at cost	**–**	1,628,646
	₱66,727,945	₱59,246,962

A summary of the movement in inventories is set out below:

2016

	Residential and commercial lots	Residential and condominium units	Offices	Club shares	Total
			(In Thousands)		
Balances at beginning of year	**₱24,588,550**	**₱30,883,793**	**₱2,145,973**	**₱1,628,646**	**₱59,246,962**
Land acquired during the year	**34,124**	**–**	**–**	–	**34,124**
Land cost transferred from land and improvements (Notes 11 and 36)	**581,172**	**4,214,326**	**–**	–	**4,795,498**
Acquired through business combination (Note 24)	**273,299**	**–**	**–**	**–**	**273,299**
Construction/development costs incurred	**12,425,216**	**34,944,645**	**366,848**	–	**47,736,709**
Borrowing costs capitalized	**–**	**62,507**	**–**	**–**	**62,507**
Disposals (recognized as cost of real estate sales) (Note 22)	**(11,487,472)**	**(30,249,463)**	**(834,527)**	**–**	**(42,571,462)**
Transfers to investment properties (Notes 13 and 36)	**(553,425)**	**(511,900)**	**–**	**–**	**(1,065,325)**
Other adjustments/ reclassifications (Note 10)	**(116,528)**	**(39,193)**	**–**	**(1,628,646)**	**(1,784,367)**
Balances at end of year	**₱25,744,936**	**₱39,304,715**	**₱1,678,294**	**₱–**	**₱66,727,945**

2015

	Residential and commercial lots	Residential and condominium units	Offices	Club shares	Total
			(In Thousands)		
Balances at beginning of year	₱26,742,089	₱18,765,608	₱1,022,810	₱1,648,684	₱48,179,191
Land acquired during the year	815,568	57,927	–	–	873,495
Land cost transferred from land and improvements (Notes 11 and 36)	1,978,739	4,761,054	1,100,000	–	7,839,793
Construction/development costs incurred	7,773,816	26,515,912	2,738,862	–	37,028,590
Borrowing costs capitalized	–	77,461	–	–	77,461
Disposals (recognized as cost of real estate sales) (Note 22)	(12,576,574)	(19,049,000)	(2,715,699)	(20,038)	(34,361,311)
Transfers to investment properties (Notes 13 and 36)	(52,007)	–	–	–	(52,007)
Other adjustments/ reclassifications	(93,081)	(245,169)	–	–	(338,250)
Balances at end of year	₱24,588,550	₱30,883,793	₱2,145,973	₱1,628,646	₱59,246,962

The cost of the inventories carried at NRV amounted to ₱2,255.9 million and ₱2,606.6 million as of December 31, 2016 and 2015, respectively.

Club shares held as inventory were either reclassified into AFS or consolidated in the current year (see Notes 2 and 10).

9. Other Current Assets

This account consists of:

	2016	2015
	(In Thousands)	
Value-added input tax	**₱10,494,022**	₱5,643,543
Prepaid expenses	**10,381,829**	8,679,932
Creditable withholding taxes	**1,837,920**	3,253,690
Materials, parts and supplies - at cost	**542,461**	1,753,891
Deposits in escrow	**–**	2,096,089
Others	**483,642**	585,055
	₱23,739,874	₱22,012,200

Value-added input tax is applied against value-added output tax. The remaining balance is recoverable in future periods.

Prepaid expenses consist of prepayments for commissions, marketing fees, advertising and promotions, taxes and licenses, rentals and insurance and current project costs.

Creditable withholding taxes are applied against income tax payable.

Materials, parts and supplies pertain to inventories to be used in the construction and maintenance of projects.

Deposits in escrow pertain to the proceeds from the sale of the Group's projects that have only been granted temporary LTS as of reporting date.

10. Available-for-Sale Financial Assets

This account consists of investments in:

	2016	2015
	(In Thousands)	
Shares of stock:		
Unquoted	**₱537,094**	₱350,765
Quoted	**799,871**	226,319
	1,336,965	577,084
Net unrealized gain (loss)	**48,207**	(76,725)
	₱1,385,172	₱500,359

Investments in unquoted shares of stock include unlisted shares of public utility companies which the Group will continue to carry as part of the infrastructure that it provides to its real estate projects. These are carried at cost less impairment, if any.

Investments in quoted shares of stock include shares held for clubs wherein the Group does not exercise control or demonstrate significant influence.

In 2015, the Group recorded provision for impairment losses on investments in unquoted shares amounting to ₱28.1 million which was included under "Other charges" in the consolidated statements of income (see Note 22).

Movements in the net unrealized gain on AFS financial assets follow:

	2016	2015
	(In Thousands)	
Balance at beginning of year	**(₱76,725)**	₱139,103
Fair value changes during the year	**124,932**	(164,648)
Fair value loss transferred to profit or loss	**–**	(51,180)
Balance at end of year	**₱48,207**	(₱76,725)

As of December 31, 2016 and 2015, unrealized gain on AFS attributable to non-controlling interests amounted to ₱0.6 million and ₱4.1 million, respectively.

The following table provides the fair value hierarchy of the Group's available-for-sale financial assets which are measured at fair value as of December 31, 2016 and 2015:

2016

			Fair value measurement using		
	Date of Valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Shares of stock:			(In Thousands)		
Quoted					
Real estate	**December 31, 2016**	**₱777,388**	₱777,388	₱–	₱–
Tourism and leisure	**December 31, 2016**	**70,050**	70,050	–	–
Utilities and energy	**December 31, 2016**	**626**	626	–	–
Telecommunication	**December 31, 2016**	**14**	14	–	–
Unquoted					
Tourism and leisure	**Various**	**504,527**	–	–	504,527
Utilities and energy	**Various**	**20,431**	–	–	20,431
Real estate	**Various**	**₱11,888**	₱	₱	₱11,888
Telecommunication	**Various**	**248**	–	–	248
		₱1,385,172	₱848,078	₱–	₱537,094

2015

	Date of Valuation	Total	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
			(In Thousands)		
Shares of stock:					
Quoted					
Retail	December 31, 2015	₱92,334	₱92,334	₱–	₱–
Tourism and leisure	December 31, 2015	57,260	57,260	–	–
Unquoted					
Tourism and leisure	Various	317,557	–	–	317,557
Utilities and energy	Various	21,058	–	–	21,058
Real estate	Various	11,888	–	–	11,888
Telecommunication	Various	262	–	–	262
		₱500,359	₱149,594	₱–	₱350,765

11. Land and Improvements

The rollforward analysis of this account follows:

	2016	2015
	(In Thousands)	
Cost		
Balance at beginning of year	**₱94,009,199**	₱80,954,667
Additions	**13,493,335**	21,061,610
Transfers (Notes 8, 13 and 36)	**(5,339,042)**	(7,898,343)
Donation (Note 22)	**–**	(108,735)
Balance at end of year	**102,163,492**	94,009,199
Allowance for impairment losses		
Balance at beginning of year	**706,693**	510,125
Provision during the year (Note 22)	**–**	196,568
Balance at end of year	**706,693**	706,693
	₱101,456,799	₱93,302,506

In 2016, Alveo acquired properties located in Las Piñas City and Makati City for a total amount of ₱3,640.8 million.

On November 24, 2016, BellaVita acquired a property located in Lian, Batangas with a total area of 43,020 square meters (sqm) for a total value of ₱20.4 million.

On September 8, 2016, Accendo acquired parcels of land located in Toril, Davao City with an aggregate area 682,195 sqm for a total acquisition cost of ₱511.7 million.

On August 17, 2016, BellaVita executed the Deed of Absolute Sale (DOAS) for the purchase of property located in Brgy. San Jose, San Miguel, Iloilo with total land area of 10,975 sqm for a total acquisition cost of ₱5.5 million.

On August 3, 2016, the Group acquired control of Prow wherein part of the acquisition are various parcels of land located in Porac, Pampanga held by the Company for future use and improvements totaling to ₱2,748.0 million.

On June 24, 2016, Avida executed the DOAS with Wyeth Philippines, Inc. for the acquisition of 11,000 sqm parcel of land located along Chino Roces Avenue, Makati City amounting to ₱1,981.4 milllion.

On April 11, 2016, Aviana Development Corporation acquired parcels of land with a total acquisition cost of ₱1,205.4 million comprising 252,410 sqm in total. This land is for the development of Azuela Cove, a high-end horizontal residential project, located at Lanang, Davao City.

On February 9, 2016, CHI purchased parcels of land located in Mandaue City, Cebu amounting to ₱266.8 million consisting of 8,261 sqm.

On November 6, 2015, the Company executed the DOAS for the acquisition of 95,620 sqm property located along Barangay Talipapa, Novaliches, Quezon City amounting to ₱1,090.0 million purchase price (net of capital gains tax). The acquisition is in pursuant to the Terms of Reference (TOR) as of March 4, 2015 between the Company and the SEC-appointed Liquidator of Rubberworld Philippines, Inc.

On October 12, 2015, the Company donated 60,000 sqm of real properties to De La Salle Santiago Zobel School which is located in Cavite and with carrying amount of ₱108.7 million. In July 2015, Avida entered into a contract with AC for the purchase of land in San Antonio, Makati City with the purchase price amounted to ₱644.1 million, inclusive of VAT. Payments were made in two tranches, with the first one in July 2015 amounting to ₱471.6 million (inclusive of VAT and CWT) and the balance of ₱172.5 million in October 2015.

On June 30, 2015, the Group, through SM-ALI Group consortium, participated and won the bidding for Lot No. 8-B-1, containing an area of 263,384 sqm, which is a portion of Cebu City-owned lot located at the South Road Properties, Cebu City covered by Transfer Certificate of Title No. 107-2011000963. SM and ALI shouldered the total consideration amounting to ₱10,010.0 million by 56.99% and 43.01% proportion, respectively. SM-ALI Group consortium is a consortium among SM Prime Holdings, Inc. (SM), ALI and Cebu Holdings, Inc.. The SM-ALI Group will co-develop the property pursuant to a joint master plan.

In 2012, the Group won the public bidding at an amount of ₱24,313.0 million for the purchase of the 74-hectare FTI property in Taguig City. The bid was conducted in accordance with the Asset Specific Bidding Rules dated July 4, 2012 and in accordance with the provisions of Executive Order No. 323. In October 2012, the Company entered into a Purchase Agreement wherein FTI (the Seller) agrees to sell, convey, assign, transfer and deliver to the Company, all of the Seller's rights and interests in the FTI property. The property is designed to be a mixed-use development.

In 2014, the Company launched Arca South, transforming the 74-hectare FTI property into a mixed-use destination for contemporary lifestyles. To date, three (3) of the Company's residential brands have launched their respective projects, while construction works are ongoing for a lifestyle mall, corporate offices and a Seda Hotel.

On August 27, 2009, the Company and the National Housing Authority (NHA) signed a Joint Venture Agreement to develop the 29.1-hectare North Triangle Property in Quezon City as a priming project of the government and the private sector. The joint venture represents the conclusion of a public bidding process conducted by the NHA which began on October 3, 2008.

The Company's proposal, which has been approved and declared by the NHA as compliant with the Terms of Reference of the public bidding and the National Economic Development Authority (NEDA) Joint Venture Guidelines, features the development of a new Central Business District (CBD) in Quezon City. The CBD will be developed as the Philippines' first transit-oriented, mixed-use central business district that will be a new nexus of commercial activity. The proposal also aims to benefit the NHA in achieving its mandate of providing housing for informal settlers and transforming a non-performing asset into a model for urban renewal. The development is expected to generate jobs and revenue both for the local and national governments.

The Company's vision for the property is consistent with the mandate of the Urban Triangle Development (TriDev) Commission to rationalize and speed up the development of the East and North Triangles of Quezon City into well-planned, integrated and environmentally balanced, mixed-use communities. The joint venture also conforms with the NHA's vision of a private sector-led and managed model for the development of the property, similar to the development experience in Fort Bonifacio.

The total project cost is estimated at ₱22,000.0 million, inclusive of future development costs and the current value of the property, which the Company and the NHA will contribute as their respective equity share in the joint venture. The development of Phase 1 commenced in the second quarter of 2012. Ongoing residential projects are Avida Vita and Sola and Alveo's High Park. Meanwhile, opening of Seda Hotel and Ayala Malls Vertis, as well as turnover of Office Tower 1 units is expected in 2017.

The property, which is now known as the Vertis North Project was launched in 2013. Projects already launched in Vertis North are Avida Towers Sola and Vita for residential units, meanwhile Seda Hotel and Ayala Malls Vertis North and Offices which is to be launched 3rd quarter and 2nd quarter this year, respectively.

The Group recorded provision for impairment amounting to nil and ₱196.6 million in 2016 and 2015, respectively.

12. Investments in Associates and Joint Ventures

This account consists of:

	2016	2015
	(In Thousands)	
Acquisition cost	**₱20,766,514**	₱13,624,178
Accumulated equity in net earnings:		
Balance at beginning of year	**3,897,339**	4,324,566
Equity in net earnings (losses) during the year	**554,414**	(140,488)
Dividends received during the year	**(232,950)**	(286,739)
Balance at end of year	**4,218,803**	3,897,339
	₱24,985,317	₱17,521,517

Details of the Group's investments in associates and joint ventures and the related percentages of ownership are shown below:

	Percentages of Ownership		Carrying Amounts	
	2016	2015	**2016**	2015
		(In Thousands)		
Joint ventures:				
Emerging City Holdings, Inc. (ECHI)	**50%**	50%	**₱4,159,444**	₱4,110,969
Berkshires Holdings, Inc. (BHI)	**50**	50	**1,833,775**	1,813,402
Cebu District Property Enterprise, Inc. (CDPEI)	**42**	42	**1,487,279**	1,490,511
Alveo-Federal Land Communities, Inc.	**50**	50	**604,634**	572,132
SIAL Specialty Retailers, Inc. (SIAL Specialty)	**50**	50	**190,203**	417,409
SIAL CVS Retailers, Inc. (SIAL CVS)	**50**	50	**113,588**	263,629
AyaGold Retailers, Inc. (AyaGold)	**50**	50	**110,851**	115,813
ALI-ETON Property Development Corporation	**50**	–	**14,472**	–
			8,514,246	8,783,865

(Forward)

	Percentages of Ownership		Carrying Amounts	
	2016	2015	**2016**	2015
			(In Thousands)	
Associates:				
OCLP Holdings, Inc.(OHI)	**21**	–%	**₱7,320,660**	₱–
Modular Construction Technology Bhd (MCT)	**33**	33	**6,399,685**	6,067,560
Bonifacio Land Corp. (BLC)	**10**	10	**1,369,646**	1,353,477
Rize-Ayalaland (Kingsway) GP, Inc. (Rize-Ayalaland)	**49**	49	**623,967**	546,324
Mercado General Hospital, Inc. (MGHI)	**33**	33	**372,984**	373,238
Tianjin Eco-City Ayala Land Development Co., Ltd. (Tianjin Eco-City)	**40**	40	**341,789**	347,909
Lagoon Development Corporation	**30**	30	**39,409**	48,144
Others	**Various**	Various	**2,931**	1,000
			16,471,071	8,737,652
			₱24,985,317	₱17,521,517

As of December 31, 2016 and 2015, the Group had total commitments relating to the Group's interests in the joint ventures amounting to ₱39.0 million and ₱341.0 million, respectively.

The Company considers a subsidiary as a subsidiary with material NCI, an associate and a joint venture with material interest if its net assets exceed 5% of its total consolidated net assets of the Group as of reporting period and considers the relevance of the nature of activities of the subsidiary compared to other operations of the Group. There are no significant restrictions on the Company's ability to use assets and settle liabilities of the Group.

Financial information of the associates with material interest

OHI

OHI owns 99.5% interest in Ortigas & Company Limited Partnership (OCLP), an entity engaged in real estate development and leasing businesses. In 2016, ALI acquired a 21.1% stake in OHI consistent with its thrust of expanding its operations to other areas within and outside of Metro Manila through partnerships. The acquisition was made possible via the purchase of shares from existing OHI shareholders, and this was recorded under "Investments in associates and joint ventures" account for ₱7,320.7 million. For purposes of the provisional purchase price allocation, the Group assumed that the purchase price is equal to the proportionate share of the Group in the fair value of assets and liabilities of OHI.

Below is the summarized financial information for OHI (in Thousands):

Current assets	₱12,591,279
Noncurrent assets	9,425,958
Current liabilities	5,134,495
Noncurrent liabilities	12,732,080
Equity	₱4,150,662
Proportion of Group's ownership	21.1%
Group's share in identifiable net assets	875,790
Carrying amount of the investment	₱7,320,660
Fair value adjustment	6,444,870
Dividends received	₱100,000

Net assets attributable to the equity holders of OHI amounted to ₱4,130.3 million as of December 31, 2016.

Revenue	₱5,610,180
Cost and expenses	(4,861,262)
Net income (continuing operations)	748,918
Group's share in net income for the year	130,418
Total comprehensive income	748,918
Group's share in total comprehensive income for the year	130,418

MCT

On April 6, 2015, the Group, through its wholly-owned subsidiary, RWIL, has acquired 9.16% of the shares of Modular Construction Technology (MCT) Bhd. (formerly Malaysian company GW Plastics Holdings Bhd.), through a private placement for a total amount of US$43.0 million or ₱1,900.0 million. MCT, first established in 1999 as a construction company, is a property development company specializing in mixed-use projects that include retail, office, hotel, and mid- to affordable residential. The company is able to deliver projects at lower costs by adhering to a modular construction technique and by being an integrated builder with an in-house design team, inhouse trading company, direct execution of specialist works and its own pre-cast and ready-mixed concrete plants.

In May 2015, the Group entered into call option agreements with the two founders and majority shareholders of MCT, Barry Goh Ming Choon and Tong Seech Wi, that will give the Group the opportunity to increase its shareholdings in MCT up to a maximum of 32.95%. Then, on October 15, 2015, the Group exercised its option to acquire additional shares of MCT for a total cost of US$92.0 million to bring its total shareholding from 9.16% to 32.95%. The increase in stake will provide the Company with the opportunity to establish a stronger foothold in the Real Estate sector in Malaysia. RWIL received dividends from MCT on October 19, 2015 which amounted to US$0.58 million or ₱26.6 million.

Set out below is the summarized financial information for MCT:

	2016	2015
	(In Thousands)	
Current assets	**₱7,816,983**	₱8,398,560
Noncurrent assets	**6,935,143**	6,377,760
Current liabilities	**4,130,767**	4,389,660
Noncurrent liabilities	**2,203,962**	2,125,296
Equity	**₱8,417,397**	₱8,261,364
Proportion of Group's ownership	**33%**	33%
Group's share in identifiable net assets	**2,777,741**	2,726,250
Carrying amount of the investment	**6,399,685**	6,067,560
Notional goodwill	**3,621,944**	3,341,310
Dividends received	**₱–**	₱26,645

Net assets attributable to the equity holders of MCT amounted to ₱8,417.4 million and ₱8,261.4 million as of December 31, 2016 and 2015, respectively.

	2016	2015
	(In Thousands)	
Revenue	**₱6,979,340**	₱8,038,259
Cost and expenses	**(6,077,833)**	(7,270,993)
Net income (continuing operations)	**901,507**	767,266
Group's share in net income for the year	**297,046**	143,752
Total comprehensive income	**901,507**	767,266
Group's share in total comprehensive income for the year	**297,046**	143,752

BLC

The Group has a 10% interest in BLC, which is involved in the purchase, subscription or otherwise disposal of real and personal properties. BLC is a private company incorporated on October 20, 1994 and there is no quoted market price available for its shares. Its registered office and principal place of business is Taguig, Philippines.

Set out below is the summarized financial information for BLC:

	2016	2015
	(In Thousands)	
Current assets	**₱14,012,604**	₱15,083,884
Noncurrent assets	**30,254,770**	30,376,970
Current liabilities	**4,276,972**	3,629,028
Noncurrent liabilities	**7,783,821**	7,887,621
Equity	**₱32,206,581**	₱33,944,205
Proportion of Group's ownership	**10%**	10%
Group's share in identifiable net assets	**3,220,658**	3,394,421
Carrying amount of the investment	**1,369,646**	1,353,477
Negative goodwill	**(1,851,012)**	(2,040,944)
Dividends received	**₱24,612**	₱55,475

Net assets attributable to the equity holders of BLC amounted to ₱32,206.6 million and ₱33,944.2 million as of December 31, 2016 and 2015, respectively.

	2016	2015
	(In Thousands)	
Revenue	**₱4,115,990**	₱3,640,368
Cost and expenses	**(2,495,881)**	(2,294,133)
Net income (continuing operations)	**1,620,109**	1,346,235
Group's share in net income for the year	**162,011**	134,624
Total comprehensive income	**1,629,770**	1,346,235
Group's share in total comprehensive income for the year	**162,977**	134,624

Aggregate financial information on associates with immaterial interest (Rize-Ayalaland, Tianjin Eco-City, LDC, MGHI and others) is as follows:

	2016	2015
	(In Thousands)	
Carrying amount	**₱1,381,080**	₱1,316,614
Share in income (loss) from continuing operations	**78,989**	(131,567)
Share in total comprehensive income (loss)	**78,989**	(131,567)

Aggregate financial information on joint ventures with immaterial interest (ECHI, BHI, CDPEI, Alveo-Federal, ALI-Eton, SIAL CVS, SIAL Specialty and AyaGold) is as follows:

	2016	2015
	(In Thousands)	
Carrying amount	**₱8,514,245**	₱8,783,865
Share in loss from continuing operations	**(24,816)**	(62,090)
Share in total comprehensive loss	**(24,816)**	(62,090)

The following are the significant transactions affecting the Group's investments in associates and joint ventures:

Investments in ECHI, BHI and BLC
The Company's 5.3% direct investment in BLC and 4.8% through Regent Time are accounted for using the equity method because the Company has significant influence over BLC.

On April 17, 2003, the following transactions were consummated pursuant to the terms and conditions of the Assignment Agreement (Agreement), dated February 8, 2003, among the Company, Evergreen Holdings, Inc. (EHI), Greenfield Development Corporation and Larouge, B.V. (Larouge), as amended, and the Agreement, dated November 23, 2002, among the Company, EHI and Neo Oracle Holdings, Inc. [formerly Metro Pacific Corporation (MPC)] as amended:

(a) The assignment to the Company and EHI of the rights and obligations of Larouge under the loan agreement between Larouge and MPC, pursuant to which, Larouge extended MPC a loan in the principal amount of US$90.0 million, together with all the rights, title and interests of Larouge in the pledge constituted on 50.4% of the outstanding shares in BLC. The consideration paid by the Company and EHI for such assignment was approximately US$90.0 million, subject in part to foreign exchange adjustment.
(b) The assignment to the Company and EHI, acting in this instance through the joint venture corporation, Columbus Holdings, Inc. (Columbus), of the controlling interest in BLC representing 50.4% of BLC's outstanding capital stock. This assignment was effected by MPC under a dacion en pago arrangement, and included an assignment of payables of BLC in the principal amount of ₱655.0 million together with its underlying security in the form of shares in Fort Bonifacio Development Corporation (FBDC) representing 5.6% of its outstanding capital stock.

The Agreement, as amended, also provides for the constitution of a pledge over 5.0% of BLC's unencumbered shares as security for contingent liabilities and breach of representation and warranties. The pledge lien over the 5.0% BLC shares shall continue to subsist until the third anniversary of the closing date.

The Company and EHI jointly hold the 50.4% equity interest in BLC through ECHI and BHI. The Company and EHI assigned the notes receivable from MPC to ECHI and BHI, which acquired the shares of stock of Columbus. Columbus directly owns the 50.4% interest in BLC. BLC owns 55.0% interest in FBDC, the primary developer of certain areas in Fort Bonifacio Global City for residential, commercial and business development. Columbus accounted for the acquisition of the 50.4% interest in BLC using the purchase method.

Subsequent to this, the Company and EHI acquired additional shares of BLC through a combination of direct acquisition and through its associates at varying dates:

On July 31, 2008, the Group acquired, through the Company, Regent Time and Columbus, additional 4,360,178 shares of BLC from FBDC amounting to ₱689.0 million, equivalent to 7.7% ownership in BLC. In January and October 2009, a total of 2,295,207 BLC shares were acquired from Development Bank of the Philippines and MPC, pertaining to the pledged shares, through Columbus amounting to ₱362.6 million. This resulted in an increase in the Group's effective interest in BLC to 45.1% as of December 31, 2009.

In 2011, BLC redeemed its 3,485,050 preferred shares with an aggregate redemption price of ₱500.0 million.

Investment in ARCH Capital Fund
In 2006, the Company and AC entered into a Shareholders' Agreement with ARCH Capital and Great ARCH Co. Limited, wherein the Company and AC committed to invest a total of US$75.0 million in a private equity fund that will explore property markets in Asia, excluding Japan and the Philippines. On the same year, an Amendment and Adherence Agreement was entered into by the same parties, together with Fine State Group Limited (Fine State) and Green Horizons Holdings Limited (Green Horizons), a wholly owned subsidiary of First Longfield, transferring the interests of AC and the Company in ARCH Capital into Fine State and Green Horizons, respectively. Fine State and First Longfield are 100%-owned Hong Kong subsidiaries of AC and the Company, respectively.

The Company (through Green Horizons) and AC (through Fine State) both have interests in the fund management company, ARCH Capital, which is tasked to raise third party capital and pursue investments for the Fund. The Company (through Green Horizon) and AC (through Fine State) owned interest of 7.6% and 15.2%, respectively in ARCH Capital.

In 2007, the private equity fund, called ARCH Capital Asian Partners, L.P. (Fund) was established. As at December 31, 2007, the Fund achieved its final closing, resulting in a total investor commitment of US$330.0 million. As a result, portion of the funds disbursed by the Company and AC and invested into the Fund have been returned in 2007, reducing the Company's overall capital invested to ₱214.5 million as of December 31, 2007. In 2009, 2010 and 2011, the Fund made a capital call where the Company's share amounted to $2.1 million, and $9.1 million and $2.2 million, respectively.

On March 7, 2011, the Company, AC and TRG completed an exchange of ownership interests in Arch Capital and ARCH Capital Asian Partners G.P. (a Cayman Islands company), with proceeds and carrying value of the investments as of the date of exchange amounting to US$3.8 million and US$0.4 million, respectively, resulted to a gain of US$2.9 million, net of transaction costs, lodged in "Interest and investment income" account. The exchange in ownership interest resulted in TRG acquiring the Company's 17% stake and AC's 33.0% interest. The completed exchange of ownership interests did not change the activities, management, focus, and shareholder structure of the ARCH Fund, with the Company retaining its current 8% interest in the fund.

In 2012, the Company's investment over the Fund was reclassified from associate to FVPL. The Company lost significant influence over the Fund since its investments pertain to monetary interest and no longer equity interest.

As of December 31, 2016 and 2015, the Company's remaining capital commitment with the Fund both amounted to nil.

Investment in AMHRI
In December 2007, the Company entered into a joint venture with Kingdom Hotel Investments, Inc. (KHI) to develop a 7,377-square meter property along Makati Avenue corner Arnaiz Avenue (formerly Pasay Road) into a luxury hotel complex comprised of a 300-room Fairmont Hotel, a 30-suite Raffles Hotel and 189 Raffles branded private residences.

The 7,377-square meter property developed was conveyed by the Company to AMHRI in exchange for 37,250 common shares, 38,250 redeemable preferred shares A and 16,758 preferred shares.

In 2012, the Group obtained control over AMHRI and AMHPI through step acquisition as discussed in Note 24.

Investment in ALI-ETON Property Development Corporation
ALI-ETON Property Development Corporation was incorporated on March 13, 2016. The company is a joint venture between Ayala Land, Inc. LT Group, Inc.. The ALI and LT Group, Inc. entered into an agreement on January 21, 2016 to jointly develop a project along the C5 corridor. The project is envisioned to be a township development that spans portions of Pasig City and Quezon City.

Investment in Alveo-Federal Land Communities, Inc.
Alveo Land Corp. signed a Joint Venture Agreement (JVA) with Federal Land, Inc. last April 29, 2015 for equal ownership over AFLCI. The JV is for the development of project Lexus located in Laguna near Nuvali.

Investment in SIAL Specialty
SIAL Specialty was incorporated on September 27, 2012 as a joint venture between ALI Capital Corp. and Store Specialist, Inc. (SSI). Varejo is a wholly owned subsidiary of the Company. SSI is one of the largest specialty retail companies in the Philippines with the exclusive distribution rights to a variety of brands from around the world. On March 1, 2016, the SIAL entered into a Deed of Absolute Sale with Metro Retail Stores Group, Inc. (Purchaser) to sell assets in its two department stores for a total purchase price of ₱498.81 million.

The partnership, which combines the Company's expertise in developing mixed-use developments and SSI's proven track record in retail, is aimed at pursuing retail solutions to address the growing and changing lifestyle needs of the market.

SIAL Specialty was organized primarily for the investment and operation of mid-market department stores and to pursue other investment opportunities in the Philippine retail sector.

Investment in SIAL CVS
SIAL CVS is an equally-owned joint venture between ALI Capital Corp., the Company's wholly owned subsidiary and SII, SSI's wholly owned subsidiary.

SIAL CVS shall be the vehicle for the investment in the operation of convenience stores in the Philippines. SIAL CVS capitalizes on the Company's expertise in mixed-use developments and SSI's experience in the Philippine retail market. The Parties agreed to incorporate a special purpose vehicle that shall form a partnership with FamilyMart Co. Ltd. and Itochu Corporation for the operation of FamilyMart convenience stores in the Philippines.

Investment in AyaGold Retailers, Inc.
AyaGold Retailers, Inc., a joint venture between Entenso Equities Incorporated (EEI, a wholly owned subsidiary of Puregold Price Club, Inc.) and ALI Capital Corp. (a wholly owned subsidiary of the Company and the holding company for its retail-related initiatives), was incorporated in October 2, 2013. It is organized primarily to finance, build and operate mid-market supermarkets for some of Company's new integrated and mixed-use developments. The mid-market supermarkets will be carried under a new brand to be jointly developed by both ALI Capital Corp. and EEI. The partnership with EEI will enable the Company to support its mixed-use developments and, at the same time, grow its recurring income portfolio.

Investment in MGHI
In July 2013, the Company entered into an agreement with the Mercado Family to acquire Whiteknight Holdings, Inc. (WHI), a 33% equity stockholder of MGHI. Its acquisition of WHI will allow the Company to build a strategic partnership with the Mercado Group and support MGHI's future growth. This partnership also enhances the potential of Ayala Land's development of mixed-use communities by offering the critical component of medical services to complement the residential, shopping centers, office and hotel developments therein.

Investment in Rize-Ayalaland
Rize-Ayalaland (Kingsway) GP, Inc. was incorporated on January 25, 2013 under the laws of British Columbia, Canada. The Company's effective ownership is 49.0% through its Vancouver-based subsidiary, AyalaLand Real Estate Investments, Inc.

Investment in Cebu District Property Enterprise, Inc.
Cebu District Property Enterprise, Inc. (CDPEI) was incorporated on February 20, 2014 and is a 50:50 joint venture between the Company and Aboitiz Land, Inc. CDPEI's main purpose is to create a mixed-use commercial and residential district with the 15.4 hectare property in Subangdaku, Mandaue. On April 11, 2014, ALI's 50% equity was further broken down to 35% ALI, 10% CHI and 5% CPVDC.

13. Investment Properties

The rollforward analysis of this account follows:

2016

	Land	Buildings	Construction in Progress	Total
		(In Thousands)		
Cost				
Balance at beginning of year	**₱11,772,009**	**₱79,819,764**	**₱9,854,402**	**₱101,446,175**
Additions	**1,441,802**	**2,217,354**	**24,167,927**	**27,827,083**
Acquisitions through business combinations (Note 24)	**801,288**	**760,810**	**–**	**1,562,098**
Disposals	**(220,465)**	**(314,282)**	**–**	**(534,747)**
Transfers (Note 36)	**687,867**	**1,949,774**	**(1,208,418)**	**1,429,223**
Retirement	**–**	**(20,546)**	**–**	**(20,546)**
Balance at end of year	**14,482,501**	**84,412,874**	**32,813,911**	**131,709,286**
Accumulated Depreciation				
Balance at beginning of year	**–**	**20,981,400**	**–**	**20,981,400**
Depreciation	**–**	**2,834,555**	**–**	**2,834,555**
Disposals	**–**	**(1,896)**	**–**	**(1,896)**
Transfers	**–**	**(45,495)**	**–**	**(45,495)**
Retirement	**–**	**(3,144)**	**–**	**(3,144)**
Impairment losses	**–**	**12,834**		**12,834**
Balance at end of year	**–**	**23,778,254**	**–**	**23,778,254**
Net Book Value	**₱14,482,501**	**₱60,634,620**	**₱32,813,911**	**₱107,931,032**

2015

	Land	Buildings	Construction in Progress	Total
		(In Thousands)		
Cost				
Balance at beginning of year	₱8,951,515	₱71,142,177	₱5,936,777	₱86,030,469
Additions	2,795,057	5,333,981	6,264,639	14,393,677
Acquisitions through business combinations (Note 24)	–	1,584,929	–	1,584,929
Disposals	(566)	(745,835)	–	(746,401)
Transfers (Note 36)	26,003	2,504,512	(2,347,014)	183,501
Balance at end of year	11,772,009	79,819,764	9,854,402	101,446,175
Accumulated Depreciation				
Balance at beginning of year	–	18,132,527	–	18,132,527
Depreciation	–	3,071,420	–	3,071,420
Disposals	–	(263,143)	–	(263,143)
Transfers	–	40,596	–	40,596
Balance at end of year	–	20,981,400	–	20,981,400
Net Book Value	₱11,772,009	₱58,838,364	₱9,854,402	₱80,464,775

Certain parcels of land are leased to several individuals and corporations. Some of the lease contracts provide, among others, that within a certain period from the expiration of the contracts, the lessee will have to demolish and remove any and all improvements (such as buildings) introduced or built within the leased properties. Otherwise, the lessor will cause the demolition and removal thereof and charge the cost to the lessee unless the lessor occupies and appropriates the same for its use and benefit.

Construction in progress pertain to buildings under construction to be leased as retail and office spaces upon completion.

The aggregate fair value of the Group's investment properties amounted to ₱290,996.7 million and ₱249,100.0 million as of December 31, 2016 and 2015, respectively.

The fair values of the investment properties were determined by independent professionally qualified appraisers.

The following table provides the fair value hierarchy of the Group's investment properties as of December 31, 2016 and 2015:

2016

			Fair value measurement using		
	Date of Valuation	**Total**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
			(In Thousands)		
Land properties	**Various**	**₱177,003,922**	**₱–**	**₱–**	**₱177,003,922**
Retail properties	**Various**	**70,188,689**	**–**	**–**	**70,188,689**
Office properties	**Various**	**42,852,840**	**–**	**–**	**42,852,840**
Hospital properties	**Various**	**951,285**	**–**	**–**	**951,285**

2015

			Fair value measurement using		
	Date of Valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
			(In Thousands)		
Land properties	Various	₱171,619,875	₱–	₱–	₱171,619,875
Retail properties	Various	49,200,907	–	–	49,200,907
Office properties	Various	27,921,658	–	–	27,921,658
Hospital properties	Various	357,545	–	–	357,545

The values of the land and buildings were arrived at using the Market Data Approach and Cost Approach. Market Data Approach provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available. This approach was used for the land and condominium unit as it is commonly used in the property market since inputs and data for this approach are available. Cost Approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction. The valuation used Cost Approach using the Depreciated Replacement Cost Method. This was used by computing for the replacement cost of the assets and applying appropriate adjustments for physical deterioration, functional obsolescence and economic obsolescence.

For Market Data Approach, the higher the price per sqm., the higher the fair value. For Cost Approach, whose unobservable inputs include price information on construction materials, labor and installation and indirect costs, the higher these costs, the higher the fair value.

Interest capitalized amounted to ₱129.5 million, ₱39.2 million and ₱76.1 million in 2016, 2015 and 2014, respectively. The capitalization rates are 3.20-4.75%, 4.75-5.32% and 5.49% in 2016, 2015 and 2014, respectively (see Note 17).

Consolidated rental income from investment properties amounted to ₱21,319.0 million, 18,928.0 million and ₱16,380.0 million in 2016, 2015 and 2014, respectively (see Note 21). Consolidated direct operating expenses arising from the investment properties in 2016, 2015 and 2014 amounted to ₱4,436.9 million, ₱4,200.2 million and ₱4,076.0 million, respectively (see Note 22).

Depreciation and amortization expense pertaining to investment properties amounted to ₱2,834.6 million, ₱3,071.4 million and ₱3,056.4 million in 2016, 2015 and 2014, respectively (see Note 22).

14. Property and Equipment

The rollforward analysis of this account follows:

2016

	Land, Buildings and Improvements	**Machinery and Construction Equipment**	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Hotel Property and Equipment**	**Total**
			(In Thousands)			
Cost						
Balance at beginning of year	**₱6,593,562**	**₱10,084,278**	**₱3,888,375**	**₱2,008,272**	**₱13,213,766**	**₱35,788,253**
Additions	**529,771**	**1,660,259**	**347,357**	**612,262**	**382,614**	**3,532,263**
Additions through consolidation of club shares	**319,880**	**–**	**1,498,349**	**–**	**–**	**1,818,229**
Acquisitions through business combination (Note 24)	**7,863**	**78,459**	**2,554**	**–**	**–**	**88,876**
Disposals	**(8,416)**	**(261,300)**	**(49,942)**	**(74,895)**	**(1,578,554)**	**(1,973,107)**
Transfers (Note 36)	**–**	**–**	**62,197**	**–**	**–**	**62,197**
Balance at end of year	**7,442,660**	**11,561,696**	**5,748,890**	**2,545,639**	**12,017,826**	**39,316,711**
Accumulated Depreciation and Amortization						
Balance at beginning of year	**1,809,442**	**3,599,518**	**2,530,444**	**600,889**	**3,001,505**	**11,541,798**
Depreciation and amortization (Note 22)	**414,788**	**1,595,572**	**375,128**	**190,838**	**378,485**	**2,954,811**
Disposals	**(1,287)**	**(234,379)**	**(7,136)**	**(71,674)**	**(1,415,303)**	**(1,729,779)**
Transfers	**–**	**–**	**45,495**	**–**	**–**	**45,495**
Balance at end of year	**2,222,943**	**4,960,711**	**2,943,931**	**720,053**	**1,964,687**	**12,812,325**
Net Book Value	**₱5,219,717**	**₱6,600,985**	**₱2,804,959**	**₱1,825,586**	**₱10,053,139**	**₱26,504,386**

2015

	Land, Buildings and Improvements	Machinery and Construction Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Hotel Property and Equipment	Total
			(In Thousands)			
Cost						
Balance at beginning of year	₱4,237,101	₱7,663,533	₱2,969,076	₱1,223,177	₱12,655,055	₱28,747,942
Additions	2,268,904	2,823,392	974,918	213,308	558,711	6,839,233
Acquisitions through business combination (Note 24)	–	–	–	721,411	–	721,411
Disposals/Write-offs	(67,313)	(75,961)	(97,640)	(149,624)	–	(390,538)
Transfers (Note 36)	154,870	(326,686)	42,021	–	–	(129,795)
Balance at end of year	6,593,562	10,084,278	3,888,375	2,008,272	13,213,766	35,788,253
Accumulated Depreciation and Amortization						
Balance at beginning of year	1,463,276	2,960,079	2,253,441	606,851	2,639,382	9,923,029
Depreciation and amortization (Note 22)	407,412	705,908	387,302	128,754	362,123	1,991,499
Disposals	(61,246)	(66,469)	(69,702)	(134,716)	–	(332,133)
Transfers	–	–	(40,597)	–	–	(40,597)
Balance at end of year	1,809,442	3,599,518	2,530,444	600,889	3,001,505	11,541,798
Net Book Value	₱4,784,120	₱6,484,760	₱1,357,931	₱1,407,383	₱10,212,261	₱24,246,455

The consolidated depreciation and amortization of property and equipment (included under various consolidated statements of income accounts) amounted to ₱2,954.8 million, ₱1,991.5 million and ₱1,927.4 million in 2016, 2015 and 2014, respectively. No interest was capitalized in 2016 and 2015. (see Note 17).

15. Other Noncurrent Assets

This account consists of:

	2016	2015
	(In Thousands)	
Prepaid expenses	**₱10,456,452**	₱7,383,461
Leasehold rights	**3,620,081**	93,467
Deposits - others	**2,477,202**	1,972,105
Deferred input VAT	**1,132,812**	993,848
Net pension assets (Note 26)	**73,512**	64,204
Others	**386,351**	427,218
	₱18,146,410	₱10,934,303

Prepaid expenses consist of project costs incurred for unlaunched projects of the Group, advance rental payments, noncurrent prepaid management fees, commissions and advertising and promotions.

Leasehold rights consist of the following:
- Through the acquisition of POPI, ALI acquired leasehold rights arising from their lease agreement with Philippine National Railways (PNR) (see Notes 24 and 32).
- TKPI's leasehold rights pertains to the right to use the property in Apulit Island.

The movements during the year follow:

	2016	2015
	(In Thousands)	
Balance at beginning of year	**₱93,467**	₱100,143
Additions through business combination (Note 24)	**3,611,808**	–
Amortization	**(85,194)**	(6,676)
Balance at end of year	**₱3,620,081**	₱93,467

Deposits - others pertain to various utility deposits and security deposits for leases.

Deferred input VAT is applied against output vat. The remaining balance is recoverable in future periods.

Others pertain to prepayments for expenses that is amortized for more than one year.

16. Accounts and Other Payables

This account consists of:

	2016	2015
	(In Thousands)	
Accounts payable	**₱84,689,671**	₱65,325,054
Taxes payable	**16,023,579**	10,724,843
Accrued project costs	**15,219,497**	16,655,458
Liability for purchased land	**6,257,097**	5,875,204
Accrued salaries and employee benefits	**4,840,268**	2,796,416
Accrued professional and management fees	**3,021,032**	2,535,687
Accrued utilities	**2,182,743**	2,115,225
Accrued repairs and maintenance	**1,877,553**	2,779,655
Interest payable	**1,525,867**	1,511,793
Accrued rentals	**1,391,679**	1,204,094
Accrued advertising and promotions	**1,243,341**	900,046
Payable to related parties (Note 25)	**668,977**	662,862
Dividends payable	**426,244**	348,087
Retentions payable	**344,561**	28,763
DRP obligation	**223,401**	261,590
Other accrued expenses	**1,777,604**	361,163
	₱141,713,114	₱114,085,940

Accounts payable and accrued expenses are noninterest-bearing and are normally settled on 30- to 60-day terms, except for accrued project costs.

Accrued project cost are expenses related to materials, overhead and subcontractor cost not yet billed by the contractor.

Liability for purchased land pertains to the portion of unpaid unsubdivided land acquired payable during the year. These are normally payable in quarterly or annual installment payments or upon demand.

DRP obligation pertains to the current portion of the liability arising from the assignment agreement between the Group and MRTDC of the latter's development rights (see Note 34). In consideration of the lease, the Group will be charged an annual rent related to the original DRP obligation on the MRTDC and 5% of the rental income from the Group's commercial center business. Of the 5% variable amount due, 2.42% shall be directly paid by the Group to the minority shareholders of Monumento Rail Transit Corporation, 28.47% shall be paid directly to Metro Global Holdings Corporation and the remaining 69.11% shall be applied against receivables (see Note 7).

Other accrued expenses consist mainly of accruals from commissions, royalty, transportation and travel, janitorial and security, postal and communication and other expenses.

17. Short-term and Long-term Debts

The short-term debt of ₱24,244.4 million and ₱10,486.3 million as of December 31, 2016 and 2015, respectively, represents unsecured peso-denominated bank loans and dollar-denominated bank loans. In compliance with BSP rules on directors, officers, stockholders and related interests, certain short-term and long-term debt with a carrying value of ₱5,669.1 million and ₱12,585.0 million as of December 31, 2016 are secured by a real estate mortgage dated September 2, 2014 covering both land and building of Greenbelt. Net book value of the property amounted to ₱2,982.4 million and ₱3,207.5 million as of December 31, 2016 and 2015, respectively which is accounted as part of the "Investment properties" account.

Dollar-denominated short-term loans amounted to nil and ₱1,053.0 million in 2016 and 2015, respectively.

Interest rates for these short-term loans are as follows:

	2016	2015
Philippine Peso	**2.3% to 3.0%**	2.1% to 3.1%
US Dollar	**–**	1.1% to 1.3%

Long-term debt consists of:

	2016	2015
	(In Thousands)	
Company:		
Bonds:		
Due 2016	**₱–**	₱2,182,850
Due 2019	**12,350,000**	9,350,000
Due 2020	**4,000,000**	4,000,000
Due 2022	**12,650,000**	12,650,000
Due 2023	**7,000,000**	–
Due 2024	**14,980,000**	15,000,000
Due 2025	**14,989,000**	8,000,000
Due 2026	**8,000,000**	–
Due 2033	**2,000,000**	2,000,000
Fixed rate corporate notes (FXCNs)	**9,157,000**	14,328,400
Floating rate corporate notes (FRCNs)	**–**	1,000,000
Php - denominated long term loan	**15,190,739**	15,442,250
US Dollar - denominated long term loan	**1,957,725**	1,882,400
	102,274,464	85,835,900
Subsidiaries:		
Bonds	**5,000,000**	5,000,000
Bank loans - Philippine Peso	**25,558,232**	25,153,105
Bank loans - US Dollar	**–**	1,508,861
Fixed rate corporate notes	**3,362,500**	3,450,000
	33,920,732	35,111,966
	136,195,196	120,947,866
Less unamortized transaction costs	**638,208**	438,013
	135,556,988	120,509,853
Less current portion	**5,187,111**	8,807,652
	₱130,369,877	₱111,702,201

ALI

Philippine Peso Homestarter Bond due 2016
In October 2012, the Company issued a ₱1,000.0 million bond due 2015 at a fixed rate equivalent to 5.00% p.a. As of December 31, 2015, the Company's total payment amounted to ₱780.3 million and the remaining balance of ₱219.7 million was settled on January 7, 2016. In May 2013, the Company issued the second tranche of the bonds registered with the SEC in 2012, at an aggregate principal amount of ₱2,000.0 million. The bonds have a term of three (3) years from the issue date, and will bear interest on its principal amount at a fixed rate of 4.00% p.a. Interest will not be compounded and shall be payable on maturity date or on the date of effectivity of an Early Downpayment Application, as may be applicable, less the amount of any applicable withholding taxes. The total payments of the Company as of December 31, 2015 amounted to ₱36.8 million and the remaining balance of the bonds amounting to ₱1,963.2 million matured and was paid on May 31, 2016.

Philippine Peso 3-Year Homestarter Bond due 2019 and 7-year Bonds due 2023
In October 2016, the Company issued a total of ₱10,000.0 million bonds, broken down into a ₱3,000.0 million Homestarter bond due 2019 at a fixed rate of 3.0% p.a. and a ₱7,000.0 million fixed rate bond due 2023 at a rate equivalent to 3.8915% p.a. The Bonds represent the first tranche of Homestarter Bonds series and the third tranche of the Fixed-rate Bonds Series issued under the Company's ₱50,000.0 million Debt Securities Program registered with the SEC, and listed in the Philippine Dealing & Exchange Corp. (PDEx). The Bonds have been rated PRS Aaa with a Stable Outlook by Philippine Rating Services Corporation ("PhilRatings"). Obligations rated PRS Aaa are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. PRS Aaa is the highest rating assigned by PhilRatings. On the other hand, an Outlook is an indication as to the possible direction of any rating change within a one year period and serves as a further refinement to the assigned credit rating for the guidance of investors, regulators, and the general public. A Stable Outlook indicates that the rating is likely to be maintained or to remain unchanged in the next twelve months.

Philippine Peso 7-Year and 10-year Bonds due 2019 and 2022
In April 2012, the Company issued a total of ₱15,000.0 million bonds, broken down into a ₱9,350.0 million bond due 2019 at a fixed rate equivalent to 5.6% p.a. and a ₱5,650.0 million bond due 2022 at a fixed rate equivalent to 6.0% p.a. The Philippine Rating Services Corporation ("PhilRatings") assigned a PRS AAA rating on the bonds indicating that it has the smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin and principal is assured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues. PRS AAA is the highest credit rating possible on PhilRatings' rating scales for long-term issuances.

Philippine Peso 7-Year and 20-year Bonds due 2020 and 2033
In October 2013, the Company issued a total of ₱6,000.0 million bonds, broken down into a ₱4,000.0 million bond due 2020 at a fixed rate equivalent to 4.6% p.a. and a ₱2,000.0 million bond due 2033 at a fixed rate equivalent to 6.0% p.a. CRISP assigned a "AAA" rating on the bonds indicating that it has a minimal credit risk owing to the Company's capacity to repay its debt obligations. AAA is the highest rating assigned by CRISP.

Philippine Peso 10-year and 6-month Bonds due 2024
In July 2013, the company issued a total of ₱15,000.0 million bonds due 2024 at a fixed rate equivalent to 5.0% p.a. Credit Rating and Investors Services Philippines, Inc. (CRISP) assigned a "AAA" on the bonds indicating that it has a minimal credit risk owing to the Company's capacity to repay its debt obligations. AAA is the highest rating assigned by CRISP.

Philippine Peso 11-year Bonds due 2025
In April 2014, the Company issued a total of ₱8,000.0 million bonds due 2025 at a fixed rate equivalent to 5.6% p.a. The Bonds have been rated PRS Aaa by PhilRatings, indicating that obligor's capacity to meet its financial commitment on the obligation is extremely strong.

Philippine Peso 9-year and 6-month Bonds due 2025
In April 2016, the Company issued a total of ₱7,000.0 million bonds due 2025 at a fixed rate equivalent to 4.75% p.a. The Bonds is the second tranche of the Fixed-rate Bonds Series under the Company's ₱50,000.0 million Debt Securities Program registered in the SEC. The Bonds were assigned an issue credit rating of PRS Aaa, with a Stable Outlook, by Philippine Rating Services Corporation (PhilRatings). Obligations rated PRS Aaa are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. PRS Aaa is the highest rating assigned by PhilRatings.

Philippine Peso 10-year Bonds due 2026
In March 2016, the Company issued a total of ₱8,000.0 million bonds due 2026 at a fixed rate equivalent to 4.85% p.a. The Bonds is the first tranche of the Fixed-rate Bonds Series under the Company's ₱50,000,000,000 Debt Securities Program registered in the SEC. The Bonds was

assigned an issue credit rating of PRS Aaa, with a Stable Outlook, by Philippine Rating Services Corporation (PhilRatings). Obligations rated PRS Aaa are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. PRS Aaa is the highest rating assigned by PhilRatings.

Philippine Peso 7.0 Billion Fixed Rate Bonds due 2022
In April 2015, the Company issued a total of ₱7,000.0 million bonds due 2022 at a fixed rate equivalent to 4.5% p.a. The Bonds have been rated PRS Aaa by PhilRatings, indicating that obligor's capacity to meet its financial commitment on the obligation is extremely strong.

Philippine Peso 7-year FRCN due 2016
In October 2009, the Company executed a ₱1,000.0 million committed FRCN facility with a local bank, of which an initial ₱10.0 million was drawn on October 12, 2009. The balance of ₱990.0 million was subsequently drawn on November 18, 2011. The FRCN bears a floating interest rate based on the 3-month PDST-R1 plus a spread of 0.96%, repriceable quarterly. The FRCNs matured on October 12, 2016, the seventh anniversary of the initial drawdown date.

Philippine Peso 5-, 7- and 10-year FXCNs due 2011, 2013 and 2016
In September 2006, the Company issued ₱3,000.0 million FXCNs consisting of 5-, 7- and 10-year notes issued to various financial institutions and will mature on various dates up to 2016. The FXCNs bear fixed interest rates ranging from 7.25% to 7.75% p.a. depending on the term of the notes. In January 2011, simultaneous to a new corporate note offering, the Company undertook a liability management exercise by offering to prepay holders of the corporate notes issued in 2006 while inviting the same institutions to participate in the new issuance. A number of investors holding up to ₱875.0 million of notes maturing in 2013 and 2016 accepted the offer to be prepaid. On September 23, 2011, the 5-year and one (1) day FXCNs amounting to ₱1,830.0 million matured and were fully repaid by the Company. Subsequently in September 2013, the balance of the 7-year FXCNs amounting to ₱195.0 million matured and was fully repaid by the Company. In September 2016, the balance of the 10-year FXCNs amounting to ₱100 million matured and was fully repaid by the Company. As of December 31, 2016, the specified FXCNs has zero outstanding balance.

Philippine Peso 5-, 7- and 10-year FXCN due 2014, 2016 and 2019
In January 2009, the Company issued an aggregate ₱2,380.0 million in 5-, 7- and 10-year notes to various financial institutions and retail investors. The notes will mature on various dates up to 2019. The FXCNs bear fixed interest rates ranging from 7.8% to 8.9%. ₱220.0 million and ₱830.0 million notes due in 2014 and 2016, respectively were prepaid on January 28, 2013. Subsequently, the ₱1,330.0 million note due in 2019 was prepaid on January 28, 2016. As of December 31, 2016, the specified FXCNs has zero outstanding balance.

Philippine Peso 5-, 10-, 15-Year FXCN due on 2016, 2021 and 2026
In January 2011, the Company issued ₱10,000.0 million FXCNs to various financial institutions and retail investors. The notes will mature on various dates up to 2026. The FXCNs bear fixed interest rates ranging from 5.6% to 7.5% p.a. depending on the term of the notes. The Company prepaid ₱1,950.0 million of notes due in 2016 on January 19, 2013. In 2014, the Company paid ₱43.0 million for the matured portion of the loan. In January 2016, the Company paid ₱3,750 million notes for the matured portion of the loan. As of December 31, 2016, the remaining balance of the FXCN amounted to ₱4,257.0 million.

Philippine Peso 10-year Note due 2022
In December 2012, the Company executed a ₱5,000.0 million committed Corporate Note facility with a local bank, of which an initial ₱3,500.0 million was drawn in 2012. The balance of ₱1,500.0 million was subsequently drawn in January 2013. Notes currently bear a fixed interest rate of 4.5%. The Corporate Notes will mature on the third month succeeding the tenth anniversary of the initial drawdown date. In 2015, the ₱50.0 million was prepaid by the Company. In 2016, another ₱50.0 million was prepaid by the Company. As of December 31, 2016, the remaining balance of the note amounted to ₱4,900.0 million.

US Dollar-denominated Long-term Loans
In October 2012, the Company executed and had fully withdrawn a US$58.5 million long-term facility. The loan bears a floating interest rate based on a credit spread over the three-month US Dollar London Interbank Offered Rate (LIBOR), repriceable quarterly. The loan will mature on the third month succeeding the tenth anniversary of the initial drawdown date. In January 2014 and October 2015, the Company made partial prepayments on the loan in the amount of US$5.8 million and US$12.8 million, respectively. Subsequently in March 2016, a US$30.0 million long-term facility was assigned by ALI Makati Hotel Property, Inc. to the Company. The assigned loan bears a floating interest rate based on a credit spread over the three-month US Dollar London Interbank Offered Rate (LIBOR), repriceable quarterly and had a remaining term of 3 years and 4 months from the time of assignment.

Peso-denominated Long-term Loans
In August to September 2015, the Company assumed an aggregate of ₱15,442.3 million various long-term facilities of some subsidiaries from various banks. The loans bear fixed interest rates ranging from 4.5% to 4.7% p.a. and terms ranging from 4.4 years to 10.5 years. In 2016, the ₱251.5 million current portion of the loans was paid. As of December 31, 2016, the outstanding balance of peso-denominated long-term loans amounted to ₱15,190.7 million.

<u>Subsidiaries</u>
The subsidiaries' loans will mature on various dates up to 2025. Peso-denominated loans bear various floating interest rates at 60 bps to 80 bps spread over the benchmark 91-day PDST-R1/R2 or and fixed interest rates ranging from 3.56% to 5.75% p.a. Certain loans which are subject to floating interest rates are subject to floor floating interest rates equivalent to 95.0% or par of the Overnight Reverse Repurchase Agreement Rate of the Bangko Sentral ng Pilipinas (BSP Overnight Rate) or at the BSP Overnight Rate plus a spread of 20 bps to 75 bps p.a.. Dollar-denominated loans bear floating interest rates at a credit spread over the benchmark three-month US Dollar LIBOR, repriceable quarterly. The total outstanding balance of the subsidiaries' loans as of December 31, 2016 and 2015 amounted to ₱33,920.7 million and ₱35,112.0 million loans, respectively. Movements are due to peso-denominated loans amounting to ₱1,436.5 million availed by AMPHI in 2016. The subsidiaries also paid ₱1,508.9 million dollar-denominated loans, ₱1,031.4 million peso-denominated loans and ₱87.5 million fixed rate corporate notes in 2016.

In compliance with BSP rules on directors, officers, stockholders and related interests, certain short-term and long-term debt with a carrying value of ₱5,669.1 million and ₱12,585.0 million as of December 31, 2016 are secured by a real estate mortgage dated September 2, 2014 covering both land and building of Greenbelt. Net book value of the property amounted to ₱2,982.4 million and ₱3,207.5 million as of December 31, 2016 and 2015, respectively which is accounted as part of the "Investment properties" account.

Philippine Peso 5.0 Billion Fixed Rate Bonds due 2021
In June 2014, Cebu Holdings, Inc. a total of ₱5,000.0 million bonds due 2021 at a fixed rate equivalent to 5.3% p.a. The Bonds have been rated PRS Aaa by PhilRatings, indicating that obligor's capacity to meet its financial commitment on the obligation is extremely strong.

The loan agreements contain some or all of the following restrictions: material changes in nature of business; maintenance of debt-to-equity ratio; payment of dividends and additional loans maturing beyond a year which will result in a violation of the required debt-to-equity ratios; merger or consolidation where the Company/subsidiary is not the surviving corporation; guarantees or advances; encumbrance for borrowed money; and sale of substantially all assets. These restrictions and requirements were complied with by the Group as of December 31, 2016 and 2015.

Interest capitalized amounted to ₱265.7 million and ₱116.7 million in 2016 and 2015, respectively. The capitalization rates are 3.2-6.5% in 2016 and 4.8-5.3% in 2015 (see Notes 8, 13 and 14).

Transaction costs capitalized amounted to ₱263.7 million and ₱65.0 million in 2016 and 2015, respectively. Amortization amounted to ₱63.5 million and ₱61.3 million in 2016 and 2015, respectively and included under “Interest and other financing charges” (see Note 22).

18. Deposits and Other Current Liabilities

This account consists of:

	2016	2015
	(In Thousands)	
Customers’ deposits	**₱7,905,405**	₱4,267,279
Security deposits	**7,245,837**	7,157,526
Others	**436,781**	44,665
	₱15,588,023	₱11,469,470

Customers’ deposits consist of collections from real estate customers which have not reached the 10% threshold to qualify for revenue recognition and excess of collections over the recognized receivables based on percentage of completion.

Security deposits are equivalent to one (1) to three (3) months’ rent of tenants with cancellable lease contracts and whose lease term will end in the succeeding year. This will be refunded to the lessees at the end of the lease term or be applied to the last months' rentals on the related contracts.

Other current liabilities mostly pertain to unearned income and unrealeased checks.

19. Deposits and Other Noncurrent Liabilities

This account consists of:

	2016	2015
	(In Thousands)	
Deposits	**₱19,542,253**	₱16,573,055
Contractors payable	**9,266,399**	8,272,014
Retentions payable	**6,485,226**	5,122,306
Liability for purchased land	**2,099,051**	110,475
DRP obligation	**656,638**	551,182
Subscriptions payable	**498,175**	16,500
Other liabilities	**773,648**	751,493
	₱39,321,390	₱31,397,025

Deposits include security deposits from tenants of retail and office spaces and deferred credits arising from sale of real estate properties. Security deposits are equivalent to one (1) to three (3) months’ rent of long-term tenants with noncancellable leases. This will be refunded to the lessees at the end of the lease term or be applied to the last months' rentals on the related contracts. Deferred credits pertains to advances from buyers of real estate properties to cover various processing fees including, but not limited to, fees related to transfer of title such as registration fees, documentary taxes and transfer taxes. Payments made by the Group for the processing of title are charged to this account.

Contractors payable are estimates for additional project cost to be incurred for project development.

Retentions payable pertains to the amount withheld by the Group on contractors' billings to be released after the guarantee period, usually one (1) year after the completion of the project. The retention serves as a security from the contractor should there be defects in the project.

Liability for purchased land pertains to the portion of unpaid unsubdivided land acquired during the year. These are normally payable in quarterly or annual installment payments within three (3) or five (5) years.

DRP obligation pertains to the liability arising from the assignment agreement between NTDCC and MRTDC of the latter's development rights (see Note 34). In consideration of the lease, the Company will be charged an annual rent related to the original DRP obligation on the MRTDC and 5% of the rental income from the Company's commercial center business.

The Group's subscription payable pertains to POPI's investment in Cyber Bay.

On April 25, 1995, Central Bay, a wholly-owned subsidiary of Cyber Bay, entered into a Joint Venture Agreement with the Philippine Reclamation Authority (PRA; formerly Public Estates Authority) for the complete and entire reclamation and horizontal development of a portion of the Manila-Cavite Coastal Road and Reclamation Project (the Project) consisting of three partially reclaimed and substantially eroded islands (the Three Islands) along Emilio Aguinaldo Boulevard in Parañaque and Las Piñas, Metro Manila with a combined total area of 157.8 hectares, another area of 242.2 hectares contiguous to the Three Islands and, at Central Bay's option as approved by the PRA, an additional 350 hectares more or less to regularize the configuration of the reclaimed area.

On March 30, 1999, the PRA and Central Bay executed an Amended Joint Venture Agreement (AJVA) to enhance the Philippine Government's share and benefits from the Project which was approved by the Office of the President of the Philippines on May 28, 1999.

On July 9, 2002, the Supreme Court (SC) (in the case entitled "Francisco Chavez vs. Amari Coastal Bay and Reclamation Corp.") issued a ruling declaring the AJVA null and void. Accordingly, PRA and Central Bay were permanently enjoined from implementing the AJVA.

On July 26, 2002, Central Bay filed a Motion for Reconsideration (MR) of said SC decision. On May 6, 2003, the SC En Banc denied with finality Central Bay's MR. On May 15, 2003, Central Bay filed a Motion for Leave to Admit Second MR. In an En Banc Resolution of the SC dated July 8, 2003, the SC resolved to admit the Second MR of Central Bay.

On November 11, 2003, the SC rendered a 7-7 split decision on Central Bay's Second MR. Because of the new issues raised in the SC's latest resolution that were never tried or heard in the case, Central Bay was constrained to file on December 5, 2003 a Motion for Re-deliberation of the SC's latest resolution which motion was denied with finality by the SC.

With the nullification of the AJVA, Central Bay has suspended all Project operations. On August 10, 2007, in view of the failure by the PRA to comply with its obligations and representations under the AJVA, Cyber Bay and Central Bay have filed their claims for reimbursement of Project expenses in the amount of ₱10,200.0 million with the PRA. Cyber Bay and Central Bay provided the PRA with the summary and details of their claims on September 5, 2007.

On July 15, 2008, Cyber Bay sent a follow-up letter to the PRA. The PRA, in its letter dated July 18, 2008, informed Cyber Bay that its claim is still being evaluated by the PRA. As at October 3, 2013, the claim is still being evaluated by the PRA.

On November 13, 2012, the SEC approved the conversion of debt to equity of Cyber Bay resulting to a change in percentage ownership of POPI from 22.3% to 10.5%. The management assessed that POPI ceased to have significant influence over Cyber Bay. As a result of the debt to equity conversion, the investment in Cyber Bay was reclassified to AFS financial asset.

As at December 31, 2016, the Group has unpaid subscription in Cyber Bay amounting to ₱481.7 million. The investment in Cyber Bay under "AFS financial assets" amounted to ₱777.3 million as of December 31, 2016 (see Note 10).

20. Equity

The details of the number of shares follow:

December 31, 2016

	Number of Shares		Amount	
	Preferred	**Common**	**Preferred**	**Common**
		(In Thousands)		
Authorized	**15,000,000**	**20,000,000**	**₱1,500,000**	**₱20,000,000**
Issued	**13,066,495**	**14,597,263**	**₱1,306,649**	**₱14,597,263**
Subscribed	**–**	**115,419**	**–**	**115,419**
Issued and outstanding	**13,066,495**	**14,712,682**	**₱1,306,649**	**₱14,712,682**

December 31, 2015

	Number of Shares		Amount	
	Preferred	Common	Preferred	Common
		(In Thousands)		
Authorized	15,000,000	20,000,000	₱1,500,000	₱20,000,000
Issued	13,066,495	14,586,068	₱1,306,649	₱14,586,068
Subscribed	–	109,563	–	109,563
Issued and outstanding	13,066,495	14,695,631	₱1,306,649	₱14,695,631

Preferred Shares (₱0.10 par value per share)
The Company's preferred shares prior to 2012 were subscribed and issued through a stock rights offer with the following features: (a) non-voting; (b) dividend rate of 4.6% p.a., payable annually, noncumulative; (c) nonparticipating; (d) convertible at the option of the holder at a ratio of one (1) preferred share to one (1) common share commencing on the 10th year from issue date at an exercise price equivalent to the higher of (i) the 30-day average closing price or (ii) closing price of common shares immediately preceding the exercise date, less the par value of the preferred shares; (e) no pre-emptive rights; (f) non-redeemable; (g) non-listed; and, (h) preferred in liquidation to the extent of par value.

The dividends for preferred shares are declared upon the sole discretion of the Company's BOD.

On February 20, 2012, the BOD approved the following restructuring exercise in order to comply with the regulatory requirement on Filipino-ownership following the Supreme Court's ruling that nonvoting shares do not count as equity when computing for a company's Filipino-ownership level:

a. Redemption and retirement of the 13.0 billion outstanding preferred shares with par value of ₱0.10.
b. Reclassification of the 1,970.0 million unissued preferred shares to voting preferred shares through an amendment of Article Seventh of the Articles of Incorporation.

c. Increase in authorized capital stock by ₱1,300.0 million creating new voting preferred shares and a stock rights offer of 13,000 million voting preferred shares from the increase in the authorized capital stock.

On April 18, 2012, the stockholders ratified the BOD resolution on the capital restructuring. The voting preferred shares shall have the following features, rights, and privileges (a) voting; (b) dividend rate of 4.7% per annum, equivalent to 90.0% of the 10-year PDST R2 (repriced every ten (10) years from issue date), payable annually, non-cumulative; (c) convertible at the option of the holder at a ratio of one (1) voting preferred share to one (1) common share commencing on the 10th year from issue date at an exercise price equivalent to the higher of (i) the 30-day average closing price or (ii) closing price of common shares immediately preceding the exercise date, less the par value of the preferred shares; (d) no pre-emptive rights; (e) redeemable at par at the sole option of the corporation; (f) non-listed; and, (g) preferred in liquidation to the extent of par value. The SEC approved on January 31, 2013 the following:

a. The decrease in authorized capital stock by ₱1,303.5 million, the aggregate par value of the 13,034.6 million preferred shares which have been redeemed and retired, from ₱22,803.5 million to ₱21,500.0 million, and

b. The amendments to Articles of Incorporation reflecting the decrease in capital stock.

As of December 31, 2016, the Company's authorized and outstanding preferred shares amounted to ₱1,500.0 million and ₱1,306.6 million, respectively.

Common Shares (₱1.00 par value per share)
On April 7, 2014, the stockholders resolved to approve the amendment of the Seventh Article of the Articles of Incorporation exempting from pre-emptive rights (1) the issuance of 1 billion common shares for properties or assets needed for the business of the Company or for cash to acquire properties or assets needed for the business of the Company or in payment of a debt contracted prior to the issuance of such shares, and (2) the issuance of common shares covered by the Company's Stock Option Plans for members of the management committees of the Company's subsidiaries or affiliates.

Likewise, the stockholders resolved to approve the amendment of the Stock Option Plan of the Company to include the members of the Management Committees of the Company's subsidiaries and affiliates as eligible grantees of stock options.

The rollforward analysis of the outstanding number of common shares follows:

	2016	2015
	(In Thousands)	
At beginning of year	**14,695,631**	14,190,489
Additional subscriptions	**17,051**	505,142
At end of year	**14,712,682**	14,695,631

No transfer of stock or interest which will reduce the ownership of Filipino citizens to less than the required percentage of the capital stock as provided by existing laws shall be allowed or permitted to be recorded in the books of the Company.

On April 13, 2013, the stockholders resolved to approve the amendment of the Seventh Article of the Company's Articles of Incorporation for the purpose of excluding or exempting treasury shares from the pre-emptive rights of stockholders.

On January 9, 2015, the Executive Committee of the Company approved a top-up placement of 484,848,500 common shares of the Company at a price of ₱33.00 per share. The placement was conducted via an accelerated bookbuilt offering structured as a top-up placement, whereby AC sold 484,848,500 listed common shares of stock to qualified third party buyers and subscribe to the same number of new shares from the Company. The Company completed the placement on Janaury 12, 2015, raising an aggregate of ₱16,000.0 million in paid-up capital. The price was at 3.9% discount on the 5-day volume-weighted average price of ALI shares. Transaction cost charged to additional paid-in capital amounted to ₱194.0 million.

On March 6, 2013, the Company's Board resolved to approve the placement made by AC of its existing 320,000,000 listed common shares of the Company to certain qualified third party buyers or investors at ₱30.50 per share. The Company completed the top-up placement, raising an aggregate of ₱12,200.0 million in paid up capital. The price was at 3.6% discount on the 5-day volume-weighted average price of ALI shares. Transaction cost charged to additional paid-in capital amounted to ₱162.4 million.

On July 10, 2012, the Company's executive committee approved the placement of 680 million listed common shares of stock with par value of ₱1.00 per share, at a price of ₱20.00 per share, and the issuance of equal number of new shares of the Company, at the same price of ₱20.00 per share, with AC as the seller of the placement tranche and subscriber of the subscription tranche. The Company completed the top-up placement, raising an aggregate of ₱13,600 million in paid up capital. The price was at 5.0% discount to the closing price. Transaction cost charged to additional paid-in capital amounted to ₱200.0 million.

On February 12, 2008, the BOD approved the allotment and subsequent issuance of up to 1 billion common shares of stock with an aggregate par value of ₱1,000.0 million for the purpose of exchanging such shares for properties or assets and/or to raise funds to acquire properties or assets needed for the business of the Company via issuance of equity or equity-linked instruments, the price and the terms and conditions of which shall be determined by the BOD based on prevailing market conditions or on agreements negotiated.

On April 2, 2008, the Company's stockholders approved the allotment and subsequent issuance of the shares for the above-mentioned purposes and for the further amendment of the Amended Articles of Incorporation of the Company to exclude the issuance of shares from the pre-emptive rights of the stockholders pursuant to Section 39 of the Philippine Corporation Code.

On July 5, 1991, the Company launched its initial public offering where a total of 400 million common shares were offered at an offering price of ₱26.00 per share. The registration statement was approved on July 20, 1992. The Company has 9,362 and 9,525 existing shareholders as of December 31, 2016 and 2015, respectively.

Treasury Shares
The amendment of the Articles of Incorporation on April 17, 2013 allowed the re-selling of the 79,528,299 listed common shares as part of the top-up placement transaction completed in July 2013. Treasury common shares were sold at ₱30.50 per share resulting to additional paid-in capital of ₱1,601.6 million.

On July 16, 2012, the Company redeemed the 13.0 billion outstanding non-voting preferred shares through payment of the redemption price of ₱0.10 per share. As of December 31, 2012, the redeemed preferred shares were treated as treasury shares and were subsequently retired upon approval of the Company's SEC application for the decrease in authorized capital stock on January 31, 2013.

On August 12, 2008, the BOD approved a share buyback program. It is part of the Company's balance sheet management program and aims to (i) improve the Company's balance sheet structure and capital efficiency and (ii) enhance shareholder value through the repurchase of shares whenever the stock is trading at a price discount perceived by the Company as not reflective of its fair corporate value.

In 2008, the Company repurchased a total of 79,528,228 of its common shares through open market purchases using the trading facilities of the Philippine Stock Exchange for a total purchase price of ₱823.9 million in relation to its share buyback program.

Retained Earnings
The BOD approved the declaration and payment from unappropriated retained earnings of cash dividends of ₱0.48, ₱0.42 and ₱0.41 per share in 2016, 2015 and 2014, respectively, to all issued and outstanding shares.

On February 26, 2016, the BOD approved the declaration of cash dividends amounting to ₱0.24 per outstanding common share and was paid out on March 23, 2016 to the shareholders on record as of March 11, 2016. Further, on the same date, the BOD declared annual cash dividends of 4.8% per year or ₱0.0047 per share to all shareholders of the Company's unlisted voting preferred shares. These were paid on June 29, 2016 to the shareholders on record as of June 15, 2016.

On August 18, 2016, the BOD approved the declaration and payment from unappropriated retained earnings of cash dividends of ₱0.2380 per share. The cash dividend was paid out on September 16, 2016 to stockholders of common shares as of record date.

On February 20, 2015, the BOD approved the declaration and payment from unappropriated retained earnings of cash dividends of ₱0.2075 per share. The cash dividend was paid out on March 20, 2015 to stockholders of common shares as of record date.

On August 17, 2015, the BOD approved the declaration and payment from unappropriated retained earnings of cash dividends of ₱0.2075 per share. The cash dividend was paid out on September 16, 2015 to stockholders of common shares as of record date.

Total dividends for common shares declared for 2016 and 2015 amounted to ₱6,999.2 million and ₱6,094.7 million, respectively.

On February 20, 2015, the BOD approved the declaration and payment from unappropriated retained earnings of cash dividends at the dividend rate of 4.75% per year or ₱0.0047 per share to all issued and outstanding preferred shares payable on June 29, 2015 to stockholders of preferred shares as of record date. Total dividends for common shares declared during the year amounted to ₱62.0 million.

Retained earnings of ₱8,000.0 million are appropriated for future expansion. The increase of ₱2,000.0 million represents a continuing appropriation for land banking activities and planned building construction projects. Each year, the Company incurs capital expenditures for property development which include among others land banking and building construction projects. The appropriation is being fully utilized to cover part of the annual expenditure requirement of the Company. I

The Company has earmarked additional funds for expansion projects in the residential, shopping centers, office and hotel business segments, as well as various infrastructure projects for the Company's mixed-use developments.

The following are among the major capital expenditures of the Company which were approved by the BOD:

a) Ayala Triangle Garden 2 with product offering for a Triple A HQ Office Building, a 5-Star Hotel and 3-level Retail Podium with gardens and civic spaces which was approved by the Board on May 29, 2015. The project was launched in June 2015 and expected to be completed in 2020.

b) Ayala Center Redevelopment which will offer intermodal transport facility, a 5-storey regional mall, 2 BPO towers, a SEDA hotel and a 300-units residential for lease was approved by the Board on November 27, 2015. The project was launched in January 2016 and expected to be completed in 2021.

Retained earnings also include undistributed net earnings amounting to ₱43,674.8 million and ₱38,170.5 million as of December 31, 2016 and 2015, respectively, representing accumulated equity in the net earnings of subsidiaries, associates and joint ventures. These are not available for dividend distribution unless declared by subsidiaries and other investees.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Company's retained earnings available for dividend declaration as of December 31, 2016 and 2015 amounted to ₱36,471.3 million and ₱32,800.0 million, respectively.

Equity Reserves

In 2016, ALI purchased additional 201,859,364 common shares of CHI for total consideration of ₱1209.8 million which brought ALI's ownership from 56.4% to 66.9% (see Note 2). The transaction was accounted for as an equity transaction since there was no change in control. The movements within equity are accounted for as follows:

	Consideration paid	Carrying value of Non-controlling interests	Difference recognized within Equity
		(In Thousands)	
10.5% in CHI	₱1,209,784	₱748,746	₱461,038

In 2015, the Company purchased additional shares from non-controlling interests of CHI, NTDCC, API (see Note 2). The transactions were accounted as an equity transaction since there was no change in control. The movements within equity are accounted for as follows:

	Consideration paid	Carrying value of Non-controlling interests	Difference recognized within Equity
		(In Thousands)	
6.7% in CHI	₱649,927	₱434,074	₱215,853
9.4% in NTDCC	778,356	174,770	603,586
1.9% in API	58,157	45,540	12,617
	₱1,486,440	₱654,384	₱832,056

In 2014, the Company acquired additional shares from non-controlling interests of Philenergy (40.0%), NTDCC (14.5%) and CECI (0.40%) and were accounted as an equity transaction since there was no change in control (see Note 2).

Non-controlling interests

The financial information on the Company's significant subsidiaries with material NCI follows:

CHI and Subsidiaries
CHI, a publicly-listed company, was incorporated in the Republic of the Philippines. It is engaged in real estate development, sale of subdivided land, residential and office condominium units,

sports club shares, and lease of commercial spaces. The registered office address of CHI is at 20F ACC Tower, Bohol St., Cebu Business Park, Cebu City, Philippines.

	2016	2015
	(In Thousands, except for %)	
Proportion of equity interests held by non-controlling interests	**33.1%**	43.6%
Accumulated balances of material non-controlling interests	**₱2,560,054**	₱2,878,007
Net income allocated to material non-controlling interests	**221,154**	479,125
Comprehensive income allocated to material non-controlling interests	**221,154**	463,129

The summarized financial information of CHI is provided below. This information is based on amounts before inter-company eliminations.

	2016	2015
	(In Thousands)	
Statement of financial position		
Current assets	**₱3,302,298**	₱5,256,342
Noncurrent assets	**16,313,325**	14,476,845
Current liabilities	**(5,622,602)**	(5,517,894)
Noncurrent liabilities	**(6,566,187)**	(7,303,187)
Total equity	**7,426,834**	6,912,106
Attributable to:		
Equity holders of CHI	**₱6,527,891**	₱6,065,271
Non-controlling interests	**898,943**	846,835
Dividends paid to non-controlling interests	–	26,794

	For the years ended December 31	
	2016	2015
	(In Thousands)	
Statement of comprehensive income		
Revenue	**₱2,716,933**	₱3,740,259
Cost and expenses	**(1,809,930)**	(2,466,269)
Income before income tax	**907,003**	1,273,990
Provision for income tax	**(175,232)**	(328,652)
Income from operations	**731,771**	945,338
Other comprehensive loss	**13,366**	2,241
Total comprehensive income	**745,137**	947,579
Attributable to:		
Equity holders of CHI	**₱693,029**	₱829,448
Non-controlling interests	**52,108**	118,131

	For the years ended December 31	
	2016	2015
	(In Thousands)	
Statement of cash flows		
Operating activities	**(₱92,065)**	₱625,407
Investing activities	**392,584**	(2,655,348)
Financing activities	**(321,190)**	(751,078)
Effect of exchange rate changes	**68**	1,315
Net decrease in cash and cash equivalents	**(₱20,603)**	(₱2,779,704)

The fair value of the investment in CHI amounted to ₱7,414.5 million and ₱5,605.3 million as of December 31, 2016 and 2015, respectively.

POPI and Subsidiaries
POPI was incorporated in the Republic of the Philippines. It is engaged in real estate and property development, manufacturing and retailing/distribution, non-life insurance and other allied services, organized under a number of intermediate holding companies. The Company wholly owns Tutuban Properties, Inc., which holds the lease and development rights over Tutuban Center in downtown Divisoria.

	As of December 31, 2016
	(In Thousands, except for %)
Proportion of equity interests held by non-controlling interests	**49%**
Accumulated balances of material non-controlling interests	**₱5,522,005**
Net income allocated to material non-controlling interests	**12,949**
Comprehensive income allocated to material non-controlling interests	**12,949**

The summarized financial information of POPI is provided below. This information is based on amounts before inter-company eliminations (In Thousands).

	December 31, 2016
Statement of financial position	
Current assets	**₱7,915,392**
Noncurrent assets	**6,688,019**
Current liabilities	**(1,166,548)**
Noncurrent liabilities	**(2,013,226)**
Total equity	**11,423,637**
Attributable to:	
Equity holders of POPI	**₱5,901,632**
Non-controlling interests	**5,522,005**
Dividends paid to non-controlling interests	–

	For the period ended December 31, 2016
Statement of comprehensive income	
Revenue	**₱447,397**
Cost and expenses	**(414,838)**
Income before income tax	**32,559**
Provision for income tax	**(7,229)**
Income from operations	**25,330**
Other comprehensive loss	–
Total comprehensive income	**25,330**
Attributable to:	
Equity holders of POPI	**₱12,381**
Non-controlling interests	**12,949**
Statement of cash flows	
Operating activities	**₱1,359,577**
Investing activities	**(1,758,197)**
Financing activities	**(2,487)**
Net decrease in cash and cash equivalents	**(₱401,107)**

The fair value of the investment in POPI amounted to ₱5,637.9 million as of December 31, 2016.

Capital Management
The primary objective of the Group's capital management policy is to ensure that debt and equity capital are mobilized efficiently to support business objectives and maximize shareholder value. The Group establishes the appropriate capital structure for each business line that properly reflects its premier credit rating and allows it the financial flexibility, while providing it sufficient cushion to absorb cyclical industry risks.

The Group considers debt as a stable source of funding. The Group lengthened the maturity profile of its debt portfolio and makes it a point to spread out its debt maturities by not having a significant percentage of its total debt maturing in a single year.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. It monitors capital using leverage ratios on both a gross debt and net debt basis. As of December 31, 2016 and 2015, the Group had the following ratios:

	2016	2015
Debt to equity	**92.6%**	87.4%
Net debt to equity	**79.4%**	74.4%

Debt consists of short-term and long-term debts. Net debt includes short-term and long-term debt less cash and cash equivalents, short-term investments and financial assets at FVPL (net of Investment in ARCH Capital Fund). Equity, which the Group considers as capital, pertains to the total equity. The Group excludes the "unrealized gain on AFS financial assets" attributable to the equity holders of the Company in computing the debt to equity ratio.

The Group is subject to externally imposed capital requirements due to loan covenants (see Note 17). No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2016 and 2015.

Financial risk assessment
The Group's financial condition and operating results would not be materially affected by the current changes in interest, currency, credit, liquidity and market conditions.

Exposure to changes in interest rates is reduced by a debt portfolio mix of both fixed and floating interest rates. The Group's ratio of fixed to floating rate debt stood at 79:21 and 84:16 as of December 31, 2016 and 2015, respectively. As a result, any adverse movement in interest rates is mitigated.

Exposure to foreign currency holdings is at US$39.4 million and US$39.1 million as of December 31, 2016 and 2015, respectively.

Credit risks continue to be managed through defined credit policies and continuing monitoring of exposure to credit risks. The Group's base of counterparties remains diverse. As such, it is not exposed to large concentration of credit risk.

Liquidity risk is addressed with long term funding already locked in, while funds are placed on cash equivalents, short term investment and financial assets at FVPL.

21. Real Estate Revenue

This account consists of:

	2016	2015	2014
		(In Thousands)	
Land and residential unit sales	**₱77,810,399**	₱66,855,027	₱58,951,882
Leasing (Note 13)	**21,319,046**	18,927,973	16,380,025
Construction	**10,626,789**	7,271,035	5,015,949
Hotels and resorts	**5,235,855**	6,108,430	5,575,822
Management and marketing fees	**2,708,399**	1,498,327	3,103,856
	₱117,700,488	₱100,660,792	₱89,027,534

22. Other Income and Costs and Expenses

Other income consists of:

	2016	2015	2014
		(In Thousands)	
Marketing and management fees	**₱142,973**	₱481,177	₱619,599
Others - net (Notes 24 and 25)	**516,963**	201,428	86,396
	₱659,936	₱682,605	₱705,995

Other income mainly consists of gain on business combination, realized and unrealized gain on financial asset at FVPL. Also included is the gain on sale of equipment and other properties amounting to ₱37.5 million, ₱34.3 million and ₱1.1 million in 2016, 2015 and 2014, respectively. It also includes the financial impact of net foreign exchange transactions amounting to ₱15.4 million loss, ₱191.0 million loss and ₱31.8 million loss in 2016, 2015 and 2014, respectively. It also includes reversal of impairment losses amounting to nil, ₱11.6 million and nil in 2016, 2015 and 2014, respectively (see Note 7).

Real estate costs and expenses consist of:

	2016	2015	2014
		(In Thousands)	
Cost of real estate sales (Note 8)	**₱47,379,487**	₱41,658,262	₱37,006,245
Depreciation and amortization	**4,918,250**	4,109,023	4,019,302
Hotels and resorts operations	**3,516,962**	3,896,289	3,705,636
Marketing and management fees	**2,366,929**	3,804,804	3,393,053
Rental	**1,954,860**	1,511,182	1,152,902
Manpower costs	**1,606,117**	1,078,310	887,113
Materials and overhead	**7,061,926**	3,143,121	1,569,860
Direct operating expenses:			
Taxes and licenses	**2,412,017**	2,183,142	1,732,634
Light and water	**1,423,600**	511,841	1,537,749
Repairs and maintenance	**1,476,788**	929,482	882,413
Commission	**1,394,617**	761,387	503,294
Professional fees	**195,256**	624,122	1,694,840
Transportation and travel	**169,308**	133,613	77,164
Insurance	**124,194**	199,282	137,221
Entertainment, amusement and recreation	**37,980**	80,576	119,582
Others	**528,113**	710,624	976,605
	₱76,566,404	₱65,335,060	₱59,395,613

General and administrative expenses consist of:

	2016	2015	2014
		(In Thousands)	
Manpower costs (Notes 26 and 28)	**₱3,852,675**	₱3,865,244	₱3,500,362
Taxes and licenses	**557,289**	500,384	468,740
Professional fees	**477,875**	250,524	481,099
Depreciation and amortization	**438,691**	425,964	467,925
Security and janitorial	**357,945**	185,227	109,154
Utilities	**248,977**	193,590	271,010
Repairs and maintenance	**238,963**	166,129	155,778
Insurance	**113,526**	63,440	100,793
Rent	**108,026**	132,861	134,202
Transport and travel	**98,660**	105,841	122,600
Donations and contribution (Note 32)	**84,825**	126,016	26,989
Dues and fees	**63,480**	40,400	39,894
Training and seminars	**62,591**	39,326	45,899
Advertising	**61,811**	74,176	87,505
Entertainment, amusement and recreation	**49,870**	75,075	30,252
Supplies	**49,221**	46,430	49,739
Others	**166,925**	301,328	111,192
	₱7,031,350	₱6,591,955	₱6,203,133

Manpower costs included in the consolidated statements of income follows:

	2016	2015	2014
		(In Thousands)	
Real estate costs and expenses			
Cost of real estate	**₱1,605,950**	₱1,013,310	₱869,304
Hotels and resorts operations	**167**	65,000	17,809
General and administrative expenses	**3,852,675**	3,865,244	3,500,362
	₱5,458,792	₱4,943,554	₱4,387,475

Depreciation and amortization expense included in the consolidated statements of income follows:

	2016	2015	2014
		(In Thousands)	
Real estate costs and expenses:			
Cost of real estate	**₱4,918,250**	₱4,109,023	₱4,019,302
Hotels and resorts operations	**517,619**	534,608	503,238
General and administrative expenses	**438,691**	425,964	467,925
	₱5,874,560	₱5,069,595	₱4,990,465

Interest and other financing charges consist of:

	2016	2015	2014
		(In Thousands)	
Interest expense on:			
Long-term debt	**₱6,114,265**	₱5,272,074	₱4,620,725
Short-term debt	**837,918**	959,644	574,398
Other financing charges	**362,204**	274,543	170,593
	₱7,314,387	₱6,506,261	₱5,365,716

Other charges consist of:

	2016	2015	2014
		(In Thousands)	
Provision for impairment losses on:			
Land and Improvement (Note 11)	**₱–**	₱196,568	₱–
Receivables (Note 7)	**399,424**	187,628	139,627
Inventories (Note 8)	**–**	82,634	–
AFS financial assets (Note 10)	**–**	28,048	–
Provisions, write-offs and other charges	**653,783**	503,982	236,170
	₱1,053,207	₱998,860	₱375,797

23. **Income Tax**

Net deferred tax assets:

	2016	2015
	(In Thousands)	
Deferred tax assets on:		
Difference between tax and book basis of accounting for real estate transactions	**₱5,777,280**	₱5,334,046
Accrued expenses	**2,382,935**	1,447,361
Allowance for probable losses	**1,226,796**	1,192,218
Retirement benefits	**426,350**	358,923
Unrealized foreign exchange losses	**69,832**	63,012
Advanced rentals	**4,620**	4,620
Others	**510,101**	52,133
	10,397,914	8,452,313
Deferred tax liabilities on:		
Capitalized interest and other expenses	**(512,191)**	(532,862)
Others	**(7,173)**	(7,817)
	(519,364)	(540,679)
	₱9,878,550	₱7,911,634

Net deferred tax liabilities:

	2016	2015
	(In Thousands)	
Deferred tax assets on:		
Allowance for probable losses	**₱55,511**	₱89,213
Difference between tax and book basis of accounting for real estate transactions	**24,178**	298,848
Advanced rentals	**20,189**	8,849
Accrued expense	**20,020**	19,717
NOLCO	**15,586**	189,630
Unrealized foreign exchange loss	**727**	27,662
Others	**11,982**	1,852
	148,193	635,771
Deferred tax liabilities on:		
Fair value adjustment arising from business combination	**(2,064,770)**	(839,096)
Difference between tax and book basis of accounting for real estate transactions	**(1,906,826)**	(1,423,376)
Capitalized interest and other expenses	**(148,767)**	(64,450)
Insurance recovery	**(98,382)**	–
Retirement benefits	**(18,739)**	26,106
Unrealized foreign exchange gain	**(2,742)**	4,494
Prepaid expenses	**(829)**	(120,321)
Others	**(263,668)**	(1,189)
	(4,504,723)	(2,417,832)
	(₱4,356,530)	(₱1,782,061)

Certain subsidiaries of the Company have NOLCO amounting to ₱1,071.7 million and ₱930.6 million as of December 31, 2016 and 2015, respectively and MCIT amounting to ₱6.1 million and ₱1.9 million as of December 31, 2016 and 2015, respectively. Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. As of December 31, 2016, total unrecognized NOLCO and MCIT amounted to ₱375.4 million and ₱0.4 million, respectively. The subsidiaries will recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

The carryover NOLCO and MCIT that can be claimed as deduction from future taxable income or used as deductions against income tax liabilities are as follows:

NOLCO:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
		(In Thousands)		
2013	₱94,035	₱16,570	₱77,465	2016
2014	232,814	56,760	176,054	2017
2015	920,627	240,505	680,122	2018
2016	138,051	–	138,051	2019
	₱1,385,527	₱313,835	₱1,071,692	

MCIT:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
		(In Thousands)		
2013	₱537	₱444	₱93	2016
2014	1,968	1,306	662	2017
2015	1,230	141	1,089	2018
2016	4,274	–	4,274	2019
	₱8,009	₱1,891	₱6,118	

Reconciliation between the statutory and the effective income tax rates follows:

	2016	2015	2014
Statutory income tax rate	**30.00%**	30.00%	30.00%
Tax effect of:			
Interest income subject to final tax, income under tax holiday and other nontaxable income (Note 31)	**(3.05)**	(2.32)	(1.53)
Equity in net earnings of associates and joint ventures	**(0.51)**	(1.98)	(1.32)
Interest income and capital gains taxed at lower rates	**(0.71)**	(0.41)	(1.14)
Others – net	**(0.53)**	(0.59)	(0.26)
Effective income tax rate	**25.20%**	24.70%	25.75%

<u>Board of Investments (BOI) Incentives</u>

Ecosouth Hotel Ventures, Inc

On April 1, 2014, the Board of Investment issued in favor of Ecosouth Hotel Ventures, Inc. (EHVI) a Certificate of Registration as a New Operator of Tourist Accommodation Facility on a non-pioneer status for its project in Seda Nuvali, Laguna. Under the terms of the registration and subject to certain requirements, EHVI is entitled to income tax holiday for a period of four (4) years from June 2014 or actual start of commercial operations, whichever is earlier.

Sentera Hotel Ventures, Inc.

On September 11, 2015, the Board of Investment issued in favor of Sentera Hotel Venures, Inc. a Certificate of Registration as a New Operator of Tourist Accommodation Facility/ Tourist Inn on a non-pioneer status for its project in Seda Atria Hotel, Iloilo City. Under the terms of the registration and subject to certain requirements, Sentera Hotel Ventures, Inc. is entitled to income tax holiday for a period of four (4) years from December 2015 or actual start of commercial operations, whichever is earlier.

BellaVita

The Board of Investments issued Certificates of Registration as a New Developer of Low -Cost Mass Housing Project on a Non-Pioneer Status under the Omnibus Investments Code of 1987 for the Company's projects in Porac, Pampanga and San Pablo, Laguna on May 15, 2015 and September 17, 2015, respectively. Pursuant thereto, the projects have been granted an income tax holiday for a maximum period of four (4) years from the date of registration.

On March 5, 2013, the BOI issued in favor of BellaVita, a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for BellaVita – Alaminos located at Brgy. San Andres, Alaminos, Laguna. The project has been granted an income tax holiday for a period of four (4) years commencing from March 2013.

On August 30, 2012, the BOI issued in favor of BellaVita, Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for BellaVita – General Trias Phases 1, 2 & 3 located at Brgy. Tapia, General Trias, Cavite. The project has been granted an income tax holiday for a period of four (4) years commencing from August 2012.

Amaia

On November 14, 2016, the BOI issued in favor of a subsidiary a Certificate of Registration as an Expanding Developer of Economic and Low-Cost Housing Project for its Amaia Series Novaliches Sector 2 Susano Road, Brgy. San Agustin, Novaliches, Quezon City under the 2014 IPP on a non-Pioneer status. The project has been granted an Income Tax Holiday for a period of three (3) years commencing December 2016 or actual start of commercial operations, whichever is earlier.

On September 21, 2016, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Economic and Low-Cost Housing Project for its Amaia Scapes Iloilo Sectors 1A and 1B Brgy. San Jose, San Miguel, Iloilo under the 2014 IPP on a Non-Pioneer status. The project has been granted an Income Tax Holiday for a period of four (4) years commencing September 2016 or actual start of commercial operations, whichever is earlier.

On February 11, 2015, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Amaia Scapes Urdaneta, Barangay Catablan, Urdaneta City Pangasinan. Pursuant thereto, project has been granted an Income Tax Holiday for a period of four (4) years commencing from February 2015.

On February 11, 2015, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Amaia Steps Nuvali, Barangay Canlubang, Calamba City Laguna. Pursuant thereto, project has been granted an Income Tax Holiday for a period of three (3) years commencing from February 2015.

On March 11, 2015, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Amaia Scapes Pampanga, Amaia Scapes San Fernando S1-A and Amaia Scapes Trece S1. The projects are located at Barangay Sapang Maisac, Mexico, Pampanga; Calulut, San Fernando City, Pampanga and Barangay Conchu, Trece Martires City, Cavite respectively. These projects have been granted an Income Tax Holiday for a period of four (4) years commencing from March 2015.

On March 11, 2015, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Amaia Skies Shaw T1, Shaw Boulevard corner Samat Street, Barangay Highway Hills, Mandaluyong City. Pursuant thereto, project has been granted an Income Tax Holiday for a period of three (3) years commencing from March 2015.

On May 21, 2015, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Amaia Scapes Batangas and Amaia Scapes Cabuyao S1. The projects are located at Barangay Anilao-Labac, Lipa City Batangas and Barangay Marinig, Cabuyao, Laguna respectively. These projects have been granted an Income Tax Holiday for a period of four (4) years commencing from May 2015.

On June 4, 2015, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Amaia Scapes Camsur S1, Barangay Palestina, Pili Camarines Sur. Pursuant thereto, project has been granted an Income Tax Holiday for a period of four (4) years commencing from June 2015.

On June 18, 2015, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Amaia Scapes Bauan S1, Amaia Scapes Bulacan S1, Amaia Gen. Trias S1 and Amaia Scapes Lucena. The projects are located at Barangay As-Is, Bauan Batangas; Barangay Sta. Cruz, Sta. Maria Bulacan; Arnaldo Highway, Barangay Santiago, General Trias Cavite and Barangay Canlurang Isabang and Ilayang-Talim, Lucena City Quezon respectively. These projects have been granted an Income Tax Holiday for a period of four (4) years commencing from June 2015.

On July 20, 2015, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Amaia Steps Pasig 1B, Eusebio Avenue, Brgy. San Miguel, Pasig City. Pursuant thereto, project has been granted an Income Tax Holiday for a period of three (3) years commencing from July 2015.

On July 21, 2015, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Amaia Series Novaliches, Susano Road, Brgy. San Agustin, Novaliches, Quezon City. Pursuant thereto, project has been granted an Income Tax Holiday for a period of three (3) years commencing from July 2015.

On July 23, 2015, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Amaia Scapes Gen. Trias S2, Barangay Santiago, General Trias Cavite. Pursuant thereto, project has been granted an Income Tax Holiday for a period of four (4) years commencing from July 2015.

On July 24, 2015, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Amaia Steps Altaraza Bldg A, Tungkong Mangga, City of San Jose Del Monte, Bulacan. Pursuant thereto, project has been granted an Income Tax Holiday for a period of three (3) years commencing from July 2015.

On August 10, 2015, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Amaia Scapes San Pablo S1, Barangay San Roque, San Pablo City, Laguna. Pursuant thereto, project has been granted an Income Tax Holiday for a period of four (4) years commencing from August 2015.

On August 19, 2015, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Amaia Steps Nuvali Parkway, Brgy. Canlubang, Calamba City, Laguna. Pursuant thereto, project has been granted an Income Tax Holiday for a period of three (3) years commencing from August 2015.

On August 24, 2015, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Amaia Scapes CDO S1, Barangay Bulua, Cagayan de Oro City. Pursuant thereto, project has been granted an Income Tax Holiday for a period of four (4) years commencing from August 2015.

On November 24, 2015, the BOI issued in favor of a subsidiary a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Amaia Scapes Cabuyao S2, Barangay Sala, Cabuyao Laguna. Pursuant thereto, project has been granted an Income Tax Holiday for a period of four (4) years commencing from November 2015.

On March 19, 2013, the BOI issued in favor of Amaia, a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for Amaia Skies Sta. Mesa – South Tower located at V. Mapa, cor. Valenzuela St., Sta. Mesa, Manila, Amaia Steps Sucat Phase 1 (6 Bldgs.) located at 8333 & 8337 Dr. A. Santos Avenue, Parañaque City, and Amaia Steps Pasig (ph1A) located at Eusebio Avenue, Brgy. San Miguel, Pasig City. These projects have been granted an income tax holiday for a period of three (3) years commencing from March 19, 2013.

On March 22, 2013, the BOI issued in favor of Amaia, a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for Amaia Skies Avenida – North Tower located at T. Mapua corner Doroteo Jose & Rizal Avenue, Sta. Cruz, Manila. The project has been granted an income tax holiday for a period of three (3) years commencing from March 22, 2013.

On April 1, 2013, the BOI issued in favor of Amaia a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for Amaia Scopes Tarlac located at Brgy. Estrada, Capas, Tarlac. The project has been granted an income tax holiday for a period of four (4) years commencing from April 1, 2013.

On May 29, 2013, the BOI issued in favor of Amaia a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for Amaia Steps Bicutan located at West Service Road corner Sun Valley Drive, Brgy. Sun Valley, Parañaque City. The project has been granted an income tax holiday for a period of three (3) years commencing from May 29, 2013.

On September 30, 2013, the BOI issued in favor of Amaia a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project (expansion) for Amaia Skies Cubao Tower 2 located at 5th Ave., cor. P. Tuazon, Brgy. Socorro, Quezon City. The project has been granted an income tax holiday for a period of three (3) years commencing from September 30, 2013.

On May 4, 2012, the BOI issued in favor of Amaia a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for Amaia Scapes North Point located in Brgy. Minulu-an and Matab-ang, Talisay City, Negros Occidental. Pursuant thereto, the project has been granted an income tax holiday for a period of four (4) years commencing from May 2012.

On June 28, 2012, the BOI issued in favor of Amaia a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Amaia Steps Novaliches and Amaia Skies Cubao Tower 1. Amaia Steps project is located at Susano Road, Brgy.170, Zone 15, Depara, Caloocan City and in Brgy. San Agustin in Novaliches, Quezon City while Amaia Skies, on the other hand, is located in P. Tuazon Blvd. corner 5th Avenue, Brgy. Socorro in Cubao, Quezon City. These projects have been granted an income tax holiday for a period of three (3) years commencing from June 2012.

On June 28, 2012, the BOI issued in favor of Amaia a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for Amaia Scapes Cavite located in Brgy. Santiago, General Trias, Cavite. Pursuant thereto, project has been granted an income tax holiday for a period of four (4) years commencing from June 2012.

On October 11, 2012, the BOI issued in favor of Amaia a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Amaia Scapes Cabanatuan and Amaia Scapes Lipa. The projects are located in Bangad, Cabanatuan, Nueva Ecija and Sto.Tomas, Lipa Road, Brgy. Dagatan, Lipa City, Batangas, respectively. These projects have been granted an income tax holiday for a period of four (4) years commencing from October 2012.

On March 23, 2011, the BOI issued in favor of Amaia a Certificate of Registration as New Developer of Low-Cost Mass Housing Project for its Amaia Scapes Laguna, Brgy. Barandal, Calamba City, Laguna. Pursuant thereto, the project has been granted an Income Tax Holiday for a period of four (4) years commencing from March 2011.

Avida

On April 30, 2015, the BOI issued in favor of Avida a Certificate of Registration as a new Developer of Low-Cost Mass Housing Project for Avida Towers Altura Tower 2, National Road, Brgy. Alabang, Muntinlupa City in accordance with the Omnibus Investment Code of 1987 (Executive Order No. 226). Pursuant thereto, the project has been granted an Income Tax Holiday for a period of three (3) years commencing from May 2015.

On April 30, 2015, the BOI issued in favor of Avida a Certificate of Registration as a new Developer of Low-Cost Mass Housing Project for Avida Towers Asten Tower 2, Malugay St., San Antonio Village, Makati City in accordance with the Omnibus Investment Code of 1987 (Executive Order No. 226). Pursuant thereto, the project has been granted an Income Tax Holiday for a period of three (3) years commencing from May 2015.

On June 16, 2015, the BOI issued in favor of Avida a Certificate of Registration as a new Developer of Low-Cost Mass Housing Project for, Serin East Tagaytay Tower 1, Brgy. Silang Crossing East, Tagaytay City Cavite in accordance with the Omnibus Investment Code of 1987 (Executive Order No. 226). Pursuant thereto, the project has been granted an Income Tax Holiday for a period of three (3) years commencing from July 2015.

On June 16, 2015, the BOI issued in favor of Avida a Certificate of Registration as a new Developer of Low-Cost Mass Housing Project for, Avida Towers Atria Tower 2, Brgy. San Rafael, Mandurriao, Iloilo City in accordance with the Omnibus Investment Code of 1987 (Executive Order No. 226). Pursuant thereto, the project has been granted an Income Tax Holiday for a period of three (3) years commencing from July 2015.

On September 4, 2015, the BOI issued in favor of Avida a Certificate of Registration as a new Developer of Low-Cost Mass Housing Project for, Avida Towers Prime Taft Tower 3, Brgy. 37, Zone 03, Taft Avenue, Pasay City in accordance with the Omnibus Investment Code of 1987 (Executive Order No. 226). Pursuant thereto, the project has been granted an Income Tax Holiday for a period of three (3) years commencing from September 2015.

On November 12, 2012, the BOI issued in favor of Avida a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for Avida Towers Intima Tower 1, Brgy. 678 Zone 74, 497 Pres. Quirino Ave. Ext. cor. Zulueta St., Paco, Manila in accordance with the Omnibus Investment Code of 1987 (Executive Order No. 226). Pursuant thereto, the project has been granted an Income Tax Holiday for a period of three (3) years commencing from November 2012.

On November 13, 2012, the BOI issued in favor of Avida a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for Avida Towers Riala Tower 1, Cebu IT Park, Brgy. Apas, Cebu City in accordance with the Omnibus Investment Code of 1987 (Executive Order No. 226). Pursuant thereto, the project has been granted an Income Tax Holiday for a period of four (4) years commencing from November 2012.

On December 13, 2011, the BOI issued in favor of Avida a Certificate of Registration as a New Developer of Low-Cost Mass Housing Project for its Avida Towers Cebu Tower 1, Asiatown I.T. Park, Lahug, Cebu City. The project has been granted an Income Tax Holiday for a period of four (4) years commencing from December 2011.

On December 14, 2011, the BOI issued in favor of Avida a Certificate of Registration as an Expanding Developer of Low-Cost Mass Housing Project for its Avida Towers San Lazaro Tower 5, Lot 5 E Block 50 C Pista St., Brgy. 350, Zone 035 Sta. Cruz, Manila , Avida Towers Cebu Tower 2, Asiatown I.T. Park, Lahug, Cebu City and Avida Towers Sucat Tower 7, Dr. A. Santos Ave., Brgy. San Dionisio, Parañaque City. The projects have been granted an Income Tax Holiday for a period of three (3) years commencing from December 2011.

On February 9, 2010, the BOI issued in favor of Avida a Certificate of Registration as an Expanding Developer of Low-Cost Mass Housing Project for its Celadon Park Tower 2, Felix Huertas Street, Manila in accordance with the Omnibus Investment Code of 1987. Pursuant thereto, the project has been granted an Income Tax Holiday for a period of three (3) years commencing from February 2010.

SDC

On July 29, 2015, the BOI issued in favor of Southgateway Development Corporation a Certificate of Registration as a new Developer of Low-Cost Mass Housing Project for Avida Towers Cloverleaf Tower 1, A. Bonifacio Avenue, Brgy. Balingasa, Quezon City, in accordance with the Omnibus Investment Code of 1987 (Executive Order No. 226). Pursuant thereto, the project has been granted an Income Tax Holiday for a period of three (3) years commencing from July 2015.

AMHPI

In December 2007, AMHPI was registered with the Board of Investments (BOI) as a new tourist accommodation facility on a pioneer status particularly for the operations of the Fairmont Hotel Makati and Raffles Residences Manila (the Project) upon its completion. The Project represents a combined hotel facility and complex of residential units. Under the terms of the registration and subject to certain requirements, AMHPI is entitled to the following fiscal and non-fiscal incentives, among others; (a) income tax holiday for a period of six years from January 2011 or actual start of commercial operations, whichever is earlier; (b) additional deduction from taxable income on wages subject to certain terms and conditions; (c) employment of foreign nationals; (d) tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming part thereof for ten years from start of commercial operations; (e) simplifications of customs procedures for the importation of equipment, spare parts, raw materials and supplies; and (f) importation of consigned equipment for a period of 10 years from start of commercial operations.

MDC Build Plus, Inc.

In accordance with the Omnibus Investments Code of 1987, the BOI approved the MDC Build Plus Inc.'s registration as a New Producer of Roof/ Framing System. The production facility is located at 2265 Warehouse, Bldg. 3, Paliparan I, Paliparan Road, Dasmariñas, Cavite. Pursuant thereto, the roof production has been granted an Income Tax Holiday for a period of 4 years commencing from September 2013.

MDC Conqrete, Inc.

In accordance with Executive Order 226 otherwise known as Omnibus Investments Code of 1987 as amended, the BOI approved the MDC Conqrete Inc.'s registration as a New Domestic Producer of Modular Housing Components (Precast Concrete Wall, Floor/Slab and stairs system) under the 2014 IPP on a non-Pioneer status. The project has been granted an income tax holiday for a period of 4 years commencing November 10, 2015. Other incentives with no specific number of years of entitlement may be enjoyed for a maximum period of 10 years from the start of commercial operation and/or date of registration.

24. Business Combinations and Acquisition of Non-controlling Interests

Business Combinations

Prime Orion Philippines, Inc. (POPI)
On February 24, 2016, Ayala Land, Inc. purchased 2.5 billion common shares or 51% interest in POPI for a total consideration ₱5,625.0 million. On July 4, 2016, the Company obtained control over POPI. Accordingly, POPI financial statements were consolidated on a line-by-line basis with that of the Group as of December 31, 2016.

The purchase price allocation has been prepared on a preliminary basis as the fair values of leasehold rights, investment property and property, plant and equipment are being finalized. The following are the preliminary fair values of the identifiable assets and liabilities assumed (in thousands):

Assets	
Cash	₱1,300,869
Trade and other receivables	6,119,799
Inventories	273,299
Other current assets	293,598

(Forward)

Financial assets at FVPL	₱17,903
AFS investments	1,394,192
Leasehold rights	3,611,808
Investment properties	1,562,098
Property, plant and equipment	88,876
Other noncurrent assets	93,012
	14,755,454
Liabilities	
Accounts and other payables	1,160,303
Deferred tax liabilities – net	1,422,162
Deposits and other liabilities	788,175
	3,370,640
Net assets	11,384,814
Total net assets acquired	5,813,086
Acquisition cost	5,625,000
Negative goodwill	(₱188,086)

The fair value of the trade and other receivables approximate their carrying amounts since these are short-term in nature. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected. The negative goodwill amounting to ₱188.1 million is included under "Other income":

Of the total consideration of ₱5,625.0 million, only 25% or ₱1,406.3 million was paid on February 24, 2016, the remaining ₱4,218.8 million which is to be paid upon fulfillment of certain terms and conditions is included as part of "Trade and other receivables".

From July 4 to December 31, 2016, the Group's share in POPI's revenue and net income amounted to ₱229.8 million and ₱12.9 million. If the combination had taken place at the beginning of 2016, the Group's share in POPI's revenue and net income (loss) would have been ₱435.8 million and (₱202.2 million), respectively.

ALO Prime Realty Corporation (*formerly*, Aegis PeopleSupport Realty Corporation)
On April 8, 2015, the Company purchased all of the 8,200,000 common shares of Equinox Technoparks Ltd, Inc. in Aegis PeopleSupport Realty Corporation (APRC) for a total consideration of ₱513.68 million. APRC, which is a PEZA-registered entity, owns the Aegis building along Villa Street, Cebu IT Park, Lahug, Cebu City. The building is a certified LEED-Gold Office with a gross leasable area of 18,092 square meters and is largely occupied by Teleperformance under a long-term lease.

On April 14, 2015, the BOD approved the change of its corporate name to ALO Prime Realty Corporation. On July 9, 2015, the amended Articles of Incorporation was executed and subsequently approved by SEC on July 15, 2015.

The following are the fair values of the identifiable assets and liabilities assumed (in thousands):

Assets	
Cash	₱15,580
Trade and other receivables	305,070
Other current assets	5,740
Investment properties (Note 13)	1,584,929
Other noncurrent assets	4,095
	1,915,414

(Forward)

Liabilities	
Accounts and other payables	₱1,336,692
Deposits and other noncurrent liabilities	56,962
Deferred tax liabilities	8,083
	1,401,737
Total net assets acquired	513,677
Acquisition cost	513,677
Goodwill	₱–

The fair value of the trade and other receivables approximate their carrying amounts. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

From April 8 to December 31, 2015, the Group's share in APRC's revenue and net income amounted to ₱141.1 million and ₱72.3 million, respectively. If the combination had taken place at the beginning of 2015, the Group's share in APRC's total revenue and net income would have been ₱189.8 million and ₱94.8 million, respectively.

Island Transvoyager, Inc.
On December 1, 2015, ALI Capital Corp. (formerly Varejo Corp.), a wholly owned subsidiary of the Company, acquired 100% interest in Island Transvoyager, Inc, (ITI) following the purchase of all outstanding shares from existing shareholders, in the amount of ₱15.0 million.
ITI was incorporated on October 2, 2002 with the primary purpose of carrying on the general business of a common carrier and/or private carrier. It was granted the Air Carrier Operating Certificate by the Air Transportation Office to enable it to operate as a scheduled domestic air transportation service provider.

ITI is the only airline commercially flying from Manila to Lio in El Nido, Palawan. On November 26, 2015, ITI launched "AirSwift" as its new brand and introduced its new Cebu-El Nido-Cebu route. As of end-2015, it currently operates a fleet of two (2) ATR 42-500 that can seat a maximum of 50 passengers each, and operates 3x-4x daily flights to El Nido. It is also expected to be a key player in the industry as it flies to more tourism destinations not serviced by the bigger commercial airlines.

If the combination had taken place at the beginning of 2015, the Group's share in ITI's total revenue and net income would have been ₱434.80 million and ₱0.19 million, respectively.

ALI Makati Hotel & Residences, Inc. (AMHRI) and ALI Makati Hotel Property, Inc. (AMHPI)
On October 2, 2012, AHRC, a wholly owned subsidiary of the Company, entered into an agreement to acquire the interests of Kingdom Manila B.V., an affiliate of Kingdom Hotel Investments (KHI), and its nominees in KHI-ALI Manila Inc. (now renamed AMHRI) and 72,124 common shares in KHI Manila Property Inc. (now renamed AMHPI).

AMHRI and AMHPI are the project companies of the Fairmont Hotel and Raffles Suites and Residences project in Makati which opened in December 2012.

Prior to the acquisition, the Company effectively owned 20% economic interest in AMHRI and AMHPI (see Note 12). The Company acquired the remaining 80% interest in AMHRI and AMHPI for a total consideration of ₱2,430.4 million.

This acquisition is in line with KHI's value realization strategy and with the Company's thrust to grow its commercial leasing business. 32 Raffles Suites and 280 Fairmont Hotel rooms were added to AHRC's growing hotel portfolio. The continuing sale of units in the Raffles Residences will also generate immediate cash, while the operations of the hotel and serviced apartments will augment and diversify the sources of recurring revenue. Furthermore, this landmark project will complement the various offerings of the Makati Central Business District, and fortify its position as the country's premier financial district.

The fair value of the Company's interest prior to the acquisition amounting to ₱769.0 million was determined using the adjusted net asset value method. Remeasurements of the Company's equity interest in both companies resulted to the recognition of a gain (included under "interest and investment income") amounting to ₱593.9 million.

In 2013, the Company finalized its purchase price allocation. Changes to the fair market values of the assets acquired and liabilities assumed noted are retroactively applied in the 2012 balances.

The following are fair values of the identifiable assets and liabilities assumed (in thousands):

Assets	
Cash	₱1,334,000
Trade and other receivables	1,708,000
Real estate inventories	936,000
Other current assets	202,000
Hotel property and equipment (Note 14)	5,421,000
	9,601,000
Liabilities	
Accounts and other payables	2,162,000
Loans payable	3,594,000
Deferred tax liabilities	633,698
	6,389,698
Total net assets acquired	3,211,302
Acquisition cost	3,199,432
Negative goodwill	₱11,870

The fair value of the trade and other receivables approximate their carrying amounts. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

From October 2 to December 31, 2012, the Group's share in AMHRI and AMHPI's revenue and net loss amounted to ₱898.9 million and ₱96.4 million, respectively. If the combination had taken place at the beginning of 2012, the Group's total revenue would have been ₱64,269.7 million, while the Group's net income would have been ₱10,641.3 million.

<u>TKPI and TKDC</u>
The Company entered into an agreement with Asian Conservation Company and ACC Resorts, Inc. (the ACC Group) to create a company which will serve as a holding vehicle for TKPI and TKDC (wholly owned subsidiaries of the ACC Group prior to the Company's involvement). TKPI and TKDC are mainly involved in the development of parcels of land and islands into resorts in Miniloc, Lagen, Pangulasian and Apulit islands in the municipalities of El Nido and Taytay in Northern Palawan.

The agreement eventually resulted in the Company obtaining 60.0% interest in the new company for a total consideration of ₱2,000.0 million and ACC Group acquiring the remaining 40.0% interest. The Company subscribed to 60% of the shares of TKPI and TKDC, thereby providing the Company with the ability to exercise control over TKPI and TKDC effective April 23, 2010. Accordingly, TKPI and TKDC financial statements were consolidated on a line-by-line basis with that of the Group as of December 31, 2010.

The following were the fair values of the identifiable assets and liabilities assumed (in thousands) at the time of acquisition:

Assets	
Cash and cash equivalents	₱365,652
Trade and other receivables	1,455,940
Inventories	16,393
Other current assets	25,401
Land and improvements	1,361,645
Deposit on land purchase	444,622
Property and equipment	493,328
Other assets	140,640
	4,303,621
Liabilities	
Accounts and other payables	310,177
Deposits and other current liabilities	21,446
Due to related parties	89,232
Loans payable	81,621
Income tax payable	18,630
Deferred tax liabilities – net	399,155
	920,261
Net assets	3,383,360
Non-controlling interest in TKDC and TKPI	1,353,344
Total net assets acquired	2,030,016
Acquisition cost	2,029,500
Negative goodwill	₱516

The fair value of the trade and other receivables approximate their carrying amounts since these are short-term in nature. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

The non-controlling interests have been measured at the proportionate share of the value of the net identifiable assets acquired and liabilities assumed.

In 2011, the Company finalized its purchase price allocation and there were no changes to the fair market values of the assets acquired and liabilities assumed for TKDC and TKPI.

In 2011, the shareholders of ECI, a subsidiary, approved the increase in its authorized capital stock and the subsequent issuance of these shares in exchange for the investment of the Company and ACC Group in TKDC and TKPI. As a result of this transaction, ALI and ACC will obtain 60.0% and 40.0% ownership interest in ECI, respectively. Also, TKDC and TKPI will become wholly owned subsidiaries of ECI. However, the Exchange Agreement was subsequently rescinded in 2013, in favor of the acquisition of the minority interest in TKDC and TKPI through AHRC's acquisition of 100% interest in ACCI (see Note 20).

Asian Conservation Company, Inc. (ACCI)
On November 19, 2013, AHRC, a wholly owned subsidiary of the Company entered into an agreement to acquire 100.0% interest in ACCI, which effectively consolidates the remaining 40.0% interest in TKDC and TKPI (60.0%-owned subsidiary of the Company prior to this acquisition). This acquisition is in line with the Company's thrust to support the country's flourishing tourism industry.

The agreement resulted in the Company effectively obtaining 100.0% interest in TKPI and TKDC. A total of ₱2,000.0 million was paid to obtain the 100.0% interest in ACCI. The carrying amount of the non-controlling interest is reduced to nil as the Company already owns 100.0% share in TKDC and TKPI become wholly owned subsidiaries of the Company. The difference between the fair value of the consideration paid and the amount by which the non-controlling interest is adjusted is recognized in equity attributable to the Company amounting to ₱586.0 million (see Note 20).

Acquisition of Non-controlling Interests

Cebu Holdings, Inc. (CHI)
On various dates in 2016, ALI acquired a total of 10.5% additional ownership in CHI for a total consideration of ₱1209.8 million. This brought ALI's ownership from 56.4% to 66.9% of the outstanding capital stock of CHI and there was no change in control.

APPHC and AyalaLand Offices, Inc. (formerly APPCo)
APPCo owns BPO buildings in Makati, Quezon City and Laguna, with a total leasable area of approximately 230 thousand square meters. This acquisition is aligned with the Company's thrust of expanding its office leasing business and increasing its recurring income.

In 2006, the Company signed an agreement with MLT Investments Ltd. (MIL) and Filipinas Investments Ltd. (FIL) to jointly develop a BPO office building in Dela Rosa Street and to purchase the existing PeopleSupport Building.

APPHC, the joint-venture company formed, is 60.0%-owned by the Company. APPHC owns 60% interest in its subsidiary, APPCo. The remaining 40.0% interest in both APPHC and APPCo are split evenly between MIL and FIL. APPHC and APPCo are joint ventures by the Company, MIL, and FIL.

On December 8, 2008, the Company acquired from FIL its 20.0% ownership in APPHC and APPCo. This resulted in an increase in the Company's effective ownership interest in APPHC from 60.0% to 80.0% and APPCo from 36.0% to 68.0%, thereby providing the Company with the ability to control the operations of APPHC and APPCo following the acquisition. Accordingly, APPHC and APPCo's financial statements are consolidated on a line-by-line basis with that of the Group as of December 31, 2008.

On November 16, 2011, the SEC approved the merger of APPHC and APPCo, with APPCo as the surviving entity. The merger was meant to streamline administrative processes and achieve greater efficiency. From the perspective of the Company, the merger did not affect its effective interest (68.0%) in the merged entity.

On April 15, 2013, the Company has entered into a Sale and Purchase Agreement with Global Technologies International Limited (GTIL) to acquire the latter's 32.0% stake in APPCo for ₱3,520.0 million. Prior to the acquisition, the Company has 68.0% effective interest in APPCo.

The carrying amount of the non-controlling interest is reduced to nil as APPCo became wholly owned by the Company. The difference between the fair value of the consideration paid and the amount by which the non-controlling interest is adjusted is recognized in equity attributable to the Company amounting to ₱2,722.6 million (see Note 20).

Asian I-Office Properties, Inc. (AiO)
On April 16, 2013, CPVDC (a subsidiary of CHI) acquired the 60.0% interest of the Company in AiO for a cash consideration of ₱436.2 million. AiO was previously 40.0%-owned by CPVDC and 60.0%-owned by the Company.

This transaction allows the Company to consolidate into CPVDC the development and operations of BPO offices in Cebu and businesses related thereto, which should lead to value enhancement, improved efficiencies, streamlined processes and synergy creation among the Company and its subsidiaries. This is also consistent with the thrust of the CHI group to build up its recurring income base.

The acquisition resulted to AiO becoming a wholly owned subsidiary of CPVDC. Both AiO and CHI are under the common control of the Company. As a result, the acquisition was accounted for using the pooling of interests method. The transaction has no effect on the carrying amounts of the Group's assets and liabilities.

TPEPI
On October 31, 2013, the Group acquired a 55.0% interest in TPEPI for a consideration of ₱550.0 million. The acquisition will allow the Group to consolidate its businesses resulting in improved efficiencies and synergy creation to maximize opportunities in the Cebu real estate market. The transaction was accounted for as an asset acquisition.

The excess of the Group's cost of investment in TPEPI over its proportionate share in the underlying net assets at the date of acquisition was allocated to the "Investment properties" account in the consolidated financial statements. This purchase premium shall be amortized upon sale of these lots by TPEPI.

TPEPI's underlying net assets acquired by the Group as of date of acquisition consists of cash in bank, input VAT and investment properties amounting to ₱550.0 million.

NTDCC
On December 10, 2014, the Group purchased its proportionate share in Anglo Philippine Holdings Corporation's 15.8% interest in NTDCC for ₱738.3 million which consists of 539,249 common shares and 2,265,507 preferred shares. This increased the Company's ownership in NTDCC from 49.3% to 58.5% of the total outstanding capital stock of NTDCC which owns and operates the Trinoma Commercial Centre in North Triangle, Quezon City.

Subsequently, on December 22, 2014, the Company purchased the shares of Allante Realty and Development Corporation and DBH Incorporated in NTDCC for ₱211.2 million each of which comprises of 154,287 common shares and 648,196 preferred shares for each company. This resulted to an increase in the Company's ownership in NTDCC from 49.3% to 63.8% of the total outstanding capital stock of NTDCC.

On February 6, 2015, ALI purchased the remaining interest of Anglo Philippine Holdings Corporation (Anglo) in North Triangle Depot Commercial Corporation (NTDCC) consisting of 382,072 common shares and 1,605,169 preferred shares amounting to ₱523.0 million. The transaction brings ALI's ownership from 63.8% to 70.4% of the total outstanding capital stock of NTDCC.

Then, the Group purchased the combined remaining interest of Allante Realty and Development Corporation (Allante) and DBH, Inc. (DBH) in North Triangle Depot Commercial Corporation (NTDCC) consisting of 167,548 common shares and 703,904 preferred shares amounting to ₱229.0 million which brought ALI's ownership in NTDCC from 70.36% to 73.24% of the total outstanding capital stock of NTDCC. This acquisition is aligned with ALI's thrust of expanding its leasing business.

PhilEnergy
Ayala Land, Inc. acquired MC's 40% minority interest in PhilEnergy which increased its ownership to 100%. The transaction resulted to an immaterial equity reserves balance as its total investment cost of ₱322.3 million approximates the par value of the shares plus 40% of PhilEnergy's audited retained earnings as of December 31, 2013.

25. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates.

In its regular conduct of business, the Group has entered into transactions with its parent company, associates and other related parties principally consisting of advances and reimbursement of expenses, purchase and sale of real estate properties, construction contracts, development, management, underwriting, marketing, leasing and administrative service agreements.

Terms and Conditions of Transactions with Related Parties
Transactions with related parties are made at normal market prices. Outstanding balances at year end are unsecured, interest free and settlement occurs generally in cash, except otherwise indicated. There have been no guarantees provided or received for any related party receivables or payables. The Group does not provide any allowance relating to receivable from related parties.

This assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

The following tables provide the total amount of transactions that have been entered into with related parties for the relevant financial year (in thousands):

a. Transactions with Bank of the Philippine Islands (BPI), an associate of AC

   Cash in banks earns interest at 0.25% to 0.75 % per annum. Cash equivalents earn interest from 1.2% to 2.8% per annum. Investment in FVPL are UITF which earns interest depending on the duration of time invested in the fund. Interest earned with investments in BPI for the year amounted to ₱56.65 million.

   Short-term debt are unsecured peso and dollar-denominated bank loans with interest rate ranging from 2.3% to 3.0% while long-term debt bears 4.5% to 4.7% per annum ranging from 4.4. to 10.5 years. Interest expense incurred on borrowings from BPI amounted to ₱628.76 million for the year ended December 31, 2016.

   As of December 31, 2016 and 2015, the Group maintains current and savings account, money market placements and short-term and long-term debt payable with BPI broken down as follows:

	2016	2015
	(In Thousands)	
Cash in bank	**₱2,790,167**	₱6,028,795
Cash equivalents	**3,361,140**	6,983,653
Investment in FVPL	**977,589**	288,229
Short term debt	**5,669,100**	1,669,000
Long-term debt	**17,342,089**	12,522,323

b. Outstanding balances with parent company, associates and other related party

   Receivables from/payables to other related parties pertain mostly to advances and reimbursement of operating expenses related to development cost and land acquisitions. Payables to related parties consist of expenses incurred on utilities, professional services and other miscellaneous services as well as purchases of vehicles. These are generally trade-related, noninterest-bearing and settled within one year.

Outstanding balances from/to related parties follow (amounts in thousands):

2016

	Receivable from related parties			Payable to related parties		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Parent Company	₱98,685	₱–	₱98,685	₱72,965	₱–	₱72,965
Associates	231,206	–	231,206	253,077	–	253,077
Other related parties:						
FBDC	455,170	–	455,170	1,171	–	1,171
Globe Telecom (Globe)	234,323	–	234,323	5,861	–	5,861
BPI	52,452	–	52,452	46,891	–	46,891
Columbus	–	–	–	267,355	–	267,355
Others	44,911	–	44,911	21,656	–	21,656
	786,856	–	786,856	342,934	–	342,934
	₱1,116,747	₱–	₱1,116,747	₱668,976	₱–	₱668,976

2015

	Receivable from related parties			Payable to related parties		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Parent Company	₱156,157	₱–	₱156,157	₱77,773	₱–	₱77,773
Associates	122,268	–	122,268	249,480	–	249,480
Other related parties:						
FBDC	547,331	–	547,331	396	–	396
Globe Telecom (Globe)	113,300	–	113,300	5,223	–	5,223
BPI	38,207	–	38,207	47,403	–	47,403
Columbus	–	–	–	267,355	–	267,355
Others	35,322	–	35,322	15,232	–	15,232
	734,160	–	734,160	335,609	–	335,609
	₱1,012,585	₱–	₱1,012,585	₱662,862	₱–	₱662,862

c. Revenue and expenses from related parties

The revenue from parent company, associates and other related parties pertains mostly to income from leasing and development projects while expenses composed of management fees and training expenses. These are usually non-interest bearing and not impaired. Transactions are settled within one year.

Revenue and expenses from related parties follow:

Revenue from related parties:

	2016	2015	2014
		(In Thousands)	
Parent Company	**₱51,914**	₱3,934	₱501,339
Associate	**46,237**	44,128	49,135
Other Related Parties			
BPI	**222,045**	189,584	297,767
Psi Technologies	**109,486**	115,087	–
FBDC	**212,448**	75,282	176,195
Globe	**221,243**	46,062	75,044
Laguna AA Waterworks Corp. (LAWC)	**1,500**	1,500	1,500
Manila Water Company, Inc. (MWCI)	**1,128**	918	883
6750 Ayala Avenue JV	**–**	–	17,697
Others	**19,528**	13,382	13,057
	787,378	441,815	582,143
Total	**₱885,529**	₱489,877	₱1,132,617

Expenses from related parties:

	2016	2015	2014
		(In Thousands)	
Parent Company	**₱29,318**	₱575,303	₱445,623
Associate	**2,095**	725,139	1,315
Other Related Parties			
AG Counselors Corp.	**179,881**	166,811	154,587
MWCI	**194,836**	157,937	195,435
FBDC	**192,697**	155,598	155,099
BPI	**217,097**	96,931	20,781
BPI Securities Corp.	**–**	90,560	–
Globe	**58,434**	49,318	44,392
Innove Communications, Inc.	**42,238**	30,930	35,200
Ayala Life Assurance, Inc.	**–**	–	248,219
Others	**177,360**	20,387	43,520
	1,062,543	768,472	897,233
Total	**₱1,093,956**	₱2,068,914	₱1,344,171

The following describes the nature of the material transactions of the Group with related parties as of December 31, 2016 and 2015:

- On January 12, 2016, the Company has entered into a partnership with Manila Water Philippine Ventures, Inc, a wholly owned subsidiary of Manila Water Company, Inc, for the waterworks of ALI's projects nationwide. The MOA was signed by ALI and its subsidiaries and affiliates, Cebu Holdings, Inc. and Cebu Property Ventures and Development Corp. Revenue and expense for the year amounted to ₱6.77 million and ₱113.4 million, respectively.
- In July 2015, Avida entered into a contract with AC for the purchase of land in San Antonio, Makati City with the purchase price amounted to ₱644.1 million, inclusive of VAT. Payments were made in two tranches, with the first one in July amounting to ₱471.6 million (inclusive of VAT & CWT) and the balance of ₱172.5 million in October 2015.
- On November 26, 2014, Alveo acquired a 6,986 sqm property located along Valero St., Salcedo Village, Makati City. The property was purchased from BPI for ₱1,595.0 million.
- Certain credit facilities with BPI with a total carrying value of ₱22,395.5 million and ₱14,191.3 million as of December 31, 2016 and 2015, respectively, are secured by a real estate mortgage. This is in compliance with BSP ruling on directors, officers, stockholders and related interests.
- In 2013, the Company, through its subsidiary Avida, advanced ₱107.2 million for selling expenses and transfer costs for AC allocated units on projects under joint development agreement between AC and Avida. As of December 31, 2015 and 2014, the balance of such advances amounted to nil and ₱78.3 million, respectively.
- On February 3, 2011, Amaia Land Corp. (Amaia) entered into a Joint Development Agreement (the Agreement) with AC to develop parcels of land (the Property) located in Brgy. Dagatan, Lipa City, Batangas registered in the name of AC. AC agreed to contribute the Property and Amaia agreed to contribute project development services. In return for their respective contributions, the parties agreed to respectively distribute and allocate to themselves the developed units in the project corresponding to their pro-rata interest therein. In 2012, the parties agreed to cancel the Agreement and sell the property to Amaia. On December 17, 2012, the parties executed a Deed of Absolute Sale wherein AC agreed to sell and Amaia agreed to purchase the Property from AC for ₱50.1 million. As of December 31, 2015 and 2014, the payable to AC amounted to nil and ₱29.8 million respectively.
- On April 17, 2012, AC awarded the Daang Hari-SLEX Link road project to MDC with total contract price of ₱804.4 million. The scope of work includes the construction of a 4 km toll road that will exit South Luzon near the Susana Heights Interchange passing through government properties in Muntinlupa and will end in Daang Hari in Imus, Cavite. The project

was started last June 2012 and was completed in June 2015. Additional accomplishments from change orders in 2016 amounting to ₱51.8 million pertain to direct works on the toll plaza, main tunnel across SLEX and segments of roads in Daang Hari.

- In November 2012, BG South, a subsidiary of Alveo, entered into a contract with FBDC for the purchase of land in Bonifacio Global City. The Deed of Absolute Sale related to the contract was executed in 2012 for which the purchase price amounted to ₱727.8 million, plus VAT. In 2013, ₱407.0 million, inclusive of VAT, were paid by BG South. Outstanding payable amounted to ₱9.11 million and ₱23.9 million as of December 31, 2016 and 2015, respectively.
- On May 20, 2013, DirectPower and its customers, which are all within the Ayala Group, entered into a Retail Electricity Supply contract wherein DirectPower agreed to supply electricity at a specific rate pursuant to the provisions and implementing rules and regulations of R.A. No. 9136 or the Electric Power Industry Reform Acts of 2001. Among the customers of DirectPower are FBDC, LDC, BPI, San Lazaro BPO Complex and 6750 Ayala Ave.
- Revenue from Globe pertains to development management fee and for lease of spaces.

d. Remuneration of Key Management Personnel (KMP)
Key management personnel of the Group include all officers with position of vice president and up. Compensation of key management personnel amounted to ₱145,476 million and ₱158,600 million in 2016 and 2015, respectively.

Compensation of key management personnel by benefit type follows:

	2016	2015
	(In Thousands)	
Short-term employee benefits	**₱129,980**	₱140,826
Post-employment benefits (Note 26)	**15,497**	17,774
	₱145,477	₱158,600

26. **Retirement Plan**

The Group has funded, noncontributory tax-qualified defined benefit type of retirement plans (the Plan) covering substantially all of their employees. The benefits are based on a defined benefit formula.

The Plan aims to maintain a full funding, i.e., the Plan’s assets fully covered the Plan’s liabilities, as measured through generally accepted actuarial methodologies. Such will provide a higher level of assurance that all promised benefits can be paid from existing assets and expected investment returns. The target funded status is within the range of 80% to 100%.

The Group’s fund is in the form of a trust fund being maintained by trustee banks such as BPI Asset Management and Trust Group and Deutsche Bank (collectively the “Retirement Fund”). The primary objective of the Retirement Fund is to achieve the highest total rate of return possible, consistent with a prudent level of risk. The investment strategy articulated in the asset allocation policy has been developed in the context of long-term capital market expectations, as well as multi-year projections of actuarial liabilities. Accordingly, the investment objectives and strategies emphasize a long-term outlook, and interim performance fluctuations will be viewed with the corresponding perspective.

The components of expense (included in manpower costs under "General and administrative expenses") in the consolidated statements of income follows:

	2016	2015	2014
		(In Thousands)	
Current service cost	**₱283,522**	₱309,459	₱410,462
Past service cost	**–**	519	6,903
Net interest cost on benefit obligation	**99,337**	59,893	30,365
Total pension expense	**₱382,859**	₱369,871	₱447,730

The remeasurement effects recognized in other comprehensive income (included in Equity under "Remeasurement gain (loss) on pension liabilities") in the consolidated statements of financial position follow:

	2016	2015	2014
		(In Thousands)	
Return gain (loss) plan assets (excluding amount included in net interest)	**₱49,760**	(₱19,383)	₱28,280
Remeasurement loss due to liability experience	**(73,212)**	(208,473)	(46,810)
Remeasurement loss due to liability assumption changes - demographic	**–**	(235)	(51,593)
Remeasurement gain (loss) due to liability assumption changes - economic	**(84,504)**	427,955	–
Remeasurements in other comprehensive income (loss)	**(₱107,956)**	₱199,864	(₱70,123)

The funded status and amounts recognized in the consolidated statement of financial position for the pension plan as of December 31, 2016 and 2015, are as follows:

	2016	2015
	(In Thousands)	
Benefit obligations	**₱3,573,076**	₱3,547,234
Plan assets	**(2,147,750)**	(2,109,193)
Net pension liability position	**₱1,425,326**	₱1,438,041

As of December 31, 2016 and 2015 pension assets (included under "other noncurrent assets") amounted to ₱73.5 million and ₱64.2 million, respectively, and pension liabilities amounted to ₱1,498.8 million and ₱1,502.2 million, respectively.

Changes in net defined benefit liability of funded funds in 2016 are as follows (in thousands):

		Net benefit cost in consolidated statement of income					**Remeasurements in other comprehensive income**								
	January 1, 2016	**Current service cost**	**Past service cost**	**Net interest**	**Subtotal**	**Benefits paid**	**Return on plan Assets***	**Remeasurement (gain)/loss due to liability experience**	**Remeasurement (gain)/loss due to liability assumption changes - demographic**	**Remeasurement (gain)/loss due to liability assumption changes - economic**	**Net remeasurement loss**	**Contribution by employer**	**Transfer in /(out)**	**Settlements**	**December 31, 2016**
Present value of defined benefit obligation	**₱3,547,234**	**₱283,522**	**₱–**	**₱203,196**	**₱486,718**	**(₱296,107)**	**₱–**	**(₱73,212)**	**₱–**	**(₱84,504)**	**(157,716)**	**₱–**	**(₱7,053)**	**₱–**	**₱3,573,076**
Fair value of plan assets	**(2,109,193)**	**–**	**–**	**(103,859)**	**(103,859)**	**293,819**	**49,760**	**–**	**–**	**–**	**49,760**	**(278,279)**	**–**	**–**	**(2,147,752)**
Net defined benefit liability (asset)	**₱1,438,041**	**₱283,522**	**₱–**	**₱99,337**	**₱382,859**	**(₱2,288)**	**₱49,760**	**(₱73,212)**	**₱–**	**(₱84,504)**	**(₱107,956)**	**(₱278,279)**	**(₱7,053)**	**₱–**	**₱1,425,324**

*excluding amount included in net interest

Changes in net defined benefit liability of funded funds in 2015 are as follows (in thousands):

		Net benefit cost in consolidated statement of income					Remeasurements in other comprehensive income								
	January 1, 2015	Current service cost	Past service cost	Net interest	Subtotal	Benefits paid	Return on plan Assets*	Remeasurement (gain)/loss due to liability experience	Rremeasurement (gain)/loss due to liability assumption changes - demographic	Remeasurement (gain)/loss due to liability assumption changes - economic	Net remeasurement loss	Contribution by employer	Transfer in /(out)	Settlements	December 31, 2015
Present value of defined benefit obligation	₱3,750,189	₱309,459	₱519	₱79,590	₱389,568	(₱306,948)	₱–	₱208,473	₱235	(₱427,955)	(₱219,247)	₱–	(₱66,328)	₱–	₱3,547,234
Fair value of plan assets	(2,189,026)	–	–	(19,697)	(19,697)	294,094	19,383	–	–	–	19,383	(212,197)	(1,750)	–	(2,109,193)
Net defined benefit liability (asset)	₱1,561,163	₱309,459	₱519	₱59,893	₱369,871	(₱12,854)	₱19,383	₱208,473	₱235	(₱427,955)	(₱199,864)	(₱212,197)	(₱68,078)	₱–	₱1,438,041

*excluding amount included in net interest

All equity and debt instruments held have quoted prices in an active market. The remaining plan assets do not have quoted market prices in an active market.

The plan assets have diverse investments and do not have any concentration risk.

The fair value of plan assets by each class as at the end of the reporting period are as follows:

	December 31	
	2016	2015
	(In Thousands)	
Cash and cash equivalents	**₱130,565**	₱116,805
Equity investments		
Unit Investment Trust Funds	**255,119**	136,250
Holding Firms	**165,052**	136,110
Mutual Funds	**81,344**	90,856
Industrials	**56,649**	40,691
Financials	**33,552**	14,210
Property	**17,269**	15,622
Services	**16,885**	21,186
Mining and Oil	**–**	5,245
	625,870	460,170
Debt investments		
Government securities	**551,440**	683,199
AAA rated debt securities	**2,535**	462,808
Not rated debt securities	**783,466**	316,879
	1,337,441	1,462,886
Other assets	**53,876**	69,332
	₱2,147,752	₱2,109,193

The Retirement Fund's investments will be appropriately diversified to control overall risk and will exhibit portfolio characteristics similar to the set benchmark for each asset class. In case of securities, the aggregate holdings of any security may not exceed 10% of the Plan assets. The criteria for including an asset class in the strategic policy include: (a) wide recognition and acceptance among institutional investors; (b) low correlation with other accepted asset classes; and (c) a meaningful performance history. The Group expects to make contributions of ₱281.4 million to its retirement fund in 2017.

The allocation of the fair value of plan assets follows:

	2016	2015
Investments in debt securities	**62.27%**	69.36%
Investments in equity securities	**29.14%**	21.82%
Others	**8.59%**	8.82%

Funds invested in debt securities include government securities, corporate notes and bonds, unit investment trust funds and special deposit accounts. Investments in equity securities consist of investments in PSE listed stocks and unit investment trust funds. Others were in the form of cash and cash equivalents.

The Group's transactions with the fund mainly pertain to contributions, benefit payments and settlements.

As of December 31, 2016 and 2015, the funds include investment in securities to its related parties. Details of the investment per type of security are as follows:

	December 31, 2016			December 31, 2015
	Carrying Value	**Fair Value**	**Unrealized (Gain) Loss**	Fair Value
	(In Thousands)			
Investments in debt securities	**₱274,285**	**₱274,876**	**(₱591)**	₱133,839
Investments in equity securities	**236,757**	**233,063**	**3,694**	195,120
Others	**18,730**	**18,783**	**(53)**	136,237
	₱529,772	**₱526,722**	**3,050**	₱465,196

The plan assets include shares of stock of the Company with fair value amounting to ₱13.2 million, and ₱7.5 million as of December 31, 2016 and 2015, respectively. The Company gives the trustee bank the discretion to exercise voting rights over the shares. The plan assets include debt securities of the Company amounting to ₱74.3 million and ₱73.1 million as of December 31, 2016 and 2015, respectively. The loss of the fund arising from investments in debt and equity securities of the Company amounted to ₱0.7 million and ₱1.2 million, respectively.

The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension liabilities are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension and post-employment medical benefit obligations for the defined benefit plans are shown below:

	2016	2015
Discount rates	**4.7 to 5.5%**	4.5 to 5.3%
Future salary increases	**3.0 to 10.0%**	3.0 to 8.0%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

<u>2016</u>

	Effect on income before income tax Increase (decrease	
Change in basis points	**+ 100 basis points**	**- 100 basis points**
	(In Thousands)	
Discount rate	**(₱364,226)**	**₱479,698**
Salary increase rate	**448,909**	**(237,998)**

<u>2015</u>

	Effect on income before income tax Increase (decrease	
Change in basis points	+ 100 basis points	- 100 basis points
	(In Thousands)	
Discount rate	(₱207,098)	₱236,070
Salary increase rate	231,851	(188,779)

Shown below is the maturity analysis of the undiscounted benefit payments:

Year ending:	**2016**	2015
	(In Thousands)	
1 year and less	**₱112,555**	₱209,179
More than 1 year to 5 years	**526,911**	814,946
More than 5 years	**5,538,959**	2,062,111

The average duration of the defined benefit obligation is 11.0 to 25.0 years and 9.3 to 27.1 years in 2016 and 2015, respectively.

27. Earnings Per Share

The following tables present information necessary to compute EPS (amounts in thousands except EPS):

EPS on net income attributable to equity holders of the Company are as follows:

	2016	2015
	(In Thousands)	
Net income attributable to equity holders of the Company	**₱20,908,011**	₱17,630,275
Dividends on preferred stock	**(62,038)**	(62,038)
Net income attributable to equity holders for basic and diluted earnings per share	**₱20,845,973**	₱17,568,237
Weighted average number of common shares for basic EPS	**14,588,347**	14,580,415
Dilutive shares arising from stock options	**1,196**	2,692
Adjusted weighted average number of common shares for diluted EPS	**14,589,543**	14,583,107
Basic EPS	**₱1.43**	₱1.20
Diluted EPS	**₱1.43**	₱1.20

Basic EPS is computed by dividing net income for the year attributable to common equity holders of the Company by the weighted average number of common shares issued and outstanding during the year adjusted for any subsequent stock dividends declared.

Diluted EPS is computed by dividing net income for the year attributable to common equity holders of the Company by the weighted average number of common shares issued and outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential common shares that would have an antidilutive effect on earnings per share.

The convertibility of the preferred shares will start on the 10th year from the issue date which was in 2012. This has an antidilutive effect on the computation of diluted EPS.

28. **Stock Options and Ownership Plans**

The Company has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (ESOWN) covering 2.5% of the Company's authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a three-year period.
The ESOP grantees may exercise in whole or in part the vested allocation in accordance with the vesting percentage and vesting schedule stated in the ESOP. Also, the grantee must be an employee of the Company or any of its subsidiaries during the 10-year option period. In case the grantee retires, he is given 3 years to exercise his vested and unvested options. In case the grantee resigns, he is given 90 days to exercise his vested options.

ESOP
Movements in the number of stock options outstanding under ESOP are as follows:

PFRS 2 Options

	2015	Weighted average exercise price
At January 1	₱2,858,360	₱5.63
Exercised	(₱2,858,360)	5.63
Cancelled	–	–
At December 31	₱–	₱–

No ESOP grant and availment during 2016. In 2015, the options exercised had a weighted average exercise price of ₱5.63 per share or ₱16.09 million. The average fair market value of the shares at the exercise date was ₱36.53 per share or about ₱104.4 million.

The fair value of stock options granted are estimated as at the date of grant using the Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The fair value of stock options granted under ESOP at June 30, 2005 grant date, and the assumptions used to determine the fair value of the stock options are as follows:

Weighted average share price	₱8.36
Exercise price	₱6.75
Expected volatility	46.30%
Option life	10 years
Dividend yield	3.21%
Interest rate	12.60%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also necessarily be the actual outcome.

ESOWN
In November 2001, the Company offered all its ESOWN subscribers with outstanding ESOWN subscriptions the option to cancel the subscriptions within the 5-year holding period. In December 2001, the program for ESOWN was indefinitely suspended.

In 2005, the Company introduced a revised ESOWN Plan (the Plan) wherein grantees may subscribe in whole or in part to the shares awarded to them based on a discounted market price that was determined by the Compensation Committee as the offer price set at grant date. The grantees paid for the shares subscribed through installments over a maximum period of ten (10) years. The subscription is subject to a holding period stated in the plan. To subscribe, the grantee must be an employee of the Company or any of its subsidiaries during the ten (10)-year payment period. In case the grantee resigns, unsubscribed shares are cancelled, while the subscription may be paid up to the percent of holding period completed and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, or payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may subscribe to the unsubscribed shares anytime within the ten (10)-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the Plan are subject to the Company's right to repurchase.

The subscribed shares are effectively treated as options exercisable within a given period which is the same time as the grantee's payment schedule. The fair values of these options are estimated on the date of grant using the Binomial Tree Model. The Binomial Tree model requires six inputs to produce an option stock value namely; market value of the share, book value of the share, time to maturity, volatility rate, dividend yield, and risk free rate.

For the unsubscribed shares, the employee still has the option to subscribe within seven (7) years.

Movements in the number of options outstanding and weighted average exercise prices (WAEP) under ESOWN follow:

	2016	**WAEP**	2015	WAEP
At January 1	**8,734,420**	**₱16.96**	12,279,280	₱15.61
Granted	**15,182,203**		14,632,157	
Subscribed	**(17,051,221)**	**24.11**	(17,856,271)	26.16
Cancelled availment	**678,086**		727,385	
Cancelled	**(407,975)**		(1,048,131)	
At December 31	**7,135,513**	**₱19.95**	8,734,420	₱16.96

The fair values of stock options granted are estimated on the date of grant using the Binomial Tree Model (BTM) and Black-Scholes Merton (BSM) Formula, taking into account the terms and conditions upon which the options were granted. The expected volatility was determined based on an independent valuation. Option maturity is four years from the date of grant.

The fair value of stock options granted under ESOWN at grant date and the assumptions used to determine the fair value of the stock options follow:

	Grant Date					
	April 05, 2016	March 20, 2015	March 20, 2014	March 18, 2013	March 13, 2012	March 31, 2011
Number of unsubscribed shares	181,304	–	1,369,887	1,713,868	3,967,302	3,843,057
Fair value of each option (BTM)	₱13.61	₱16.03	₱12.60	₱16.05	₱9.48	₱7.81
Fair value of each option (BSM)	₱18.21	₱20.63	₱12.16	₱11.85	₱6.23	₱7.27
Weighted average share price	₱35.58	₱36.53	₱31.46	₱30.00	₱21.98	₱15.5
Exercise price	₱26.27	₱29.58	₱22.55	₱21.45	₱14.69	₱13.2
Expected volatility	32.03%	31.99%	33.50%	36.25%	33.00%	36.25%
Dividend yield	1.27%	1.02%	1.42%	1.93%	0.9%	1.01%
Interest rate	4.75%	4.11%	3.13%	2.78%	5.70%	5.60%

	Grant Date					
	March 31, 2010	April 30, 2009	May 15, 2008	September 20, 2007	June 5, 2006	November 16, 2005
Number of unsubscribed shares	2,298,247	5,418,619	15,057,840	494,400	5,270,333	3,036,933
Fair value of each option (BTM)	₱8.88	₱4.05	₱6.77	₱6.93	₱7.33	₱5.58
Fair value of each option (BSM)	₱7.62	₱3.08	₱6.14	₱8.92	₱9.18	₱6.76
Weighted average share price	₱13.00	₱6.40	₱10.50	₱15.00	₱13.00	₱9.30
Exercise price	₱9.74	₱4.96	₱9.74	₱12.00	₱10.35	₱7.03
Expected volatility	43.57%	37.45%	32.04%	34.67%	46.03%	46.32%
Dividend yield	0.48%	0.85%	0.49%	0.41%	1.56%	0.77%
Interest rate	5.95%	5.94%	8.53%	6.93%	10.55%	11.30%

Total expense (included under "General and administrative expenses") recognized in 2016, 2015 and 2014 in the consolidated statements of income arising from share-based payments amounted to ₱208.3 million, ₱213.6 million and ₱196.1 million, respectively (see Note 22).

29. Financial Assets and Liabilities

Fair Value Information

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as of December 31, 2016 and 2015:

	December 31, 2016		December 31, 2015	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Asset at FVPL	**₱1,964,540**	**₱1,964,540**	₱731,677	₱731,677
Available-for-Sale Financial Assets				
Unquoted equity securities	**537,094**	**537,094**	350,765	350,765
Quoted equity securities	**848,078**	**848,078**	149,594	149,594
	₱3,349,712	**₱3,349,712**	₱1,232,036	₱1,232,036
Loans and Receivables				
Trade residential and office development	**₱79,286,123**	**₱79,618,899**	₱65,809,994	₱67,103,996
Investment in bonds classified as loans and receivables	**–**	**–**	258,000	264,973
Receivable from employees	**739,826**	**740,163**	711,608	712,685
	₱80,025,949	**₱80,359,062**	₱66,779,602	₱68,081,654
Other Financial Liabilities				
Long-term debt	**₱135,556,988**	**₱135,188,310**	₱120,509,853	₱120,150,140
Deposits and other noncurrent liabilities	**19,058,884**	**18,960,428**	15,258,921	15,224,116
	₱154,615,872	**₱154,148,738**	₱135,768,774	₱135,374,256

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are as follows:

Cash and cash equivalents, short-term investments and current receivables, accounts and other payables, current payables and short term debt - Carrying amounts approximate fair values due to the relatively short-term maturities of these financial instruments.

Financial assets at FVPL - UITF - These are investments in fund. Fair value is based on net asset values as of reporting dates.

Noncurrent accounts and notes receivables - The fair values of residential accounts and notes receivable, and receivable from employees, are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 1.50% to 6.39% and 1.40% to 5.47% as of December 31, 2016 and 2015.

AFS quoted equity securities - Fair values are based on quoted prices published in markets.

AFS unquoted equity securities - These are carried at cost less allowance for impairment losses because fair value cannot be measured reliably due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value.

Liabilities - The fair value of noncurrent unquoted instruments (long-term debt and deposits) are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used ranged 0.19% to 6.52% and 1.05% to 7.75% as of

December 31, 2016 and 2015, respectively. The fair value of noncurrent unquoted debt instruments with floating rates are estimated using discounted cash flow - last repricing method.

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

Level 1: quoted (unadjusted prices) in active markets for identical assets and liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
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 Company categorizes trade receivable, investment in bonds classified as loans and receivables, receivable from employees, long-term debt and deposits and other noncurrent liabilities under Level 3. The fair value of these financial instruments is determined by discounting future cash flows using the applicable rates of similar types of instruments plus a certain spread. This spread is the unobservable input and the effect of changes to this is that the higher the spread, the lower the fair value.

Quoted AFS financial assets amounting to ₱848.1 million and ₱149.6 million as of December 31, 2016, and 2015, respectively were classified under Level 1 (see Note 10).

Unquoted AFS financial assets amounting to ₱537.1 million and ₱350.8 million as of December 31, 2016 and 2015, respectively were classified under Level 3 (see Note 10).

There have been no reclassifications from Level 1 to Level 2 categories in December 31, 2016 and 2015.

Financial Risk Management Objectives and Policies
The Group's principal financial instruments comprise of cash and cash equivalents, short-term investment, financial assets at FVPL, AFS quoted and unquoted equity securities, investments in bonds, bank loans, corporate notes and bonds. The financial debt instruments were issued primarily to raise financing for the Group's operations. The Group has various financial assets such as trade receivables and trade payables which arise directly from the conduct of its operations.

Exposure to liquidity, credit, interest rate, currency and equity risks arise in the normal course of the Group's business activities. The main objectives of the Group's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The use of derivative financial instruments, if any, is solely for management of the Group's financial risk exposures. It is the Group's policy not to enter into derivative transactions for speculative purposes.

The Group's financing and treasury function operates as a centralized service for managing financial risks and activities as well as providing optimum investment yield and cost-efficient funding for the Group.

There were no changes in the Group's financial risk management objectives and policies in 2016 and 2015.

Liquidity risk
Liquidity risk is defined by the Group as the risk of losses arising from funding difficulties due to deterioration in market conditions and/or the financial position of the Group that make it difficult for the Group to raise the necessary funds or that forces the Group to raise funds at significantly higher interest rates than usual.

This is also the possibility of experiencing losses due to the inability to sell or convert marketable securities into cash immediately or in instances where conversion to cash is possible but at a loss due to wider than normal bid-offer spreads.

The Group employs scenario analysis and contingency planning to actively manage its liquidity position and guarantee that all operating, investing and financing needs are met. The Group has come up with a three-layered approach to liquidity through the prudent management of sufficient cash and cash equivalents, the potential sale of accounts receivables and the maintenance of short-term revolving credit facilities.

Cash and cash equivalents are maintained at a level that will enable it to fund its general and administrative expenses as well as to have additional funds as buffer for any opportunities or emergencies that may arise. Management develops viable funding alternatives through a continuous program for the sale of its receivables and ensures the availability of ample unused short-term revolving credit facilities from both local and foreign banks as back-up liquidity.

The Group ascertains that its cash is invested in short-term bank placements and special deposit accounts, as well as in high-quality and marketable government and corporate securities.

The table summarizes the maturity profile of the Group's financial liabilities at December 31, 2016 and 2015 based on contractual undiscounted payments:

December 31, 2016

	< 1 year	**>1 to < 5 years**	**> 5 years**	**Total**
		(In Thousands)		
Accounts and other payables	**₱124,163,668**	**₱–**	**₱–**	**₱124,163,668**
Short-term debt	**24,244,350**	**–**	**–**	**24,244,350**
Long-term debt	**5,417,098**	**50,807,501**	**79,970,597**	**136,195,196**
Deposits and other noncurrent liabilities	**9,366,716**	**11,727,866**	**551,182**	**21,645,764**
	₱163,191,832	**₱62,535,367**	**₱80,521,779**	**₱306,248,978**
Interest payable*	**₱6,332,507**	**₱19,873,540**	**₱11,290,170**	**₱37,496,217**

**includes future interest payment*

December 31, 2015

	< 1 year	>1 to < 5 years	> 5 years	Total
		(In Thousands)		
Accounts and other payables	₱101,849,304	₱–	₱–	₱101,849,304
Short-term debt	10,486,258	–	–	10,486,258
Long-term debt	8,808,779	41,584,190	70,554,897	120,947,866
Deposits and other noncurrent liabilities	4,435,146	10,340,631	483,144	15,258,921
	₱125,579,487	₱51,924,821	₱71,038,041	₱248,542,349
Interest payable*	₱6,472,057	₱22,956,647	₱7,875,578	₱37,304,282

**includes future interest payment*

Cash and cash equivalents, short-term investments and financial assets at FVPL are used for the Group's liquidity requirements. Please refer to the terms and maturity profiles of these financial assets shown on the maturity profile of the interest-bearing financial assets and liabilities disclosed in the interest rate risk section. As of December 31, 2016 and 2015, undrawn loan commitments from long-term credit facilities amounted to ₱420.0 million and ₱1,221.5 million, respectively.

Credit risk
Credit risk is a risk that a counterparty will not meet its obligation under its financial instrument or customer contract leading to a financial loss.

The Group's credit risks are primarily attributable to installments receivable, rental receivables and other financial assets. To manage credit risks, the Group maintains defined credit policies and monitors its exposure to credit risks on a continuous basis.

In respect of installments receivable from the sale of properties, credit risk is managed primarily through credit reviews and an analysis of receivables on a continuous basis. The Group also undertakes supplemental credit review procedures for certain installment payment structures. The Group's stringent customer requirements and policies in place contribute to lower customer default than its competitors. Customer payments are facilitated through various collection modes including the use of postdated checks and auto-debit arrangements. Exposure to bad debts is not significant as title to real estate properties are not transferred to the buyers until full payment has been made and the requirement for remedial procedures is minimal given the profile of buyers.

Credit risk arising from rental income from leasing properties is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. In accordance with the provisions of the lease contracts, the lessees are required to deposit with the Group security deposits and advance rentals which helps reduce the Group's credit risk exposure in case of defaults by the tenants. For existing tenants, the Group has put in place a monitoring and follow-up system. Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables. Regular meetings with tenants are also undertaken to provide opportunities for counseling and further assessment of paying capacity.

Other financial assets are comprised of cash and cash equivalents excluding cash on hand, short-term investments, financial assets at FVPL and AFS financial assets. The Group adheres to fixed limits and guidelines in its dealings with counterparty banks and its investment in financial instruments. Bank limits are established on the basis of an internal rating system that principally covers the areas of liquidity, capital adequacy and financial stability. The rating system likewise makes use of available international credit ratings. Given the high credit standing of its accredited counterparty banks, management does not expect any of these financial institutions to fail in meeting their obligations. Nevertheless, the Group closely monitors developments over counterparty banks and adjusts its exposure accordingly while adhering to pre-set limits.

The Group's maximum exposure to credit risk as of December 31, 2016 and 2015 is equal to the carrying values of its financial assets, except for the following:

December 31, 2016

	Gross maximum exposure	**Fair value of collateral or credit enhancement**	**Net exposure**	**Financial effect of collateral or credit enhancement**
		(In Thousands)		
Accounts and notes receivable:				
Trade receivables:				
Residential and office	**₱79,299,678**	**₱156,821,039**	**₱–**	**₱79,299,678**
Shopping center	**2,558,391**	**2,840,013**	**–**	**2,558,391**
Corporate business	**2,541,996**	**640,006**	**1,901,990**	**640,006**
Receivables from employees	**739,826**	**315,886**	**423,940**	**315,886**
	₱85,139,891	**₱160,616,944**	**₱2,325,930**	**₱82,813,961**

December 31, 2015

	Gross maximum exposure	Fair value of collateral or credit enhancement	Net exposure	Financial effect of collateral or credit enhancement
		(In Thousands)		
Accounts and notes receivable:				
Trade receivables:				
Residential and office	₱65,833,104	₱126,923,999	₱–	₱65,833,104
Shopping center	2,124,332	3,541,389	–	2,124,332
Corporate business	1,113,385	624,374	489,011	624,374
Receivables from employees	711,608	396,250	315,358	396,250
	₱69,782,429	₱131,486,012	₱804,369	₱68,978,060

Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

As of December 31, 2016 and 2015, the aging analysis of past due but not impaired trade receivables presented per class, follow:

December 31, 2016

	Neither Past Due nor Impaired	Past Due but not Impaired <30 days	30-60 days	61-90 days	91-120 days	>120 days	Total	Individually Impaired	Total
					(In Thousands)				
Trade:									
Residential and office development	**₱67,697,421**	**₱1,286,091**	**₱1,558,333**	**₱1,269,238**	**₱1,056,797**	**₱6,431,798**	**₱11,602,257**	**₱–**	**₱79,299,678**
Construction contracts	**1,883,335**	**369,478**	**51,560**	**4,472**	**107,854**	**267,302**	**800,666**	**26,547**	**2,710,548**
Shopping centers	**1,017,276**	**184,005**	**123,814**	**84,916**	**66,716**	**736,558**	**1,196,009**	**345,106**	**2,558,391**
Corporate business	**1,986,089**	**166,347**	**37,116**	**17,291**	**46,543**	**230,987**	**498,284**	**57,623**	**2,541,996**
Management fees	**284,033**	**–**	**3,933**	**2,444**	**4,622**	**11,685**	**22,684**	**2,614**	**309,331**
Others	**731,006**	**36,576**	**20,908**	**182**	**345**	**37,462**	**95,473**	**81,362**	**907,841**
Accrued receivables	**2,366,431**	**40,481**	**231,929**	**54,966**	**58,758**	**602,853**	**988,987**	**–**	**3,355,418**
Related parties	**393,236**	**211,872**	**167,135**	**57,346**	**64,067**	**223,089**	**723,509**	**–**	**1,116,745**
Receivables from employees	**699,446**	**3,903**	**3,383**	**1,695**	**4,282**	**27,117**	**40,380**	**–**	**739,826**
	₱77,058,273	**₱2,298,753**	**₱2,198,111**	**₱1,492,550**	**₱1,409,984**	**₱8,568,851**	**₱15,968,249**	**₱513,252**	**₱93,539,774**

December 31, 2015

	Neither Past Due nor Impaired	Past Due but not Impaired <30 days	30-60 days	61-90 days	91-120 days	>120 days	Total	Individually Impaired	Total
					(In Thousands)				
Trade:									
Residential and office development	₱57,005,542	₱2,174,025	₱1,385,986	₱813,068	₱850,492	₱3,594,436	₱8,818,007	₱9,555	₱65,833,104
Construction contracts	1,765,635	455,909	137,499	12,242	14,964	204,041	824,655	45,297	2,635,587
Shopping centers	904,382	193,712	135,649	235,307	68,115	369,950	1,002,733	217,217	2,124,332
Corporate business	644,973	108,858	29,804	75,790	20,376	188,696	423,524	44,888	1,113,385
Management fees	96,830	710	6,134	2,246	2,585	5,530	17,205	2,614	116,649
Others	996,776	68,674	14,418	19,362	34,724	54,814	191,992	53,890	1,242,658
Accrued receivables	2,192,231	271,410	479,557	15	10	219,025	970,017	–	3,162,248
Related parties	916,195	50	80,104	5,840	700	9,696	96,390	–	1,012,585
Receivables from employees	711,608	–	–	–	–	–	–	–	711,608
Investment in bonds classified as loans and receivables	258,000	–	–	–	–	–	–	–	258,000
	₱65,492,172	₱3,273,348	₱2,269,151	₱1,163,870	₱991,966	₱4,646,188	₱12,344,523	₱373,461	₱78,210,156

The table below shows the credit quality of the Company's financial assets as of December 31, 2016 and 2015:

December 31, 2016

	Neither Past Due nor Impaired					Past Due but	Individually	
	High Grade	**Medium Grade**	**Low Grade**	**Unrated**	**Total**	**not Impaired**	**Impaired**	**Total**
				(In Thousands)				
Cash and cash equivalents (excluding cash on hand)	**₱20,851,022**	**₱–**	**₱–**	**₱–**	**₱20,851,022**	**₱–**	**₱–**	**₱20,851,022**
Short-term investments	**207,671**	**–**	**–**	**–**	**207,671**	**–**	**–**	**207,671**
Financial assets at FVPL	**1,964,540**	**–**	**–**	**–**	**1,964,540**	**–**	**–**	**1,964,540**
Accounts and notes receivables:								
Trade:								
Residential and office development	**64,364,927**	**1,385,148**	**1,947,346**	**–**	**67,697,421**	**11,602,257**	**–**	**79,299,678**
Construction contracts	**1,883,316**	**–**	**19**	**–**	**1,883,335**	**800,666**	**26,547**	**2,710,548**
Shopping centers	**922,971**	**15,056**	**79,249**	**–**	**1,017,276**	**1,196,009**	**345,106**	**2,558,391**
Corporate business	**1,943,580**	**14,433**	**28,076**	**–**	**1,986,089**	**498,284**	**57,623**	**2,541,996**
Management fees	**267,626**	**6,377**	**10,030**	**–**	**284,033**	**22,684**	**2,614**	**309,331**
Others	**731,006**	**–**	**–**	**–**	**731,006**	**95,473**	**81,362**	**907,841**
Accrued receivables	**2,189,048**	**153,189**	**24,194**	**–**	**2,366,431**	**988,987**	**–**	**3,355,418**
Related parties	**117,276**	**197,421**	**78,539**	**–**	**393,236**	**723,509**	**–**	**1,116,745**
Receivable from employees	**645,499**	**1,642**	**52,305**	**–**	**699,446**	**40,380**	**–**	**739,826**
AFS financial assets:								
Unquoted	**–**	**–**	**–**	**537,094**	**537,094**	**–**	**–**	**537,094**
Quoted	**799,871**	**–**	**–**	**–**	**799,871**	**–**	**–**	**799,871**
	₱96,888,353	**₱1,773,266**	**₱2,219,758**	**₱537,094**	**₱101,418,471**	**₱15,968,249**	**₱513,252**	**₱117,899,972**

December 31, 2015

	Neither Past Due nor Impaired					Past Due but not Impaired	Individually Impaired	Total
	High Grade	Medium Grade	Low Grade	Unrated	Total			
	(In Thousands)							
Cash and cash equivalents (excluding cash on hand)	₱19,031,621	₱–	₱–	₱–	₱19,031,621	₱–	₱–	₱19,031,621
Short-term investments	164,621	–	–	–	164,621	–	–	164,621
Financial assets at FVPL	731,677	–	–	–	731,677	–	–	731,677
Accounts and notes receivables:								
Trade:								
Residential and office development	39,907,929	9,296,617	7,800,996	–	57,005,542	8,818,007	9,555	65,833,104
Construction contracts	1,765,635	–	–	–	1,765,635	824,655	45,297	2,635,587
Shopping centers	569,629	139,696	195,057	–	904,382	1,002,733	217,217	2,124,332
Corporate business	602,972	13,386	28,615	–	644,973	423,524	44,888	1,113,385
Management fees	75,572	14,172	7,086	–	96,830	17,205	2,614	116,649
Others	971,165	3,879	21,732	–	996,776	191,992	53,890	1,242,658
Accrued receivables	2,077,656	114,575	–	–	2,192,231	970,017	–	3,162,248
Related parties	451,528	243,146	221,521	–	916,195	96,390	–	1,012,585
Receivable from employees	711,608	–	–	–	711,608	–	–	711,608
Investment in bonds classified as loans and receivables	258,000	–	–	–	258,000	–	–	258,000
AFS financial assets:								
Unquoted	–	–	–	350,765	350,765	–	–	350,765
Quoted	149,594	–	–	–	149,594	–	–	149,594
	₱67,469,207	₱9,825,471	₱8,275,007	₱350,765	₱85,920,450	₱12,344,523	₱373,461	₱98,638,434

The credit quality of the financial assets was determined as follows:

Cash and cash equivalents, short-term investments, financial assets at FVPL, AFS quoted securities - based on the nature of the counterparty and the Group's internal rating system

Receivables - high grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to 3 defaults in payment; and low grade pertains to receivables with more than 3 defaults in payment

The unquoted AFS financial assets are unrated.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk management policy centers on reducing the overall interest expense and exposure to changes in interest rates. Changes in market interest rates relate primarily to the Group's interest-bearing debt obligations with floating interest rate as it can cause a change in the amount of interest payments.

The Group manages its interest rate risk by leveraging on its premier credit rating and increasing the fixed interest component of its debt portfolio. The Company's ratio of fixed to floating rate debt stood at around 79:21 and 84:16 as of December 31, 2016 and 2015, respectively.

The following tables demonstrate the sensitivity of the Group's profit before tax and equity to a reasonably possible change in interest rates on December 31, 2016 and 2015, with all variables held constant, (through the impact on floating rate borrowings):

December 31, 2016

	Effect on income before income tax Increase (decrease)	
Change in basis points	**+ 100 basis points**	**- 100 basis points**
	(In Thousands)	
Floating rate borrowings	**(₱333,229)**	**₱333,229**

December 31, 2015

	Effect on income before income tax Increase (decrease)	
Change in basis points	+ 100 basis points	- 100 basis Points
	(In Thousands)	
Floating rate borrowings	(₱208,284)	₱208,284

The assumed change in rate is based on the currently observable market environment. There is no other impact on the Group's equity other than those already affecting the net income.

The terms and maturity profile of the interest-bearing financial assets and liabilities, together with their corresponding nominal amounts and carrying values are shown in the following table (in thousands):

December 31, 2016

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents							
(excluding cash on hand)	Fixed at the date of investment	Various	₱20,851,022	₱20,851,022	₱–	₱–	₱20,851,022
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	207,671	207,671	–	–	207,671
Accounts and notes receivable	Fixed at the date of sale	Date of sale	985,909	985,909	–	–	985,909
			₱22,044,602	₱22,044,602	₱–	₱–	₱22,044,602
Company							
Short-term debt							
Floating-Peso	Variable at 2.300% to 2.650%	Monthly	₱18,682,200	₱18,682,200	₱–	₱–	₱18,682,200
Long-term debt							
Fixed							
Peso	Fixed at 3.000%	3 years	3,000,000		2,967,243		2,967,243
Peso	Fixed at 3.892%	7 years	7,000,000			6,935,625	6,935,625
Peso	Fixed at 4.850%	10 years	8,000,000			7,926,123	7,926,123
Peso	Fixed at 4.750%	9.5years	7,000,000			6,937,613	6,937,613
Peso	Fixed at 5.625%	7 years	9,350,000		9,319,055		9,319,055
Peso	Fixed at 6.000%	10 years	5,650,000			5,631,301	5,631,301
Peso	Fixed at 5.625%	11 years	7,989,000			7,919,679	7,919,679
Peso	Fixed at 5.000%	10.5 years	14,980,000			14,874,523	14,874,523
Peso	Fixed at 4.625%	7 years	4,000,000		3,978,794		3,978,794
Peso	Fixed at 6.000%	20 years	2,000,000			1,983,403	1,983,403
Peso	Fixed at 4.500%	7 years	7,000,000			6,945,687	6,945,687
Peso	Fixed at 4.500% to 7.875%	10 and 15 years	9,157,000	93,000	3,474,000	5,564,818	9,131,818
Peso	Fixed at 4.500%	7.5 years	2,232,664	64,344	219,375	1,948,945	2,232,664
Peso	Fixed at 4.725%	4.5 and 6.6 years	4,498,725	249,100	4,249,625		4,498,725
Peso	Fixed at 4.500%	10.5 years	8,200,000		328,000	7,872,000	8,200,000
Peso	Fixed at 4.500%	5.7 years	259,350	13,650	245,700		259,350
Floating							
USD	Variable at 1.509%over 3-month LIBOR	3.4 year	1,211,925	447,480	764,445		1,211,925
USD	Variable at 2.773%over 3-month LIBOR	10.3 years	745,800			745,800	745,800
Subsidiaries							
Short-term debt							
Floating							
Peso	Variable at 2.500% to 2.650%	Monthly	5,562,150	5,562,150	–	–	5,562,150
Long-term debt							
Fixed							
Peso	Fixed at 3.630% to 10.211%	5 to 7 years	26,799,917	3,635,338	22,179,474	922,032	26,736,844
Floating							
Peso	Variable at 1.536% to 4.750% over 91-day PDST-R1/R2	3 months	7,120,816	906,728	2,967,050	3,247,038	7,120,816
			₱160,439,547	₱29,653,990	₱50,692,761	₱79,454,587	₱159,801,338

December 31, 2015

	Interest terms (p.a.)	Rate Fixing Period	Nominal Amount	< 1 year	1 to 5 years	> 5 years	Carrying Value
Group							
Cash and cash equivalents							
(excluding cash on hand)	Fixed at the date of investment	Various	₱19,031,621	₱19,031,621	₱–	₱–	₱19,031,621
Short-term investments	Fixed at the date of investment or revaluation cut-off	Various	164,621	164,621	–	–	164,621
Accounts and notes receivable	Fixed at the date of sale	Date of sale	10,250,199	9,828,729	163,470	258,000	10,250,199
			₱29,446,441	₱29,024,971	₱163,470	₱258,000	₱29,446,441
Company							
Short-term debt - US Dollar	Variable at 2.750% to 2.900%	Monthly	₱1,052,958	₱1,052,958	₱–	₱–	₱1,052,958
Short-term debt - Peso	Variable at 1.100% to 1.200%	Monthly	8,563,200	8,563,200	–	–	8,563,200
Long-term debt							
Fixed							
Peso	Fixed at 7.750%	10 years	100,000	100,000	–	–	100,000
Peso	Fixed at 8.900%	7 years	1,009,400	10,300	999,100	–	1,009,400
Peso	Fixed at 5.000%	3 years	219,670	219,670	–	–	219,670
Peso	Fixed at 5.000%	3 years	1,963,180	1,963,180	–	–	1,963,180
Peso	Fixed at 5.625%	7 years	9,350,000	–	9,304,168	–	9,304,168
Peso	Fixed at 6.000%	10 years	5,650,000	–	–	5,615,831	5,615,831
Peso	Fixed at 4.500% to 8.989%	5, 10 and 15 years	10,778,875	3,748,361	736,975	6,275,326	10,760,662
Peso	Fixed at 5.625%	11 years	8,000,000	–	–	7,927,851	7,927,851
Peso	Fixed at 5.000%	10.5 years	15,000,000	–	–	14,886,169	14,886,169
Peso	Fixed at 4.625%	7 years	4,000,000	–	3,973,778	–	3,973,778
Peso	Fixed at 6.000%	20 years	2,000,000	–	–	1,982,849	1,982,849
Peso	Fixed at 4.500%	10 years	4,950,000	50,000	200,000	4,700,000	4,950,000
Peso	Fixed at 4.725%	5 and 6 years	4,732,375	233,650	3,068,725	1,430,000	4,732,375
Peso	Fixed at 4.500%	10 years	8,200,000		246,000	7,954,000	8,200,000
Peso	Fixed at 4.500%	7 years	7,000,000	–	–	6,939,536	6,939,536
Floating							
USD	Variable at 2.391%over 3-month LIBOR	6 years	1,882,400	–	75,296	1,807,104	1,882,400
Peso	Variable at 3.442%over 91-day DR1	7 years	1,000,000	1,000,000	-	–	1,000,000
Subsidiaries							
Short-term debt							
Floating							
Peso	Variable at 2.500% to 2.700%	Monthly	870,100	870,100	–	–	870,100
Long-term debt							
Fixed							
Peso	Fixed at 3.630% to 10.211%	5 to 7 years	27,652,259	851,216	18,075,581	8,675,480	27,602,277
Floating							
Peso	Variable at 1.536% to 4.750% over 91-day PDST-R1/R2	3 months	5,950,846	287,149	3,667,778	1,995,919	5,950,846
US Dollar	Variable at 1.932% to 2.233% over 3-month LIBOR	Quarterly	1,508,861	344,126	1,164,735	-	1,508,861
			₱131,434,124	₱19,293,910	₱41,512,136	₱70,190,065	₱130,996,111

Foreign currency risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Financial assets and credit facilities of the Group, as well as major contracts entered into for the purchase of raw materials, are mainly denominated in Philippine Peso. As of December 31, 2016 and 2015, the Group's placements in foreign currencies amounting to $30.2 million and $31.8 million, respectively and the amount of foreign currency-denominated debt amounting to $78.5 million and $76.4 million, respectively are minimal. As such, the Group's foreign currency risk is minimal.

The following table shows the Group's consolidated foreign currency-denominated monetary assets and liabilities and their peso equivalents as of December 31, 2016 and December 31, 2015:

	December 31			
	2016		2015	
	US Dollar	**Php Equivalent**	US Dollar	Php Equivalent
		(In Thousands)		
Financial Assets				
Cash and cash equivalents	**$14,608**	**₱726,318**	$14,408	₱678,062
Short-term investments	**350**	**17,402**	–	–
Accounts and notes receivable - net	**14,394**	**715,676**	24,422	1,149,285
Other current assets	**441**	**21,931**	257	12,080
Other noncurrent assets	**424**	**21,101**	–	–
Total	**30,217**	**1,502,428**	39,087	1,839,427
Financial Liabilities				
Accounts and other payables	**31,047**	**1,543,642**	14,041	660,766
Other current liabilities	**8,031**	**399,284**	–	–
Short-term debt	**–**	**–**	22,375	1,052,958
Long-term debt	**39,375**	**1,957,725**	72,063	3,391,261
Other noncurrent liabilities	**–**	**–**	5	220
Total	**78,453**	**3,900,651**	108,484	5,105,205
Net foreign currency denominated financial instruments	**($48,236)**	**(₱2,398,223)**	($69,397)	(₱3,265,778)

In translating the foreign currency-denominated monetary assets in peso amounts, the exchange rates used were ₱49.72 to US$1.00 and ₱47.06 to US$1.00, the Philippine Peso - US dollar exchange rates as of December 31, 2016 and 2015, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the Philippine peso-US dollar exchange rate, with all variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Effect on profit before tax Increase (decrease)	
Change in exchange rate	**2016**	2015
₱1.00	**(₱48,236)**	(₱69,397)
(₱1.00)	**48,236**	69,397

There is no other impact on the Group's equity other than those already affecting the net income.

Equity price risk
Quoted AFS financial assets are acquired at a certain price in the market. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. Depending on several factors such as interest rate movements, country's economic performance, political stability, domestic inflation rates, these prices change, reflecting how market participants view the developments.

The Group's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; limits on investment in each country, sector and market.

The analysis below demonstrates the sensitivity to a reasonably possible change of market index with all other variables held constant, of the Group's equity (in thousands).

	Effect on equity Increase (decrease)	
Change in PSEi index	**2016**	2015
	(In Thousands)	
+5%	**₱65,618**	₱9,012
-5%	**(65,618)**	(9,012)

Quoted financial assets at FVPL pertain to investment in UITF (Fund). The Fund, which is structured as a money market UITF, aims to generate liquidity and stable income by investing in a diversified portfolio of primarily short-term fixed income instruments.

As of December 31, 2016 and 2015, the Group's investment in the fund where all other variables held constant, the fair value, net income and equity will increase (decrease) by: (i) BPI UITF ₱1.1 million with a duration of 0.10 year and ₱0.5 million with duration of 0.18 year, respectively; (ii) BDO UITF ₱1.3 million with a duration of 0.29 year and nil, respectively, for a 100 basis points decrease (increase), in interest rates.

30. Segment Information

The industry segments where the Group and its associates and joint ventures operate follows:

- Shopping centers - development of shopping centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts, entertainment facilities and carparks in these shopping centers; management and operation of malls which are co-owned with partners
- Corporate businesses - development and lease or sale of office buildings; sale of industrial lots and lease of factory building
- Residential developments - sale of high-end and upper middle-income residential lots and units, affordable housing units and lots, economic housing and leisure community developments; lease of residential developments under joint venture
- Strategic landbank management and Visayas-Mindanao - acquisition, development and sale of large-scale, mixed-use, masterplanned communities; sale of override units or the Company's share in properties made available to subsidiaries for development; lease of gas station sites and carparks outside Ayala Center. This also includes development, sale and lease of, shopping centers and residential developments of the Group's product offerings in key cities in the Visayas and Mindanao regions
- Construction - land development and construction of the Group and third-party projects
- Hotels and Resorts - development and management of hotels and resorts/serviced apartments and lease of land to hotel tenants
- Property management - facilities management of the Group and third-party projects
- Others - other income from investment activities and sale of non-core assets

The Company and its subsidiaries generally account for inter-segment sales and transfers as if the sales and transfers were to third parties at current market prices.

Business segments

The following tables regarding business segments present assets and liabilities as of December 31 and revenue and profit information for each of the two years in the period ended December 31 (in millions):

2016

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management and Visayas-Mindanao	Construction	Hotels and Resorts	Property Management and Others	Corporate	Intersegment Adjustments	Consolidated
Revenue										
Sales to external customers	**₱14,967**	**₱5,406**	**₱72,441**	**₱6,796**	**₱10,701**	**₱6,052**	**₱1,337**	**₱–**	**₱–**	**₱117,700**
Intersegments sales	**821**	**137**	**2,934**	**–**	**54,615**	**–**	**764**	**–**	**(59,271)**	**–**
Equity in net earnings of associates and joint ventures	**(293)**	**–**	**16**	**336**	**–**	**–**	**–**	**495**	**–**	**554**
Total revenue	**15,495**	**5,543**	**75,391**	**7,132**	**65,316**	**6,052**	**2,101**	**495**	**(59,271)**	**118,254**
Operating expenses	**8,408**	**1,966**	**56,971**	**5,384**	**59,969**	**4,709**	**2,044**	**1,049**	**(56,902)**	**83,598**
Operating profit	**7,087**	**3,577**	**18,420**	**1,748**	**5,347**	**1,343**	**57**	**(554)**	**(2,369)**	**34,656**
Interest and investment income										**5,714**
Interest and other financing charges										**(7,314)**
Other income										**660**
Other charges										**(1,053)**
Provision for income tax										**(8,231)**
Net income										**₱24,432**
Net income attributable to:										
Equity holders of Ayala Land, Inc.										**₱20,908**
Non-controlling interests										**3,524**
										₱24,432
Other Information										
Segment assets	**₱86,825**	**₱64,211**	**₱335,751**	**₱156,366**	**₱48,988**	**₱36,027**	**₱7,641**	**₱20,661**	**(₱254,901)**	**₱501,569**
Investment in associates and joint ventures	**7,362**	**–**	**619**	**8,773**	**–**	**–**	**–**	**8,231**	**–**	**24,985**
	94,187	**64,211**	**336,370**	**165,139**	**48,988**	**36,027**	**7,641**	**28,892**	**(₱254,901)**	**526,554**
Deferred tax assets	**385**	**107**	**1,780**	**361**	**42**	**379**	**28**	**2,539**	**4,258**	**9,879**
Total assets	**₱94,572**	**₱64,318**	**₱338,150**	**₱165,500**	**₱49,030**	**₱36,406**	**₱7,669**	**₱31,431**	**(250,643)**	**₱536,433**
Segment liabilities	**₱72,044**	**₱25,480**	**₱162,049**	**₱109,708**	**₱42,249**	**₱24,293**	**₱4,072**	**₱22,120**	**(₱102,622)**	**₱359,393**
Deferred tax liabilities	**231**	**24**	**1,703**	**512**	**–**	**498**	**16**	**11**	**1,362**	**4,357**
Total liabilities	**₱72,275**	**₱25,504**	**₱163,752**	**₱110,220**	**₱42,249**	**₱24,791**	**₱4,088**	**₱22,131**	**(₱101,260)**	**₱363,750**
Segment additions to:										
Property and equipment	**₱665**	**₱152**	**₱63**	**₱2**	**₱1,992**	**₱612**	**₱1,908**	**₱45**	**₱–**	**₱5,439**
Investment properties	**₱11,824**	**₱10,391**	**₱199**	**₱ 3,248**	**₱–**	**₱2,394**	**₱36**	**₱1,297**	**₱–**	**₱29,389**
Depreciation and amortization	**₱1,157**	**₱574**	**₱173**	**₱630**	**₱1,606**	**₱521**	**₱249**	**₱965**	**₱–**	**₱5,875**
Non-cash expenses other than depreciation and amortization	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
Impairment losses	**₱81**	**₱13**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱305**	**₱–**	**₱399**

2015

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management and Visayas-Mindanao	Construction	Hotels and Resorts	Property Management and Others	Corporate	Intersegment Adjustments	Consolidated
Revenue										
Sales to external customers	₱13,365	₱4,931	₱63,694	₱4,137	₱7,383	₱5,974	₱1,177	₱–	₱–	₱100,661
Intersegments sales	621	–	2,050	2,622	36,685	–	705	–	(42,683)	–
Equity in net earnings of associates and joint ventures	(241)	–	(3)	241	–	–	–	(138)	–	(141)
Total revenue	13,745	4,931	65,741	7,000	44,068	5,974	1,882	(138)	(42,683)	100,520
Operating expenses	7,178	2,532	48,595	5,844	38,925	4,826	1,878	1,391	(39,242)	71,927
Operating profit	6,567	2,399	17,146	1,156	5,143	1,148	4	(1,529)	(3,441)	28,593
Interest and investment income										5,980
Interest and other financing charges										(6,506)
Other income										683
Other charges										(999)
Provision for income tax										(6,854)
Net income										₱20,897
Net income attributable to:										
Equity holders of Ayala Land, Inc.										₱17,630
Non-controlling interests										3,267
										₱20,897
Other Information										
Segment assets	₱82,363	₱50,682	₱277,229	₱134,860	₱46,284	₱27,601	₱5,271	₱26,563	(₱233,943)	₱416,910
Investment in associates and joint ventures	845	–	572	8,677	–	–	–	7,427	–	17,521
	83,208	50,682	277,801	143,537	46,284	27,601	5,271	33,990	(233,943)	434,431
Deferred tax assets	265	88	1,691	273	32	281	23	2,187	3,071	7,911
Total assets	₱83,473	₱50,770	₱279,492	₱143,810	₱46,316	₱27,882	₱5,294	₱36,177	(₱230,872)	₱442,342
Segment liabilities	₱55,407	₱18,871	₱152,372	₱96,509	₱41,445	₱16,136	₱3,835	₱9,010	(₱102,851)	₱290,734
Deferred tax liabilities	18	19	1,073	614	–	472	15	–	(429)	1,782
Total liabilities	₱55,425	₱18,890	₱153,445	₱97,123	₱41,445	₱16,608	₱3,850	₱9,010	(₱103,280)	₱292,516
Segment additions to:										
Property and equipment	₱433	₱29	₱1,120	₱222	₱2,277	₱1,341	₱1,963	₱175	₱–	₱7,560
Investment properties	₱6,599	₱2,163	₱168	₱2,544	₱–	₱813	₱–	₱3,692	₱–	₱15,979
Depreciation and amortization	₱1,449	₱827	₱204	₱747	₱1,017	₱539	₱160	₱127	₱–	₱5,070
Non-cash expenses other than depreciation and amortization	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–
Impairment losses	₱122	₱–	₱279	₱–	₱–	₱–	₱–	₱94	₱–	₱495

31. **Registration with Philippine Economic Zone Authority (PEZA)**

Pangulasian Island Resort Corporation (PIRC), a subsidiary of Ten Knots Development Corporation which is a subsidiary of Ayala Land, Inc., is registered with the Philippine Economic Zone Authority (PEZA) under the Certificate of Registration number 16-055 and Registration Agreement dated March 21, 2016. The registration shall entitle PIRC to conduct activities limited to resort operations, travel/tours/leisure and recreation-related activities, and the importation of raw materials, machinery, equipment, tools, goods, wares, articles, or merhandise directly used in its registered operations inside the Green Tourism Ecozone - Pangulasian.

PIRC shall be entitled to the following incentives as provided under PEZA Board Resolution No. 02-342 (Guidelines for the Registration and Administration of Incentives to Tourism Ecozone Developers Operators and Locators) and the 2014 Investments Priorities Plan: (a) Remaining Income Tax Holiday (ITH) of Ten Knots Development Corporation (TKDC) reckoned from October 2012 per PEZA Notice of Approval of Start of Commercial Operations (SCO) to TKDC dated November 12, 2012, and upon expiry of the ITH period, PIRC shall pay the 5% Gross Income Tax (5% GIT) on income solely derived from servicing foreign clients, in lieu of all national and local taxes; (b) Tax and duty-free importation of capital equipment required for the technical viability and operation of PIRC's registered activity.

Nuevo Centro, a wholly-owned subsidiary of Ayala Land, Inc., is registered with PEZA with Certificate of Registration number EZ 16-30 under Registration Agreement dated July 19, 2016. The registration as a Special Economic Zone Developer/Operator shall entitle Nuevo Centro, Inc. to establish, develop, administer, manage, and operate a Special Economic Zone to be known as Alviera Industrial Park. It has been designated a 311,954-square meter area located at Barangays Dolores and Banaba, Porac, Pampanga. The Company shall be exempt from payment of all national and local taxes, except real property taxes on land and shall pay a 5% final tax on gross income.

ALO Prime Realty Corporation, a wholly-owned subsidiary is registered with the PEZA with certificate of registration number 09-03-F under Registration Agreement dated May 29, 2009, as amended by Registration Agreement dated May 6, 2010, pursuant to the provision of Republic Act (R.A.) No. 7916, as amended, as an Ecozone Facilities Enterprise to construct a 12-storey office building (exclusive of 1 penthouse and 2 level basement parking) with a gross floor area of 24,214 square meters, more or less, which shall be established on a 3,621 square meter lot, located at Block 8, Lots 1 and 2, Asiatown IT Park, for lease to registered enterprises.

APRC, a wholly-owned subsidiary is registered with the PEZA with certificate of registration number 09-03-F under Registration Agreement dated May 29, 2009, as amended by Registration Agreement dated May 6, 2010, pursuant to the provision of Republic Act (R.A.) No. 7916, as amended, as an Ecozone Facilities Enterprise to construct a 12-storey office building (exclusive of 1 penthouse and 2 level basement parking) with a gross floor area of 24,214 square meters, more or less, which shall be established on a 3,621 square meter lot, located at Block 8, Lots 1 and 2, Asiatown IT Park, for lease to registered enterprises.

The company shall be exempted from the payment of all national and local taxes and in lieu thereof, the company shall pay a 5% final tax on gross income (GIT) earned from locator IT enterprise and related operations in accordance with the provision of Rule XX of the Rules and Regulations implementing R.A. 7916, as amended. The company shall pay the real property taxes on commercial spaces occupied by non-PEZA registered enterprises. Pursuant to BIR's Rules and Regulation No. 14-2002 (amending further pertinent provision of Revenue Regulations No. 2-98, as amended), income payments to PEZA-registered enterprises under the 5% GIT incentives are exempt from expanded withholding tax.

The company will be subjected to all evaluation and/or processing requirement and procedures prescribed under PEZA Rules and Regulations, and other pertinent circulars and directives. The company's entitlement to incentives shall continue as long as it remains in good standing, commit no violation of PEZA Rules and Regulations, other pertinent circulars and directives, and the terms and conditions of its registration agreement with PEZA.

Laguna Technopark, Inc. was registered with PEZA on October 27, 1999 as a non-pioneer “ecozone developer/operator”. The PEZA registration entitled the subsidiary to a four-year income tax holiday from the start of its commercial operations. At the expiration of its four-year tax holiday, the subsidiary pays income tax at the special tax rate of 5% on its gross income earned from sources within the PEZA economic zone in lieu of paying all national and local income taxes. Likewise, CECI also became registered with PEZA in 2007 as the “developer/operator” of the Lakeside Ecozone.

Glensworth Development, Inc., a wholly owned subsidiary of Ayala Land Offices, Inc., was registered with PEZA as an Economic Zone Information IT Facility Enterprise last December 14, 2007 to construct a 4-storey building at the Lakeside Ecozone, Barangay Sta. Rosa, Laguna for lease to PEZA-registered enterprises. As a PEZA-registered enterprise, the Glensworth is entitled to incentives which, among others, include a lower income tax rate of 5% on gross income in lieu of all national and local taxes.

Hillsford Property Corporation, a wholly owned subsidiary of the Company, was registered with PEZA last January 29, 2009 as an Ecozone Facilities Enterprise at the John Hay Special Tourism Economic Zone located in Baguio.

Sunnyfield E-Office Corporation, a wholly owned subsidiary of the Company, was registered with PEZA last December 17, 2010 as a Developer/Operator of Iloilo Technohub.

Westview Commercial Ventures Corporation, a wholly owned subsidiary of the Company, was registered with PEZA last December 17, 2010 as an Ecozone Facilities Enterprise at the Ayala Northpoint Technohub located in Bacolod.

Cebu Property Ventures Development Corporation was registered with PEZA on April 6, 2000 as an Information Technology (IT) Park developer or operator and was granted approval by PEZA on October 10, 2001. The PEZA registration entitled CPVDC to a four-year tax holiday from the start of approval of registered activities. At the expiration of its four-year tax holiday, CPVDC pays income tax at the special rate of 5% on its gross income earned from sources within the PEZA economic zone in lieu of paying all national and local income taxes.

32. Leases

Operating Leases - Group as Lessor

The Group entered into lease agreements with third parties covering its investment property portfolio. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Future minimum rentals receivable under noncancellable operating leases of the Group follows:

	2016	2015
	(In Thousands)	
Within one year	**₱2,943,141**	₱3,648,626
After one year but not more than five years	**7,026,142**	10,790,610
More than five years	**14,667,364**	12,179,151
	₱24,636,647	₱26,618,387

Operating Leases - Group as Lessee
The Group entered into lease agreements with third parties. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Future minimum rentals payable under noncancellable operating leases of the Group follows:

	2016	2015
	(In Thousands)	
Within one year	**₱806,744**	₱659,677
After one year but not more than five years	**3,643,254**	3,001,038
More than five years	**17,895,388**	16,189,004
	₱22,345,386	₱19,849,719

NTDCC
The Group, through its majority owned subsidiary, NTDCC, entered into an assignment agreement with MRTDC, wherein the latter assigned its development rights on an 8.3 hectare portion of the MRTDC, which is located on the North Triangle property, and enabled the Group to develop and construct a commercial center. The Group has determined that all the significant risks and rewards of ownership of this property is retained by the owner. This agreement was accounted for as a lease as it involves an exclusive right to use or develop the property in exchange for a series of payments.

Arvo
On August 7, 2014, Arvo Commercial Corporation signed a Memorandum of Understanding with Liberty Commercial Center, Inc. (LCC) to lease and operate a 5-storey commercial complex/mall building with an aggregate gross floor area of approximately 32,000 sqm on a 10,000 sqm portion of the leased land. The commercial complex/ mall building is situated within the Central Business District, Legaspi Port, Legaspi City, adjacent to Quezon Avenue and Rizal Street.

On October 15, 2014, Arvo Commercial Corporation signed a Lease Agreement with Rotonda Development Corporation for the lease of a parcel of land with an area of approximately 23,759.50 sqm located along Liwasang Kalayaan, Marikina Heights, Marikina City. Arvo signed a 42-year lease contract with an option to renew for another 40 years by mutual agreement.

On September 2, 2014, Arvo signed a Lease Agreement with D.M. Wenceslao & Associates Inc. for the lease of several parcels of land along Asean Avenue and Macapagal Boulevard, Aseana City, Paranaque City with an aggregate area of 92,317 sqm. Arvo signed a 45-year lease contract with an option to renew for another 45 years subject to such terms and conditions as may be mutually agreed upon by the lessor and the Company.

AMNI
On January 28, 2011, the Board of Regents of the University of the Philippines awarded to AMNI the ₱4.0 billion development of a 7.4-hectare lot at the University of the Philippines' Diliman East Campus, also known as the UP Integrated School, along Katipunan Avenue, Quezon City. AMNI signed a 25-year lease contract for the property last June 22, 2011, with an option to renew for another 25 years subject to mutual agreement of the parties. The lease payments shall commence as soon as sales are registered by the merchants.

A retail establishment with about 63,000 sqm of gross leasable area and an office/BPO building about 8,000 sqm of gross leasable area shall be constructed on the property. For the year ended December 31, 2012, lease payments have been capitalized as construction was still in progress. For the year ended December 31, 2013, Phase 1a (with gross leasable area of 5,000 sqm.) of the retail establishment has commenced operations on September 30, 2013.

On December 18, 2013, AMNI has donated the New UPIS facilities at a total cost of ₱224.7 million and the rehabilitated and upgraded UPIS “K-2” and “3-6” Buildings at a cost of ₱40.0 million to the University of the Philippines.

SBTCI

On October 16, 2009, the Company has executed a lease agreement with the Subic Bay Metropolitan Authority (SBMA), for the development of a 7.5-hectare property along Rizal Highway within the Subic Bay Freeport Zone, located between the two main gates linking the Freeport Zone to Olongapo City. The lease commitment is expected to be completed in 2060 after the 50-year lease term. The lease may be renewed for another 25 years upon mutual agreement of the parties. The Company offered to develop a mall with an estimated gross leasable area of 38,000 sqm. On March 25, 2010, the Company entered into an assignment of lease agreement whereby the Company assigned its rights and obligations granted to or imposed under the lease agreement to its subsidiary, SBTCI. The lease payments to SBMA started from the commencement of the commercial operation of the mall last April 26, 2012 which was completed during the same period.

SSECC

The Company has an existing contract with Bases Conversion and Development Authority (BCDA) to develop, under a lease agreement signed on July 2000, a mall with an estimated gross leasable area of 152,000 sqm on a 9.8-hectare lot inside Fort Bonifacio. The lease commitment is expected to be completed in 2015. The lease agreement covers 25 years, renewable for another 25 years subject to reappraisal of the lot at market value. The annual fixed lease rental amounts to ₱106.5 million while the variable rent ranges from 5% to 20% of gross revenues. Subsequently, the Company transferred its rights and obligations granted to or imposed under the lease agreement to SSECC, a subsidiary, in exchange for equity. As part of the bid requirement, the Company procured a performance bond in 2003 from the Government Service Insurance System in favor of BCDA amounting to ₱3.9 billion to guarantee the committed capital to BCDA. Moreover, SSECC obtained standby letters of credit to guarantee the payment of the fixed and variable rent as prescribed in the lease agreement.

POPI

On August 28, 1990, the Company, through a Deed of Assignment, acquired all the rights, titles, interests and obligations of Gotesco Investment, Inc. in a contract of lease of the land owned by PNR for the Tutuban Terminal. The contract provided for a payment of a guaranteed minimum annual rental plus a certain percentage of gross sales. The lease covers a period of 25 years until 2014 and is automatically renewable for another 25 years, subject to compliance with the terms and conditions of the lease agreement. On December 22, 2009, the Company entered into an agreement with PNR for the renewal of its lease contract for another 25 years beginning September 5, 2014. Rent expense charged to operations amounted to ₱56. 02 million for the six months ended December 31, 2016.

As at December 31, 2016, the aggregate annual commitments on these existing lease agreements for the succeeding years are as follows (in thousands):

Less than one (1) year	₱153,936
More than one (1) year but not more than five (5) years	769,678
More than five (5) years	2,527,109
	₱3,450,723

33. **Interest in Joint Operation**

MDC has a 51.0% interest in Makati Development Corporation - First Balfour, Inc. Joint Venture (the Joint Venture), a joint operation whose purpose is to design and build St. Luke's Medical Center (the Project) in Fort Bonifacio Global City, Taguig. The application of PFRS 11 does not have significant impact on the Group's accounting of its interest in joint operation since it already reported its share in interest in joint operation using proportionate consolidation.

The Project, which started on January 31, 2007, is a world-class medical facility comprising, more or less, of a 611-bed hospital and a 378-unit medical office building, with an approximate gross floor area of 154,000 sqm, which meets international standards, and all standards and guidelines of applicable regulatory codes of the Philippines and complies with the criteria of the Environment of Care of the Joint Commission International Accreditation. The project was completed on October 30, 2009. Activities in 2015 mainly pertain to winding down operations.

The share of MDC in the net assets and liabilities of the Joint Venture at December 31, 2016 and 2015 which are included in the consolidated financial statements follow:

	2016	2015
	(In Thousands)	
Current assets:		
Cash and cash equivalents	**₱19,955**	₱20,662
Other current assets	**37,747**	38,470
Total assets	**₱57,702**	₱59,132
Total liabilities	**₱9,854**	₱11,283

The following is the share of the MDC on the net income of the Joint Venture:

	2016	2015
	(In Thousands)	
Revenue from construction contracts	**₱–**	₱–
Contract costs	**(845)**	(1,031)
Interest and other income	**879**	317
Loss before income tax	**34**	(714)
Provision for income tax	**(56)**	(56)
Net loss	**(₱22)**	(₱770)

The Joint Venture's Management Board declared and paid cash dividends amounting to nil and ₱50.0 million in 2016 and March 4, 2015, respectively. Based on 51% share, MDC received ₱21.5 million cash dividends in 2015.

Provision for income tax pertains to the final tax on interest income.

34. **Long-term Commitments and Contingencies**

Commitments

On January 12, 2016, the Company has entered into a partnership with Manila Water Philippine Ventures, Inc, a wholly owned subsidiary of Manila Water Company, Inc, for the waterworks of ALI's projects nationwide. The MOA was signed by ALI and its subsidiaries and affiliates, Cebu Holdings, Inc. and Cebu Property Ventures and Development Corp. Total expenses amounted to ₱0.2 million.

ALI and LT Group, Inc. (LTG) entered into an agreement on January 21, 2016 to jointly develop a project along the C5 corridor. The project is envisioned to be a township development that spans portions of Pasig City and Quezon City. A new company named, ALI-ETON Property Development Corporation, was incorporated on March 13, 2016. The company is a joint venture between Ayala Land, Inc. and LT Group, Inc.

On August 11, 2015, the Company won the bid for the Integrated Transport System Project – South Terminal ("ITS South Project"). The Company was awarded by the Department of Transportation and Communications ("DOTC") with a 35-year concession agreement to build and operate the ITS South Project and will likewise have the right to develop and operate commercial leasing facilities on the same 5.57 hectare former Food Terminal Inc. property on which the future transport terminal will be built. The site of the ITS South Project is right next to ARCA South, where the Company is developing an integrated mixed-use estate. It is estimated that up to 4,000 buses and 160,000 passengers will feed into ITS South from SLEX every day. Construction will begin by 4th quarter of 2017 and is expected to be completed and ready for operation by the 1st quarter of 2019.

On June 30, 2015, the Company, through SM-ALI Group Consortium (the Consortium), participated and won in the bidding for Lot No. 8-B-1, containing an area of 263,384 sqm, which is portion of Cebu City-owned lot located at the South Road Properties, Cebu City covered by Transfer Certificate of Title No. 107-2011000963. The Consortium is a consortium among SMPHI, the Company and CHI (together with the Company collectively referred to as the "ALI Group"). The SM-ALI Group has finished with the joint masterplan and is now securing permits to commence development. Consistent with the agreed payment schedule in the Deed of Absolute Sale, the Consortium paid the Cebu City Treasurer a total of ₱1.97 billion last August 1, 2016.

On August 8, 1997, an "Assignment Agreement" was executed between Department of Transportation and Communications (DOTC), Metro Rail and MRTDC whereby MRTDC agreed to be bound by all obligations in respect of the Development Rights and make payments to DOTC.

On February 21, 2002, MRTDC and NTDCC entered into an assignment agreement wherein the development rights of MRTDC over an 8.3 hectare portion of the MRT Depot (inclusive of project development costs incurred in relation thereto) was assigned to NTDCC in exchange for 32,600,000 shares of stock to be issued out of the increase in the authorized capital stock of NTDCC, each share with a par value of ₱10, or an aggregate par value of ₱326.00 million. The amount of development rights in excess of the aggregate par value of the shares subscribed was credited to additional paid-in capital.

On January 13, 2006, the deed of assignment between MRTDC and NTDCC was acknowledged by DOTC making MRTDC and NTDCC jointly and severally liable for the DRP and all other obligations attached thereto. NTDCC has been paying rent to DOTC in behalf of MRTDC since January 1, 2006. The DRP obligation is payable annually for 42 years from the date of assumption, renewable upon expiration. As of December 31, 2016 and 2015, the DRP obligation amounted to ₱880.0 million and ₱812.8 million, respectively (see Notes 16 and 19).Total DRP obligation paid amounted to ₱216.9 million and ₱210.5 million in 2016 and 2015, respectively. Total rent expense recognized in the statements of comprehensive income under the "Real estate costs and expenses" account included in direct operating expenses amounted to ₱338.3 million and ₱280.0 million in 2016 and 2015, respectively.

On March 21, 2007, DOTC, National Housing Authority (NHA), MRTDC, and NTDCC entered into a Memorandum of Agreement (MOA) whereby DOTC assigns, transfers and conveys to NHA, its successors or assigns, the right to demand and collect the Depot DRP Payable and Depot DRP. In the MOA, DOTC authorizes MRTDC/ NTDCC to remit the Depot DRP Payable and the Depot DRP to NHA directly which shall be credited by DOTC in favour of MRTDC/ NTDCC as payment for the DRP.

On December 17, 2014, Arvo Commercial Corporation signed a Deed of Absolute Sale with the Philippine National Bank for a parcel of land with an area of 6,003 sqm located at No. 460 Quirino Highway, Brgy. Talipapa, Novaliches, Quezon City.

On June 4, 2014, AHRC, a wholly owned subsidiary of the Company has signed a long-term management agreement with the Mandarin Oriental Hotel Group to develop and operate luxury hotel in Makati City. Set to open its doors by 2020, the new Mandarin Oriental Manila will be featuring 275 spacious rooms complemented by an extensive range of modern amenities including premium selection of restaurants and a signature spa. The Group is committed to pay $5 million (₱223.6 million) to Manila Mandarin Hotel, Inc. upon the opening of the New Hotel or June 30, 2017, whichever is earlier.

On May 12, 2014, ALI has signed the terms of reference with Sureste Properties, Inc. (SPI), a wholly owned subsidiary of Bloomberry Resorts Corp. (BLOOM) for the retail area to be opened in the new Phase 1-A of Solaire Resort & Casino. The Company will be the leasing and marketing agent of the said area with gross leasable area of more than 5,000 sqm.

On April 6, 2010, the Company and MWCI entered into a Memorandum of Agreement to establish a water utility services company which will manage and operate all water systems in NUVALI, as well as, adjacent projects of the Company in Laguna.

During the past 3 years, the required activities according to the MOA between MWCI and the Company were accomplished- like auditing and re-design of the existing water/sewerage assets of several NUVALI and the Company projects in Laguna, water system design reviews and repairs, and developing plans and proposals for the expansion of the area coverage of the water and sewerage system. MWCI is currently designing the cost plan and the target completion of the project has not yet been established. However, it is expected that the water and sewer system development shall happen simultaneous with NUVALI's expansion plan. The project will be undertaken in phases and in relation to expected NUVALI build out. The project shall start this year upon the signing of the JVA. MWCI is currently re-estimating the project cost because of NUVALI expansion. Finally, on December 23, 2013 LTI signed an agreement with LAWC, to sell the water reticulation system of LTI. LAWC took over officially as the exclusive water service provider on December 31, 2013.

In 2009, MWCI and the Provincial Government of Laguna formed a joint venture company, LAWC. LAWC is a water services company that has concession in the cities of Sta. Rosa, Binan and Cabuyao.

MDC, in the normal course of business, furnishes performance bonds in connection with its construction projects. These bonds shall guarantee MDC's execution and completion of the work indicated in the respective construction contracts.

Contingencies
The Group has various contingent liabilities arising in the ordinary conduct of business including a case related to property restriction violation. The estimate of the probable cost for the resolution of this claim has been developed in consultation with outside counsel handling the defense in this matter and is based upon an analysis of potential results. The outcomes of the legal proceedings for various cases are not presently determinable. Accordingly, no provision for any liability has been made in the consolidated financial statements.

In the opinion of management and its legal counsel the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. Disclosures required by PAS 37, Provisions, Contingent Liabilities and Contingent Assets, were not provided as it may prejudice the Company's position in ongoing claims and it can jeopardize the outcome of the claims and contingencies.

35. **Concession Agreement with Department of Transportation (DOTr)**

On January 26, 2016, the Group through ASITI entered into a Concession Agreement (CA) with the Department of Transportation (DOTr). The CA sets forth the rights and obligations of ASITI as concessionaire, including the construction and operation of the South Integrated Transport System Project (the Project) of DOTr. During the concession period, DOTr will monitor and review the performance of the concessionaire.

The concession will run for a period of 35 years from the start of the construction of the Project. Under the terms of the concession agreement, ASITI will design, engineer, construct, operate and maintain a mass transportation intermodal terminal at the outskirts of Metro Manila. The operation of the Project includes the collection and remittance of terminal fees to DOTr of the concessionaire during the concession period. In addition, ASITI will be permitted to develop and operate commercial leasing facilities.

Upon the start of the construction the Project, DOTr will give to ASITI the full, exclusive and uninterrupted use and possession of a 5.57 hectare property known as the Project Land. Ownership of the Project Land shall remain with DOTr at all times while the possession, custody and risk of loss or deterioration of the Project and commercial assets shall vest in the concessionaire during the concession period. ASITI shall transfer the Project and the related assets, free from any liens or encumbrances, to DOTr at the end of the concession period. ASITI will be entitled to annual payments from DOTr amounting to ₱277.9 million during the 35-year concession period, subject to meeting benchmarks set for certain key performance indicators enumerated in the CA.

As of December 31, 2016, construction of the Project has not yet commenced.

36. **Note to Consolidated Statements of Cash Flows**

The noncash activities of the Group pertain to transfers from land and improvements to inventories amounted to ₱4,795.5 million, ₱7,839.8 million and ₱10,636.6 million in 2016, 2015 and 2014 respectively; transfer from land and improvements to property and equipment amounted to ₱1.7 million in 2015; transfer from land and improvements to investment properties amounted to ₱426.1 million in 2016; transfer from land and improvements to other assets amounted to ₱174.3 million and ₱56.85 million in 2016 and 2015; transfers from inventories to investment properties amounted to ₱1,065.3 million and ₱52.0 million in 2016 and 2015, respectively; transfer from inventories to property and equipment amounted to ₱138.8 million in 2014; transfers from investment properties to inventories amounted to ₱827.2 million in 2014; transfer from investment properties to property and equipment amounted to ₱16.7 million and ₱62.2 million 2016 and 2015, respectively; transfer from property and equipment to other assets amounted to ₱239.8 million in 2014; transfer from investment properties to other assets amounted to ₱8.6 million in 2014; transfer from property and equipment to investment property amounting to ₱90.9 million and ₱33.1 million in 2015 and 2014, respectively; transfer from other assets to property and equipment amounting to ₱274.4 million in 2014; land and improvement which amounted to ₱108.7 million was donated in 2015.

37. **Events After Reporting Date**

On February 20, 2017, the BOD approved the declaration of cash dividends amounting to ₱0.24 per outstanding common share. These will be paid out on March 22, 2017 to shareholders on record as of March 6, 2017.

Further, on the same date, the BOD also declared annual cash dividends of 4.74786% per year or ₱0.00474786 per share to all shareholders of the Company's unlisted voting preferred shares. These will be paid out on June 29, 2017 to shareholders on record as of June 15, 2017.